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March 25, 2010

Board of Directors  
Pulaski Memorial Hospital  
616 East 16<sup>th</sup> Street, P.O. Box 279  
Winamac, IN 46996

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period October 1, 2007 to September 30, 2008. 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, 2008, and the results of its operations for the periods 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

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# **PULASKI MEMORIAL HOSPITAL**

**FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2008 AND 2007**

*CPAs / ADVISORS*



# PULASKI MEMORIAL HOSPITAL

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## 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, 2008 and 2007 and the related statements of operations 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, 2008 and 2007, 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.

The Management 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, 2009

**REQUIRED SUPPLEMENTARY INFORMATION**

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2008 AND 2007

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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, 2008 and 2007. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements. Unless otherwise indicated, amounts 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 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 and liabilities of the Hospital on September 30, 2008 and 2007 while the Statements of Operations and Changes in Net Assets summarizes the changes in the assets and liabilities 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 has experienced a trace increase of approximately \$0.2 million. Net assets have remained consistent at \$9.3 million. Net Patient Service Revenue increased \$.4 million or 2.2%. An updated budgeting process coupled with a concentration on contract re-negotiation has assisted in controlling expense level growth in the last year. FY2008 saw a reduction in Total Operating Expenses of \$0.1 million or .4%. Most of the expenses held the line with last year with slight decreases noted in Salaries and Benefits, Medical Professional Fees, Rent, and Insurance. Significant savings (\$364,392) was noted in the Supplies and Drugs as compared to FY2007.

An injection of approximately \$1.5 million in DSH, UPL, and HCI payments has helped in improving days of cash on hand from 19 in FY2007 to 43 in FY2008. Total Cash and Cash Equivalents showed gains for FY2007 (\$1.0 million) to FY2008 (\$2.4 million).

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2008 AND 2007

### 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 for the years as of and for the years ended September 30, 2008 and 2007.

	2008	2007
	Net Assets	Net Assets
	(millions)	(millions)
Current assets	\$ 5.5	\$ 5.0
Non-current cash and investments	0.6	0.5
Capital assets and other assets	6.0	6.2
Total assets	12.1	11.7
Current liabilities	2.0	2.2
Long-term debt and capital leases, net	0.8	0.2
Total liabilities	2.8	2.4
Net assets		
Invested in capital assets, net of related debt	4.7	5.5
Restricted expendable	0.6	0.5
Unrestricted	4.0	3.3
	\$ 9.3	\$ 9.3
	Changes in	Changes in
	Net Assets	Net Assets
	(millions)	(millions)
Revenue		
Net patient service revenue	\$ 19.4	\$ 19.0
Other revenue	0.8	1.0
Total operating revenue	20.2	20.0
Expenses		
Salaries and benefits	11.5	11.7
Medical professional fees	0.7	0.8
Other professional fees	1.7	1.4
Medical supplies and drugs	3.0	3.3
Rent	0.2	0.2
Insurance	0.3	0.3
Depreciation and amortization	1.2	1.2
Other	1.4	1.2
Total operating expenses	20.0	20.1
Operating income (loss)	0.2	(0.1)
Non-operating revenue, net	(0.2)	0.1
Change in assets	\$ 0.0	\$ 0.0

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2008 AND 2007

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### Capital Assets and Debt Administration

#### Capital Assets

As of September 30, 2008 and 2007 the Hospital had \$5.9 million invested in capital assets. The following documents the type of assets that make up Capital Assets.

	2008 <u>(millions)</u>	2007 <u>(millions)</u>
Land	\$ 0.2	\$ 0.2
Land improvements	0.3	0.3
Buildings	7.4	7.4
Equipment	10.0	9.6
Construction in process	<u>0.5</u>	<u>0.3</u>
Total	18.4	17.8
Less accumulated depreciation	<u>12.5</u>	<u>11.7</u>
Net capital assets	<u>\$ 5.9</u>	<u>\$ 6.1</u>

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

#### Long-term Debt and Capital Leases

As of September 30, 2008 and 2007, the Hospital had approximately \$1.0 million and \$0.4 million in outstanding notes payable and capital leases, respectively. The following documents the long-term debt and capital leases held.

	2008 <u>(millions)</u>	2007 <u>(millions)</u>
Notes Payable	\$ 0.1	\$ 0.1
Capital Leases	<u>0.9</u>	<u>0.3</u>
	<u>\$ 1.0</u>	<u>\$ 0.4</u>

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

# **PULASKI MEMORIAL HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2008 AND 2007**

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### **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 50% 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. 16<sup>th</sup> Street, PO Box 279, Winamac, Indiana 46996.

# PULASKI MEMORIAL HOSPITAL

## BALANCE SHEETS SEPTEMBER 30, 2008 AND 2007

	2008	2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,739,826	\$ 473,498
Patient accounts receivable, net of estimated uncollectibles of \$1,795,057 and \$1,856,363 in 2008 and 2007, respectively	2,770,972	3,455,218
Estimated third party settlements	111,971	412,289
Supplies and other current assets	866,696	645,048
<b>Total current assets</b>	<b>5,489,465</b>	<b>4,986,053</b>
<b>Noncurrent cash and investments</b>		
Restricted by contributors and grantors	640,080	532,014
<b>Total noncurrent cash and investments</b>	<b>640,080</b>	<b>532,014</b>
<b>Capital assets</b>		
Land and construction in progress	713,688	472,852
Depreciable capital assets, net	5,161,352	5,596,930
<b>Total capital assets</b>	<b>5,875,040</b>	<b>6,069,782</b>
<b>Other assets</b>	144,584	179,584
<b>Total assets</b>	<b>\$ 12,149,169</b>	<b>\$ 11,767,433</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Line of credit	\$ -0-	\$ 150,000
Current maturities of long-term debt and capital leases	386,894	338,423
Accounts payable and accrued expenses	397,412	762,164
Accrued salaries and related liabilities	1,058,539	872,430
Other current liabilities	133,492	56,052
<b>Total current liabilities</b>	<b>1,976,337</b>	<b>2,179,069</b>
<b>Long-term liabilities</b>		
Long-term debt	-0-	57,094
Capital leases	670,689	22,996
Other long-term liabilities	134,167	169,167
<b>Total long-term liabilities</b>	<b>804,856</b>	<b>249,257</b>
<b>Total liabilities</b>	<b>2,781,193</b>	<b>2,428,326</b>
<b>Net assets</b>		
Unrestricted	4,038,876	3,332,776
Invested in capital assets, net of related debt	4,683,290	5,482,102
Restricted		
Expendable for capital acquisitions	577,536	460,762
Expendable for specific operating activities	68,274	63,467
<b>Total net assets</b>	<b>9,367,976</b>	<b>9,339,107</b>
<b>Total liabilities and net assets</b>	<b>\$ 12,149,169</b>	<b>\$ 11,767,433</b>

See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
<b>Revenues</b>		
Net patient service revenue	\$ 19,378,966	\$ 18,960,871
Other	769,508	976,400
Total operating revenue	20,148,474	19,937,271
<b>Expenses</b>		
Salaries and benefits	11,536,019	11,711,991
Medical professional fees	715,652	750,695
Other professional fees	1,694,130	1,407,088
Supplies and drugs	2,960,692	3,325,084
Rent	177,666	178,653
Insurance	280,873	295,331
Depreciation and amortization	1,243,393	1,165,384
Other	1,359,251	1,212,721
Total operating expenses	19,967,676	20,046,947
Operating income (loss)	180,798	(109,676)
<b>Nonoperating revenue (expense)</b>		
Investment income	46,935	32,519
Interest expense	(48,036)	(35,548)
Other	(150,828)	114,767
Total nonoperating revenue (expense)	(151,929)	111,738
Change in net assets	28,869	2,062
<b>Net assets, beginning of year</b>	9,339,107	9,337,045
<b>Net assets, end of year</b>	\$ 9,367,976	\$ 9,339,107

See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 20,363,530	\$ 18,838,318
Cash paid to employees for salaries and benefits	(11,349,910)	(11,793,001)
Cash paid to vendors for goods and services	(7,724,464)	(7,138,473)
Other operating receipts, net	1,015,964	976,400
Net cash from operating activities	2,305,120	883,244
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(401,572)	(359,519)
Interest paid on long-term debt	(48,036)	(35,548)
Proceeds on line of credit	-0-	250,000
Payments on line of credit	(150,000)	(100,000)
Proceeds on long-term debt	125,000	-0-
Principal payments on long-term debt and capital leases	(352,225)	(468,995)
Net cash from capital and related financing activities	(826,833)	(714,062)
<b>Investing activities</b>		
Investment and other nonoperating income	(103,893)	147,286
Net cash from investing activities	(103,893)	147,286
Net change in cash and cash equivalents	1,374,394	316,468
<b>Cash and cash equivalents, beginning of year</b>	1,005,512	689,044
<b>Cash and cash equivalents, end of year</b>	\$ 2,379,906	\$ 1,005,512
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents		
In current assets	\$ 1,739,826	\$ 473,498
In noncurrent cash and investments	640,080	532,014
Total cash and cash equivalents	\$ 2,379,906	\$ 1,005,512

See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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### Reconciliation of operating loss

#### to net cash from operating activities

Operating income (loss)	\$ 180,798	\$ (109,676)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	1,243,393	1,165,384
Loss on disposal of capital assets	246,456	-0-
Provision for bad debt	1,402,017	992,441
Changes in assets and liabilities		
Patient accounts receivable	(717,771)	(1,208,288)
Estimated third-party settlements	300,318	93,294
Supplies and other current assets	(221,648)	(58,230)
Other assets	7,760	(169,167)
Accounts payable and accrued expenses	(364,752)	116,941
Other current liabilities	77,440	(27,612)
Accrued salaries and related liabilities	186,109	(81,010)
Other long-term liabilities	(35,000)	169,167
Net cash flows from operating activities	<u>\$ 2,305,120</u>	<u>\$ 883,244</u>

Property was acquired under capital leases in the amount of \$1,042,780.

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See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

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### 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 (primary government). There are no significant component units which require inclusion.

#### 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 provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

#### Deposits and Investments

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.

Short-term investments are investments with remaining maturities of up to ninety days.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investment income includes interest income and is reported as nonoperating revenues in the statement of operations and changes in net assets.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

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### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires 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.

### 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:

Description	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during either 2008 or 2007.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

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### Noncurrent Cash and Investments

*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.

### 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.

### 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 operations and changes in net assets were increased by approximately \$2M during 2008, to reflect changes in the estimated settlements for certain prior years. During 2007 there were no material differences from the estimated settlements from prior years.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

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### 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.

### 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.

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 2006. Management believes adequate provision has been made in the financial statements for any adjustments.

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 35 percent and 6 percent, respectively, of the Hospital's net patient service revenue for the fiscal year ended 2008, and 39 percent and 3 percent, respectively, of the Hospital's net patient revenue for the fiscal year ended 2007.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

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### 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.

### Operating Revenues and Expenses

The Hospital's statement of operations 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.

### 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.

### Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for the years ended September 30, 2008 and 2007 was \$120,439 and \$99,017, respectively.

### 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.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

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### Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to and the destruction of assets; errors and omissions; job related illness or injuries to employees; medical benefits to employees and dependents (excluding post employment benefits); and natural disasters.

The risk of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past four years.

### Federal of State 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 under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3).

### Minimum Revenue Guarantees (New Accounting Pronouncement)

In November 2005, the FASB issued FASB Staff Position No. 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners" ("FIN 45-3"). It served as an amendment to FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others" ("FIN 45") by adding minimum revenue guarantees to the list of examples of contracts to which FIN 45 applies.

Under FIN 45, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. One example cited in FIN 45-3 involves a guarantee provided by a healthcare entity to a non-employed physician in order to recruit such physician to move to the entity's geographical area and establish a private practice, which is the approach the Hospital uses in recruiting physicians to the community. FIN 45 is effective for new minimum revenue guarantees issued or modified on or after January 1, 2006.

The Hospital adopted this amendment to FIN 45 effective January 1, 2006. For periods ending before January 1, 2006, the Hospital did not report the fair value of its obligations under physician revenue guarantee agreements. However, under FIN 45 as amended, the Hospital is required to report the liability for these physician revenue guarantees on its balance sheets at fair value and amortize the related prepaid physician recruitment expense over the period of the physician's contractual commitment to practice in the local community.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

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### 2. CHARITY CARE

Charges excluded from patient service revenue under the Hospital's charity care policy were \$138,655 and \$240,474 for 2008 and 2007, respectively.

### 3. DEPOSITS AND INVESTMENTS

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 investments generally are reported at cost, as discussed in Note 1. As of September 30, 2008 and 2007, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

September 30, 2008					
Carrying Amount	Investment Maturities (in years)				
	Less than 1	1-5	6-10	More than 10	
Cash and cash equivalents	<u>\$ 2,379,906</u>	<u>\$ 2,379,906</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

  

September 30, 2007					
Carrying Amount	Investment Maturities (in years)				
	Less than 1	1-5	6-10	More than 10	
Cash and cash equivalents	<u>\$ 1,005,512</u>	<u>\$ 1,005,512</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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.

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.

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# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

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Deposits and investments consist of the following as of September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	<u>\$ 2,379,906</u>	<u>\$ 1,005,512</u>
Included in the following balance sheet		
Cash and cash equivalents	\$ 1,739,826	\$ 473,498
Restricted by contributors and grantors	640,080	532,014
	<u>\$ 2,379,906</u>	<u>\$ 1,005,512</u>

#### 4. 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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 4,134,179	\$ 4,684,698
Receivable from Medicare	1,611,199	1,952,834
Receivable from Medicaid	1,131,480	702,690
Total patient accounts receivable	<u>6,876,858</u>	<u>7,340,222</u>
Less allowance for contractual agreements and uncollectible amounts	<u>4,105,886</u>	<u>3,885,004</u>
Patient accounts receivable, net	<u>\$ 2,770,972</u>	<u>\$ 3,455,218</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 733,539	\$ 772,430
Payable to suppliers	397,412	762,164
Accrued employee health benefit claims	325,000	100,000
Total accounts payable and accrued expenses	<u>\$ 1,455,951</u>	<u>\$ 1,634,594</u>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

### 5. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2008 and 2007 is as follows:

	Balance September 30, 2007	Additions	Retirements	Transfers	Balance September 30, 2008
Land	\$ 189,325	\$ -0-	\$ -0-	\$ -0-	\$ 189,325
Land improvements	281,113	-0-	-0-	-0-	281,113
Buildings and fixtures	7,394,995	6,993	-0-	-0-	7,401,988
Fixed equipment	3,565,295	-0-	-0-	-0-	3,565,295
Moveable equipment	6,039,163	993,657	(671,082)	26,384	6,388,122
Construction in process	283,528	267,220	-0-	(26,384)	524,364
<b>Total</b>	<b>17,753,419</b>	<b>1,267,870</b>	<b>(671,082)</b>	<b>-0-</b>	<b>18,350,207</b>
Accumulated depreciation	11,683,637	1,216,153	(424,623)	-0-	12,475,167
<b>Net capital assets</b>	<b>\$ 6,069,782</b>	<b>\$ 51,717</b>	<b>\$ (246,459)</b>	<b>\$ -0-</b>	<b>\$ 5,875,040</b>

	Balance September 30, 2006	Additions	Retirements	Transfers	Balance September 30, 2007
Land	\$ 189,325	\$ -0-	\$ -0-	\$ -0-	\$ 189,325
Land improvements	281,113	-0-	-0-	-0-	281,113
Buildings and fixtures	7,127,898	-0-	-0-	267,097	7,394,995
Fixed equipment	3,471,279	38,409	-0-	55,607	3,565,295
Moveable equipment	5,908,559	62,849	-0-	67,755	6,039,163
Construction in process	415,726	258,261	-0-	(390,459)	283,528
<b>Total</b>	<b>17,393,900</b>	<b>359,519</b>	<b>-0-</b>	<b>-0-</b>	<b>17,753,419</b>
Accumulated depreciation	10,518,253	1,165,384	-0-	-0-	11,683,637
<b>Net capital assets</b>	<b>\$ 6,875,647</b>	<b>\$ (805,865)</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 6,069,782</b>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

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### 6. 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, 2008 and 2007, the maximum potential amount of future payments under these guarantees was approximately \$175,000, which is included in the assets and liabilities in the Balance Sheets.

### 7. LINE OF CREDIT

The Hospital had an \$800,000 line of credit which expired on August 28, 2008. Interest was due monthly at 6.25%. Outstanding borrowings under the line of credit were \$150,000 at September 30, 2007.

### 8. LONG-TERM DEBT AND CAPITAL LEASES

The Hospital obtained an unsecured note payable during 2008. Payments, including interest at prime plus 2.25% (prime rate was 5.00% at September 30, 2008), of \$10,831 are due monthly through April 2009. The Hospital also has a note payable, secured by computer equipment. Payments, including interest at an annual rate of 4.75%, of \$7,266 are due monthly through May 2009.

The Hospital has also entered into various capital leases at varying rates of imputed interest from 2.8% to 7.5%, collateralized by leased equipment.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

Long-term debt and capital lease activity for the years ended September 30, 2008 and 2007, was as follows:

	Balance September 30, 2007	Additional borrowings	Payments	Balance September 30, 2008	Current portion	Long-term portion
Notes Payable	\$ 139,437	\$ 125,000	\$ (133,320)	\$ 131,117	\$131,117	\$ -0-
Capital Leases	279,076	1,042,784	(395,394)	926,466	255,777	670,689
	<u>\$ 418,513</u>	<u>\$1,167,784</u>	<u>\$ (528,714)</u>	<u>\$ 1,057,583</u>	<u>\$ 386,894</u>	<u>\$ 670,689</u>

	Balance September 30, 2006	Additional borrowings	Payments	Balance September 30, 2007	Current portion	Long-term portion
Notes Payable	\$ 270,752	\$ -0-	\$ (131,315)	\$ 139,437	\$ 82,343	\$ 57,094
Capital Leases	616,756	-0-	(337,680)	279,076	256,080	22,996
	<u>\$ 887,508</u>	<u>\$ -0-</u>	<u>\$ (468,995)</u>	<u>\$ 418,513</u>	<u>\$ 338,423</u>	<u>\$ 80,090</u>

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year ending September 30,	Notes payable		Capital lease obligations	
	Principal	Interest	Principal	Interest
2009	\$ 131,117	\$ 2,821	\$ 255,777	\$ 34,138
2010	-0-	-0-	239,641	26,806
2011	-0-	-0-	224,442	18,031
2012	-0-	-0-	167,903	5,980
2013	-0-	-0-	38,703	279
	<u>\$ 131,117</u>	<u>\$ 2,821</u>	<u>\$ 926,466</u>	<u>\$ 85,234</u>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

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

	<u>2008</u>	<u>2007</u>
Equipment	\$ 1,083,296	\$ 1,022,718
Accumulated depreciation	317,879	691,781
	<u>\$ 765,417</u>	<u>\$ 330,937</u>

### 9. PATIENT SERVICE REVENUE

Patient service revenue for the years ended September 30, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
Inpatient services	\$ 10,400,782	\$ 9,241,259
Outpatient services	24,297,052	24,950,127
Gross patient service revenue	<u>34,697,834</u>	<u>34,191,386</u>
Contractual allowances	(13,570,939)	(13,753,162)
Charity care	(345,912)	(484,912)
Bad debt	(1,402,017)	(992,441)
Deductions from revenue	<u>(15,318,868)</u>	<u>(15,230,515)</u>
Net patient service revenue	<u>\$ 19,378,966</u>	<u>\$ 18,960,871</u>

### 10. 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 \$75,000 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 reasonable 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, 2008 and 2007, was approximately \$2,434,000 and \$2,132,000 respectively.

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# PULASKI MEMORIAL HOSPITAL

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2008 AND 2007

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### 11. 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.

### 12. 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. The mix of receivables from patients and third party payors at September 30, 2008 and 2007 was as follows:

	<u>2008</u>	<u>2007</u>
Medicare and Medicaid	41%	37%
Commercial and other payors	23%	28%
Self-pay payors	<u>36%</u>	<u>35%</u>
	<u>100%</u>	<u>100%</u>

### 13. 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.

### 14. JOINT VENTURE

In January of 2004, the Hospital entered into a joint venture, West Central Health Partners, with three other health care providers in surrounding counties. The initial capital contribution was approximately \$10,000. The venture was formed to provide support for physician recruiting and to potentially establish various purchasing agreements.