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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

September 20, 2011

Board of Directors
Pulaski Memorial Hospital
616 E. 13th Street
Winamac, IN 46996

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period October 1, 2009 to September 30, 2010. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Pulaski Memorial Hospital, as of September 30, 2010 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS



**Pulaski Memorial
HOSPITAL**

**"CLOSER TO YOU
IN SO MANY WAYS"**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2010 AND 2009**

PULASKI MEMORIAL HOSPITAL

TABLE OF CONTENTS SEPTEMBER 30, 2010 AND 2009

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited).....	i
Basic Financial Statements	
Balance Sheets	2
Statements of Revenues, Expenses and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to the Financial Statements	6



Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Pulaski Memorial Hospital
Winamac, Indiana

We have audited the accompanying balance sheets of Pulaski Memorial Hospital (the Hospital), a component unit of Pulaski County, as of September 30, 2010 and 2009 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2010 and 2009, and the results of its operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

January 26, 2011

REQUIRED SUPPLEMENTARY INFORMATION

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2010 AND 2009

Our discussion and analysis of Pulaski Memorial Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the years ended September 30, 2010 and 2009. Please read it in conjunction with the Hospital's Basic Financial Statements and accompanying notes to the financial statements. Unless otherwise indicated, amounts are in millions.

Using This Annual Report

This annual report consists of two parts—*management's discussion and analysis*, and the *basic financial statements*.

- In the "*management's discussion and analysis*" section of this report the management of the hospital discuss various components of the annual report and provide an analysis of the current financial statement information.
- The "*basic financial statement*" section of this report includes a series of financial statements, which provide information about the activities of the Hospital as a whole. The Balance Sheets reveal the assets, liabilities and net assets of the Hospital on September 30, 2010 and 2009 while the Statements of Revenues, Expenses and Changes in Net Assets summarize the revenues and expenses, including nonoperating items for the years then ended. The Statements of Cash Flows summarize the change in cash and cash equivalents as a result of the financial activity during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

Financial Highlights

The Hospital's Total Operating Revenue experienced a decrease of approximately \$2.8 million. Net assets decreased \$1.2 million during the year ended September 30, 2010. Net Patient Service Revenue decreased \$2.5 million or 13%. An updated budgeting process coupled with a concentration on contract re-negotiation has assisted in controlling expense level growth in the last year. FY2010 saw a reduction in Total Operating Expenses of \$0.5 million or 3%. Most of the expenses were consistent with last year with a slight decrease noted in Medical supplies and drugs.

During the current year, the Hospital saw decreases of \$2.5 million caused by lower patient volumes and a decrease in payor mix. The Hospital was able to decrease expenses by \$500 thousand and saw a \$900 thousand decrease in cash and cash equivalents.

During FY 2010, the Hospital paid (\$.8 million) related to the cost reports for 2008, 2009 and 2010 decreasing days of cash on hand from 75 in FY2009 to 58 in FY2010. During FY 2009, an injection of approximately \$0.6 million in DSH, UPL, and HCI improved cash flow.

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2010 AND 2009

Summarized Financial Statement Information

The Hospital's net assets are the difference between its assets and liabilities. The following information documents in summary the net assets and the changes in net assets related to activities of the Hospital as of September 30, 2010 and 2009 and for the years then ended.

	2010 (millions)	2009 (millions)	Change
Current assets	\$ 6.5	\$ 7.5	\$ (1.0)
Non-current cash and investments	0.4	0.8	(0.4)
Capital assets and other assets	4.6	5.3	(0.7)
Total assets	\$ 11.5	\$ 13.6	\$ (2.1)
Current liabilities	2.0	2.7	(0.7)
Long-term debt and capital leases, net	0.4	0.6	(0.2)
Total liabilities	\$ 2.4	\$ 3.3	\$ (0.9)
Net assets			
Invested in capital assets, net of related debt	\$ 3.9	\$ 4.3	\$ (0.4)
Restricted expendable	0.4	0.8	(0.4)
Unrestricted	4.8	5.2	(0.4)
Total net assets	\$ 9.1	\$ 10.3	\$ (1.2)
	2010 (millions)	2009 (millions)	Change
Revenue			
Net patient service revenue	\$ 17.4	\$ 19.9	\$ (2.5)
Other revenue	0.4	0.7	(0.3)
Total operating revenue	17.8	20.6	(2.8)
Expenses			
Salaries and benefits	10.8	11.0	(0.2)
Medical professional fees	0.9	0.8	0.1
Other professional fees	1.9	1.9	-0-
Medical supplies and drugs	2.6	3.0	(0.4)
Rent	0.1	0.1	-0-
Insurance	0.2	0.3	(0.1)
Depreciation and amortization	1.3	1.3	-0-
Other	1.4	1.3	0.1
Total operating expenses	19.2	19.7	(0.5)
Operating (loss) income	(1.4)	0.9	\$ (2)
Nonoperating revenue (expense)	0.1	0.1	-0-
Change in assets	\$ (1.3)	\$ 1.0	\$ (2.3)

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2010 AND 2009

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2010 and 2009, the Hospital had \$.5 and a \$.7 million decrease in capital assets respectively.

Capital assets are comprised of the following as of September 30, 2010 and 2009:

	2010 <u>(millions)</u>	2009 <u>(millions)</u>	Change
Land	\$ 0.2	\$ 0.2	\$ -0-
Land improvements	0.3	0.3	-0-
Buildings	7.2	7.2	-0-
Leasehold Improvements	0.2	0.2	-0-
Equipment	10.7	10.3	0.4
Construction in process	<u>1.1</u>	<u>0.7</u>	0.4
Total	19.7	18.9	0.8
Less accumulated depreciation	<u>15.1</u>	<u>13.8</u>	1.3
Net capital assets	<u><u>\$ 4.6</u></u>	<u><u>\$ 5.1</u></u>	<u><u>\$ (0.5)</u></u>

*Changes in Capital Assets are reflected in the Notes to the Financial Statements.

Long-term Debt and Capital Leases

As of September 30, 2010 and 2009, the Hospital had approximately a \$.2 million decrease in outstanding notes payable and capital leases. The following documents the long-term debt and capital leases held:

	2010 <u>(millions)</u>	2009 <u>(millions)</u>	Change
Notes payable	\$ 0.1	\$ -0-	\$ 0.1
Capital lease obligations	<u>0.5</u>	<u>0.8</u>	(0.3)
	<u><u>\$ 0.6</u></u>	<u><u>\$ 0.8</u></u>	<u><u>\$ (0.2)</u></u>

*Changes in Debt are reflected in the Notes to the Financial Statements.

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2010 AND 2009

Economic Factors

The local economy is feeling the effects as evidenced in layoffs in the major manufacturers within the community we serve. Management anticipates ER volumes to increase marginally as the community foregoes family physician visits for budgetary purposes. Self-pay as well as Medicaid volumes are expected to rise creating additional cash flow challenges for the future. Being a Critical Access Hospital (CAH), we are reimbursed the cost of providing inpatient and outpatient services to Medicare patients, which is approximately 45% of the Hospital's revenue.

Contacting Hospital Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's financial condition. If you have any questions about this report, you may contact the Hospital's Chief Executive Officer at Pulaski Memorial Hospital, 616 E. 16th Street, PO Box 279, Winamac, Indiana 46996.

PULASKI MEMORIAL HOSPITAL

BALANCE SHEETS SEPTEMBER 30, 2010 AND 2009

ASSETS

	2010	2009
Current assets		
Cash and cash equivalents	\$ 2,751,896	\$ 3,199,568
Patient accounts receivable, net of estimated uncollectable of \$1,581,042 and \$1,654,507 in 2010 and 2009, respectively	2,645,530	3,534,735
Supplies and other current assets	563,636	806,432
Estimated third party receivable	577,046	-0-
Total current assets	6,538,108	7,540,735
Noncurrent cash		
Restricted by contributors and grantors	351,397	809,491
Total noncurrent cash and investments	351,397	809,491
Capital assets		
Land and construction in progress	1,316,573	884,936
Depreciable capital assets, net	3,274,453	4,266,520
Total capital assets	4,591,026	5,151,456
Other assets	64,167	109,584
Total assets	\$ 11,544,698	\$ 13,611,266

LIABILITIES AND NET ASSETS

Current liabilities		
Current maturities of capital leases	\$ 255,230	\$ 288,305
Current portion of notes payable	44,554	-0-
Accounts payable and accrued expenses	791,278	564,458
Accrued salaries and related liabilities	826,359	913,372
Estimated third party settlements	-0-	688,000
Other current liabilities	118,699	201,331
Total current liabilities	2,036,120	2,655,466
Long-term liabilities		
Capital leases	211,306	470,937
Long term notes payable	104,075	-0-
Other long-term liabilities	64,167	99,167
Total long-term liabilities	379,548	570,104
Total liabilities	2,415,668	3,225,570
Net assets		
Unrestricted	4,787,734	5,174,408
Invested in capital assets, net of related debt	3,975,861	4,392,214
Restricted		
Expendable for capital acquisitions	282,150	740,539
Expendable for specific operating activities	83,285	78,535
Total net assets	9,129,030	10,385,696
Total liabilities and net assets	\$ 11,544,698	\$ 13,611,266

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Revenues		
Net patient service revenue	\$ 17,433,243	\$ 19,879,358
Other	394,199	671,337
Total operating revenue	<u>17,827,442</u>	<u>20,550,695</u>
Expenses		
Salaries and benefits	10,764,847	10,936,559
Medical professional fees	860,577	737,359
Other professional fees	1,853,082	1,934,956
Supplies and drugs	2,605,575	3,021,130
Rent	123,933	144,644
Insurance	198,080	298,533
Depreciation and amortization	1,373,324	1,335,081
Other	1,407,058	1,280,605
Total operating expenses	<u>19,186,476</u>	<u>19,688,867</u>
Operating (loss) income	(1,359,034)	861,828
Nonoperating revenue (expense)		
Investment income	43,541	66,778
Interest expense	(35,454)	(42,184)
Other	94,281	131,298
Total nonoperating revenue (expense)	<u>102,368</u>	<u>155,892</u>
Change in net assets	(1,256,666)	1,017,720
Net assets, beginning of year	<u>10,385,696</u>	<u>9,367,976</u>
Net assets, end of year	<u><u>\$ 9,129,030</u></u>	<u><u>\$ 10,385,696</u></u>

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
Operating activities		
Cash received from patients and third party payors	\$ 17,057,402	\$ 19,915,566
Cash paid to employees for salaries and benefits	(10,851,860)	(11,081,726)
Cash paid to vendors for goods and services	(6,697,717)	(7,166,776)
Other operating receipts, net	396,490	671,212
Net cash from operating activities	<u>(95,685)</u>	<u>2,338,276</u>
Capital and related financing activities		
Acquisition and construction of capital assets	(596,605)	(477,992)
Proceeds from sale of capital assets	2,290	3,980
Interest paid on debt	(35,456)	(42,184)
Principal payments on debt	(318,132)	(391,003)
Net cash from capital and related financing activities	<u>(947,903)</u>	<u>(907,199)</u>
Investing activities		
Investment and other nonoperating income	137,822	198,076
Net cash from investing activities	<u>137,822</u>	<u>198,076</u>
Net change in cash and cash equivalents	(905,766)	1,629,153
Cash and cash equivalents, beginning of year	<u>4,009,059</u>	<u>2,379,906</u>
Cash and cash equivalents, end of year	<u>\$ 3,103,293</u>	<u>\$ 4,009,059</u>
Noncash investing, capital and related financing activities		
Property and equipment included in liabilities	\$ 174,042	\$ 92,662
Supplemental disclosure of cash flows information		
Cash paid for interest	\$ 35,454	\$ 42,184
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 2,751,896	\$ 3,199,568
In noncurrent cash	351,397	809,491
Total cash and cash equivalents	<u>\$ 3,103,293</u>	<u>\$ 4,009,059</u>

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating (loss) income to net cash from operating activities		
Operating income	\$ (1,359,034)	\$ 861,828
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,373,324	1,335,081
(Gain) loss on disposal of capital assets	2,291	(125)
Provision for bad debt	1,733,573	1,281,107
Changes in assets and liabilities		
Patient accounts receivable	(844,368)	(2,044,870)
Estimated third-party settlements	(1,265,046)	799,971
Supplies and other current assets	242,796	60,264
Other assets	3,169	(9,698)
Accounts payable and accrued expenses	222,255	167,046
Other current liabilities	(82,632)	67,839
Accrued salaries and related liabilities	(87,013)	(145,167)
Other long-term liabilities	(35,000)	(35,000)
Net cash flows from operating activities	<u>\$ (95,685)</u>	<u>\$ 2,338,276</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Pulaski Memorial Hospital (the Hospital) is a county owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Pulaski County appoints the Governing Board of the Hospital (Board) and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Pulaski County.

The accompanying financial statements present the activities of the Hospital. There are no significant component units which require inclusion.

Use of Estimates

The preparation of financial statements include only the financial position, results of operations, changes in net assets and cash flows of the Hospital in conformity with accounting principles generally accepted in the United States of America. The financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the Codification of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less. The Hospital maintains its cash in accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Noncurrent Cash

Internally designated – Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by IC 16-22-3-13.

Restricted by contributors and grantors – Amounts include cash from three funds that are restricted for specific operating purposes either by the donor or funding source. The funds include Sweet Beginnings, Building and Donated, and Cumulative Building Fund.

Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received. Capital assets under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

<u>Description</u>	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land improvements	\$ 2,000	Straight line	*
Buildings and fixed equipment	\$ 2,000	Straight line	*
Major movable and minor equipment	\$ 2,000	Straight line	*

* Based on the most current edition of the American Hospital Association's (AHA's) Estimated Useful Lives of Depreciable Hospital Assets, for each individual capital asset.

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during either 2010 or 2009.

Grants and Contributions

From time to time, the Hospital receives grants from Pulaski County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net assets are net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonoperating revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur. Net patient service revenues in the accompanying statements of revenues, expenses and changes in net assets were increased by approximately \$50 during 2009, to reflect changes in the estimated settlements related to the 2008 cost report. The 2010 and 2009 cost reports remain open.

Patient Accounts Receivable, Revenues and Operating Expenses

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

The Hospital is a provider of services to patients entitled to coverage under Medicare. The Hospital was granted Critical Access Status by Medicare. The Hospital is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports.

Final determination of amounts earned is subject to review by the fiscal intermediary. Medicare reports have been settled through 2008. Management believes adequate provision has been made in the financial statements for any adjustments.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Management estimates an allowance for doubtful accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's patient base.

Revenue from Medicare and Medicaid programs account for approximately 45 percent and 16 percent, respectively, of the Hospital's net patient service revenue for the fiscal year ended 2010, and 47 percent and 15 percent, respectively, of the Hospital's net patient revenue for the fiscal year ended 2009.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts deemed to be charity care are not reported as revenues.

Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for the years ended September 30, 2010 and 2009 was \$215,631 and \$130,601, respectively.

Compensated Absences

Sick Time – Hospital employees earn sick leave at various rates per pay period. Unused sick leave may be accumulated to a maximum of ninety-six hours. Accumulated sick leave over ninety-six hours is paid to employees through cash payments upon proper notice of termination or upon request of the employee to be included on the last pay of each calendar year.

Paid Time Off – Hospital employees earn paid time off at various rates per pay period based upon their classification and their number of years of service. Paid time off may be accumulated to a maximum of 136 to 216 hours based on their number of years of service. Accumulated paid time off is paid to employees through cash payments upon proper notice of termination. Paid time off and sick leave are accrued when incurred and reported as a liability.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax.

Minimum Revenue Guarantees

The Minimum Revenue Guarantee Granted to a Business or Its Owners topic of the FASB Accounting Standards Codification was amended and is effective as of January 1, 2006. This topic amended Guarantor's Accounting and Disclosure Requirements for Guarantees, including indirect Guarantees and Indebtedness of Others topic. The amended topic requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This topic is effective for new minimum revenue guarantees issued or modified on or after January 1, 2006.

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued which is January 26, 2011.

2. DEPOSITS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

The Hospital's deposits are generally reported at cost, as discussed in Note 1. As of September 30, 2010 and 2009, the Hospital had \$3,103,293 and \$4,009,059 in deposits and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital. These deposits have maturity dates of one year or less.

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Credit risk – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits consist of the following as of September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	<u>3,103,293</u>	<u>4,009,059</u>
Included in the following balance sheet		
Cash and cash equivalents	2,751,896	3,199,568
Restricted by contributors and grantors	<u>351,397</u>	<u>809,491</u>
	<u>\$3,103,293</u>	<u>\$4,009,059</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

3. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year-end consisted of the following amounts at September 30, 2010 and 2009:

	2010	2009
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 3,453,352	\$ 4,360,007
Receivable from Medicare	1,669,319	1,734,706
Receivable from Medicaid	877,165	1,163,333
Total patient accounts receivable	6,616,622	7,258,046
Less allowance for contractual agreements and uncollectible amounts	3,971,092	3,723,311
Patient accounts receivable, net	\$ 2,645,530	\$ 3,534,735
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 726,359	\$ 738,858
Payable to suppliers	791,278	564,458
Accrued employee health benefit claims	100,000	174,514
Total accounts payable and accrued expenses	\$ 1,617,637	\$ 1,477,830

4. CAPITAL ASSETS

Capital asset activity for 2010 and 2009 is as follows:

	Balance September 30, 2009	Additions	Retirements	Transfers	Balance September 30, 2010
Land	\$ 189,325	\$ -0-	\$ -0-	\$ -0-	\$ 189,325
Land improvements	281,113	-0-	-0-	-0-	281,113
Leasehold Improvements	160,931	-0-	-0-	-0-	160,931
Buildings and fixtures	7,241,057	1,555	-0-	-0-	7,242,612
Fixed equipment	3,618,970	2,019	-0-	-0-	3,620,989
Moveable equipment	6,729,998	335,435	-0-	-0-	7,065,433
Construction in process	695,612	431,637	-0-	-0-	1,127,249
Total	18,917,006	770,646	-0-	-0-	19,687,652
Accumulated depreciation	13,765,550	1,331,076	-0-	-0-	15,096,626
Net capital assets	\$ 5,151,456	\$ (560,430)	\$ -0-	\$ -0-	\$ 4,591,026

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

	Balance September 30, 2008	Additions	Retirements	Transfers	Balance September 30, 2009
Land	\$ 189,325	\$ -0-	\$ -0-	\$ -0-	\$ 189,325
Land improvements	281,113	-0-	-0-	-0-	281,113
Leasehold improvements	160,931	-0-	-0-	-0-	160,931
Buildings and fixtures	7,241,057	1,555	(1,555)	-0-	7,241,057
Fixed equipment	3,565,295	53,034	-0-	641	3,618,970
Moveable equipment	6,388,122	341,898	(2,300)	2,278	6,729,998
Construction in process	524,364	174,167	-0-	(2,919)	695,612
Total	18,350,207	570,654	(3,855)	-0-	18,917,006
Accumulated depreciation	12,475,167	1,290,383	-0-	-0-	13,765,550
Net capital assets	<u>\$ 5,875,040</u>	<u>\$ (719,729)</u>	<u>\$ (3,855)</u>	<u>\$ -0-</u>	<u>\$ 5,151,456</u>

5. PHYSICIAN RELOCATION AGREEMENTS AND OTHER MINIMUM REVENUE GUARANTEES

Consistent with the Hospital's policy on physician relocation and recruitment, the Hospital provides income guarantee agreements to certain physicians who agree to relocate to the community to fill a need in the Hospital's service area and commit to remain in practice there. Annually, under such agreements, the Hospital is required to make payments to the physicians in excess of the amounts they earn in their practice up to the amount of the income guarantee. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically five years. The Hospital also provides minimum revenue collection guarantees to Hospital-based physician groups providing certain services at the Hospital with terms of one year. At September 30, 2010 and 2009, the maximum potential amount of future payments under these guarantees was approximately \$64,000 and \$99,000 respectively, which is included in the other assets and other long-term liabilities in the Balance Sheets.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

6. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

A schedule of changes in the Hospital's noncurrent liabilities for the years ended September 30, 2010 and 2009 was as follows:

	Balance September 30, 2009	Additions	Reductions	Balance September 30, 2010	Current portion	Long-term portion
Notes Payable and Capital Leases:						
Notes Payable	\$ -0-	\$ 174,042	\$ (25,426)	\$ 148,629	\$ 44,554	\$ 104,075
Capital Leases	759,242	-0-	(292,706)	466,536	255,230	211,306
Total Long-Term Debt	759,242	174,042	(318,132)	615,165	299,784	315,381
Other Liabilities	99,167	-0-	(35,000)	64,167	-0-	64,167
Total Noncurrent liabilities	\$ 858,409	\$ 174,042	\$ (353,132)	\$ 679,332	\$ 299,784	\$ 379,548

	Balance September 30, 2008	Additions	Reductions	Balance September 30, 2009	Current portion	Long-term portion
Notes Payable and Capital Leases:						
Notes Payable	\$ 131,117	\$ -0-	\$ (131,117)	\$ -0-	\$ -0-	\$ -0-
Capital Leases	926,466	92,662	(259,886)	759,242	288,305	470,937
Total Long-Term Debt	1,057,583	92,662	(391,003)	759,242	288,305	470,937
Other Liabilities	134,167	-0-	(35,000)	99,167	-0-	99,167
Total Noncurrent liabilities	\$ 1,191,750	\$ 92,662	\$ (426,003)	\$ 858,409	\$ 288,305	\$ 570,104

Long-Term Debt

The Hospital obtained four notes payable for equipment during 2010. Payments, including interest at rates varying from 4.25%, to 5.80% continue through 2014. The equipment is listed as security for the loans.

The Hospital has also entered into various capital leases at varying rates of imputed interest from 2.8% to 6.9%, collateralized by leased equipment.

Five-year long-term notes payable are as follows:

Notes Payable Year ending September 30,	Principal	Interest	Total
2011	\$ 44,554	\$ 6,542	\$ 51,096
2012	46,140	4,271	50,411
2013	42,940	1,933	44,873
2014	14,995	204	15,199
	\$ 148,629	\$ 12,950	\$ 161,579

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Scheduled principal and interest repayments on capital lease obligations are as follows:

Capital leases Year ending September 30,	Principal	Interest	Total
2011	\$ 255,230	\$ 27,116	\$ 282,346
2012	172,603	6,272	178,875
2013	38,703	279	38,982
	<u>\$ 466,536</u>	<u>\$ 33,667</u>	<u>\$ 500,203</u>

The following is an analysis of the leased assets included in property and equipment as of September 30:

	2010	2009
Equipment	\$ 627,344	\$ 627,344
Accumulated depreciation	376,406	250,938
	<u>\$ 250,938</u>	<u>\$ 376,406</u>

7. PATIENT SERVICE REVENUE

Patient service revenue for the years ended September 30, 2010 and 2009 consists of the following:

	2010	2009
Inpatient services	\$ 10,325,177	\$ 12,490,602
Outpatient services	26,784,018	25,904,418
Gross patient service revenue	<u>37,109,195</u>	<u>38,395,020</u>
Contractual allowances	(17,475,649)	(16,921,666)
Charity care	(466,730)	(312,889)
Bad debt	(1,733,573)	(1,281,107)
Deductions from revenue	<u>(19,675,952)</u>	<u>(18,515,662)</u>
Net patient service revenue	<u>\$ 17,433,243</u>	<u>\$ 19,879,358</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

8. EMPLOYEE HEALTH PLAN

The Hospital has established a risk-financing fund for risks associated with medical benefits to employees and dependents. The risk-financing fund is accounted for in the Operating Fund where assets are set aside and a liability is accrued for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$100,000 per year.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors.

Health insurance expense for the years ended September 30, 2010 and 2009 was approximately \$1,748,000 and \$2,047,000 respectively.

9. MEDICAL MALPRACTICE

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate.

10. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Accounts receivable and revenues from self-pay and third party payors were as follows:

	Receivables		Revenue	
	2010	2009	2010	2009
Medicare and Medicaid	42%	41%	61%	62%
Blue Cross	8%	10%	18%	18%
Commercial and other payors	14%	16%	14%	15%
Self-pay payors	36%	33%	7%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

11. COMMITMENTS AND CONTINGENCIES

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.