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April 2, 2014

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

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period October 1, 2011 to September 30, 2012. 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, 2012 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, 2012 AND 2011**

*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, 2012 and 2011 and the related statements of revenues, expenses and changes in net position, 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, 2012 and 2011, and its results of operations, changes in net position, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements as of and for the year ended September 30, 2011, and the net position as of September 30, 2010 have been restated as discussed in Note 2.

Board of Trustees  
Pulaski Memorial Hospital  
Winamac, Indiana

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Blue & Co., LLC*  
Indianapolis, Indiana  
May 28, 2013

**REQUIRED SUPPLEMENTARY INFORMATION**

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2012 AND 2011

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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 year ended September 30, 2012 with comparable information for 2011 and 2010. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements included in this report. Unless otherwise indicated, amounts are in millions.

### **Using This Annual Report**

The Hospital's financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities and the financial position of the Hospital.

The Balance Sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities).

All of the current year's revenue earned and expenses incurred are accounted for in the Statement of Revenues, Expense and Changes in Net Position.

Finally, the purpose of the Statement of Cash Flows is to provide information about the Hospital's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and the change in cash balance during the year.

### **Financial Highlights**

The Hospital's Total Operating Revenue experienced an increase of approximately \$2.1 million or 10%. Net position increased \$0.7 million during the year ended September 30, 2012. Net Patient Service Revenue increased \$1.2 million or 5%. The increases are primarily attributable to the Hospital Assessment Fee program as well as volume. Fiscal year 2012 saw an increase in Total Operating Expenses of \$2.0 million or 10%. Most of the expenses were consistent with last year with the exception of slight increases in Salaries and Benefits, Other Professional Fees and Other Expense.

During the current year, the Hospital saw increase in Net Patient Service Revenue of \$1.2 million caused by outpatient activity and the Hospital Assessment Fee program. Other operating revenue increased by \$1.1 million due to incentive payments for electronic health records. The Hospital saw an increase of \$1.0 million increase in cash and cash equivalents which was the primary reason for the increase in current assets.

During FY 2012, the Hospital increased days of cash on hand from 81 in fiscal year 2011 to 93 in fiscal year 2012. During FY 2012, the outpatient activity and Hospital Assessment Fee program helped generate the increase.

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# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2012 AND 2011

### The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's net position is the difference between assets and liabilities. It is one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Table 1 – Balance Sheets

	2012 (millions)	2011 (millions)	2012-2011 Change	2010 (millions)	2011-2010 Change
Current assets	\$ 8.2	\$ 6.8	\$ 1.4	\$ 6.5	\$ 0.3
Non-current cash	0.4	0.4	0.0	0.3	0.1
Capital assets, net	6.5	5.9	0.6	4.7	1.2
Total assets	<u>\$ 15.1</u>	<u>\$ 13.1</u>	<u>\$ 2.0</u>	<u>\$ 11.5</u>	<u>\$ 1.6</u>
Current liabilities	\$ 3.0	\$ 2.1	\$ 0.9	\$ 2.0	\$ 0.1
Long-term debt and capital leases, net	0.8	0.4	0.4	0.4	0.0
Total liabilities	<u>3.8</u>	<u>2.5</u>	<u>1.3</u>	<u>2.4</u>	<u>0.1</u>
Net position					
Net investment in capital assets	5.4	5.1	0.3	3.9	1.2
Restricted expendable	0.4	0.4	0.0	0.4	0.0
Unrestricted	5.5	5.10	0.4	4.8	0.3
Total net position	<u>\$ 11.3</u>	<u>\$ 10.6</u>	<u>\$ 0.7</u>	<u>\$ 9.1</u>	<u>\$ 1.5</u>

Total assets increased by \$2.0 million. The increase was primarily due to an increase in cash which was the result of better operating income. Total liabilities increased as a result of an increase in estimated third party settlements which increased due to current year activity.

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2012 AND 2011

**Table 2 – Statements of Revenues, Expenses and Changes in Net Position**

	2012 (millions)	2011 (millions)	2012-2011 Change	2010 (millions)	2011-2010 Change
<b>Revenue</b>					
Net patient service revenue	\$ 19.6	\$ 18.6	\$ 1.0	\$ 17.4	\$ 1.2
Other revenue	1.4	0.3	1.1	0.4	(0.1)
Total operating revenue	<u>21.0</u>	<u>18.9</u>	<u>2.1</u>	<u>17.8</u>	<u>1.1</u>
<b>Expenses</b>					
Salaries and benefits	11.6	11.1	0.5	10.8	0.3
Medical professional fees	0.8	0.8	0.0	0.9	(0.1)
Other professional fees	2.3	1.6	0.7	1.9	(0.3)
Medical supplies and drugs	2.5	2.6	(0.1)	2.6	0.0
Rent	0.3	0.1	0.2	0.1	0.0
Insurance	0.2	0.2	0.0	0.2	0.0
Depreciation and amortization	0.8	0.7	0.1	1.3	(0.6)
Hospital assessment fee program	0.5	0.0	0.5	0.0	0.0
Other	1.3	1.2	0.1	1.4	(0.2)
Total operating expenses	<u>20.3</u>	<u>18.3</u>	<u>2.0</u>	<u>19.2</u>	<u>(0.9)</u>
Operating income (loss)	0.7	0.6	0.1	(1.4)	2.0
Nonoperating revenue (expense)	0.0	0.0	0.0	0.1	(0.1)
Change in net position	<u>\$ 0.7</u>	<u>\$ 0.6</u>	<u>\$ 0.1</u>	<u>\$ (1.3)</u>	<u>\$ 1.9</u>

Net position increased \$0.7 million during the year ended September 30, 2012. The Hospital's Total Operating Revenue experienced an increase of approximately \$2.1 million or 10% due to volume increases, the Hospital Assessment Fee program and incentive payments for electronic health records. Fiscal year 2012 saw an increase in Total Operating Expenses of \$2.0 million or 10%. Most of the expenses were consistent with last year with the exception of slight increases in Salaries and Benefits, Other Professional Fees and expenses associated with the Hospital Assessment Fee program.

**Table 3 – Statements of Cash Flows**

	2012 (millions)	2011 (millions)	2012-2011 Change	2010 (millions)	2011-2010 Change
<b>Cash Flow Data</b>					
From operating activities	\$ 2.1	\$ 2.2	-\$ 0.1	\$ (0.1)	\$ 2.3
From capital and related financing activities	(1.1)	(1.1)	0.0	(0.9)	(0.2)
From investing activities	0.0	0.1	(0.1)	0.1	0.0
Change in cash and cash equivalents	<u>\$ 1.0</u>	<u>\$ 1.2</u>	<u>\$ (0.2)</u>	<u>\$ (0.9)</u>	<u>\$ 2.1</u>

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2012 AND 2011

### Capital Assets and Debt Administration

#### Capital Assets

The Hospital's capital assets increased between September 30, 2012 and 2011 due to construction projects for the medical office building and to renovate, remodel and equip the Hospital's Central Sterile Processing Department and various operating rooms.

Capital assets are comprised of the following as of September 30, 2012 and 2011:

	2012 (millions)	2011 (millions)	2012-2011 Change	2010 (millions)	2011-2010 Change
Land	\$ 0.2	\$ 0.2	\$ 0.0	\$ 0.2	\$ 0.0
Land improvements	0.3	0.3	0.0	0.3	0.0
Leasehold Improvements	0.2	0.2	0.0	0.2	0.0
Buildings and fixtures	9.0	8.0	1.0	7.7	0.3
Equipment	10.0	9.4	0.6	8.7	0.7
Construction in process	0.5	0.7	(0.2)	0.6	0.1
Total	20.2	18.8	1.4	17.7	1.1
Less accumulated depreciation	13.7	12.9	0.8	12.2	0.7
Net capital assets	<u>\$ 6.5</u>	<u>\$ 5.9</u>	<u>\$ 0.6</u>	<u>\$ 5.5</u>	<u>\$ 0.4</u>

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

#### Long-term Debt and Capital Leases

As of September 30, 2012 and 2011, the Hospital had approximately a \$0.20 million increase in outstanding notes payable and capital leases. The following illustrates the long-term debt and capital leases held:

	2012 (millions)	2011 (millions)	2012-2011 Change	2010 (millions)	2011-2010 Change
Notes payable	\$ 1.0	\$ 0.6	\$ 0.4	\$ 0.1	\$ 0.5
Capital lease obligations	0.0	0.2	(0.2)	0.5	(0.3)
	<u>\$ 1.0</u>	<u>\$ 0.8</u>	<u>\$ 0.2</u>	<u>\$ 0.6</u>	<u>\$ 0.2</u>

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

# **PULASKI MEMORIAL HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2012 AND 2011**

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### **Economic Outlook**

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting the Hospital is the increases in labor costs due to the increasing competition for quality health care workers. Uncompensated care is also a significant factor on the Hospital's margin.

### **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, 2012 AND 2011

### ASSETS

	2012	2011
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,924,612	\$ 3,887,508
Patient accounts receivable, net of estimated uncollectable of \$1,743,250 and \$1,640,667 in 2012 and 2011, respectively	2,730,464	2,380,173
Inventory and other current assets	560,389	504,881
Total current assets	8,215,465	6,772,562
<b>Noncurrent cash</b>		
Restricted by contributors and grantors	408,579	400,173
<b>Capital assets</b>		
Land and construction in progress	714,772	890,249
Depreciable capital assets, net	5,803,090	5,004,704
Total capital assets	6,517,862	5,894,953
Total assets	\$ 15,141,906	\$ 13,067,688

### LIABILITIES AND NET POSITION

<b>Current liabilities</b>		
Current portion of capital leases	\$ 38,703	\$ 176,867
Current portion of notes payable	206,180	171,576
Accounts payable and accrued expenses	442,022	491,057
Accrued salaries and related liabilities	995,230	857,271
Estimated third party settlements	1,189,777	246,436
Other current liabilities	85,046	98,772
Total current liabilities	2,956,958	2,041,979
<b>Long-term liabilities</b>		
Capital leases	-0-	24,657
Long-term notes payable	836,193	382,165
Other long-term liabilities	-0-	29,167
Total long-term liabilities	836,193	435,989
Total liabilities	3,793,151	2,477,968
<b>Net position</b>		
Net investment in capital assets	5,436,786	5,139,688
Restricted		
Expendable for capital acquisitions	333,240	330,753
Expendable for specific operating activities	75,339	69,420
Total restricted net position	408,579	400,173
Unrestricted	5,503,390	5,049,859
Total net position	11,348,755	10,589,720
Total liabilities and net position	\$ 15,141,906	\$ 13,067,688

See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Net patient service revenue	\$ 19,617,087	\$ 18,581,480
Other	1,397,604	348,485
Total operating revenue	<u>21,014,691</u>	<u>18,929,965</u>
<b>Expenses</b>		
Salaries and benefits	11,626,578	11,051,377
Medical professional fees	816,508	829,789
Other professional fees	2,314,670	1,641,436
Supplies and drugs	2,450,845	2,550,549
Rent	260,233	87,794
Insurance	167,646	173,042
Depreciation and amortization	785,457	743,636
Hospital assessment fee program	518,313	-0-
Other	1,298,712	1,277,067
Total operating expenses	<u>20,238,962</u>	<u>18,354,690</u>
Operating income	775,729	575,275
<b>Nonoperating revenue (expense)</b>		
Investment income	47,131	27,895
Interest expense	(40,972)	(38,110)
Other	(22,853)	49,545
Total nonoperating revenue (expense)	<u>(16,694)</u>	<u>39,330</u>
Change in net position	759,035	614,605
<b>Net position, beginning of year</b>	10,589,720	9,975,115
<b>Net position, end of year</b>	<u><u>\$ 11,348,755</u></u>	<u><u>\$ 10,589,720</u></u>

See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 20,210,137	\$ 19,670,319
Cash paid to employees for salaries and benefits	(11,488,619)	(11,020,465)
Cash paid to vendors for goods and services	(8,011,716)	(6,831,702)
Other operating receipts, net	1,397,604	348,485
Net cash from operating activities	<u>2,107,406</u>	<u>2,166,637</u>
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(573,526)	(631,308)
Interest paid on debt	(40,972)	(38,110)
Principal payments on debt	(471,674)	(390,271)
Net cash from capital and related financing activities	<u>(1,086,172)</u>	<u>(1,059,689)</u>
<b>Investing activities</b>		
Investment and other nonoperating income	<u>24,276</u>	<u>77,440</u>
Net cash from investing activities	<u>24,276</u>	<u>77,440</u>
Net change in cash and cash equivalents	1,045,510	1,184,388
<b>Cash and cash equivalents, beginning of year</b>	<u>4,287,681</u>	<u>3,103,293</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 5,333,191</u>	<u>\$ 4,287,681</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents		
In current assets	\$ 4,924,612	\$ 3,887,508
In noncurrent cash	408,579	400,173
Total cash and cash equivalents, end of year	<u>\$ 5,333,191</u>	<u>\$ 4,287,681</u>

See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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	<u>2012</u>	<u>2011</u>
<b>Reconciliation of operating income to net cash from operating activities</b>		
Operating income	\$ 775,729	\$ 575,275
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	785,457	743,636
Provision for bad debt	1,333,306	1,586,389
Changes in assets and liabilities		
Patient accounts receivable	(1,683,597)	(1,321,032)
Estimated third-party settlements	943,341	823,482
Inventory and other current assets	(92,861)	83,124
Accounts payable and accrued expenses	(49,035)	(300,222)
Other current liabilities	(13,726)	(19,927)
Accrued salaries and related liabilities	137,959	30,912
Other long-term liabilities	(29,167)	(35,000)
Net cash flows from operating activities	<u>\$ 2,107,406</u>	<u>\$ 2,166,637</u>
<b>Noncash investing, capital and related financing activities</b>		
Capital assets acquired through incurrence of liabilities	\$ 797,485	\$ 530,371

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See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

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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. 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 position 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 utilizes the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

#### Accounting Standards

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, Financial Accounting Standards Board (FASB) Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

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GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

Also during 2012, the Hospital early adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This change resulted in renaming net assets to net position within the balance sheets and statements of revenues, expenses and changes in net position. GASB No. 63 has been applied retrospectively in the accompanying financial statements.

### 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.

### Inventory

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory consists of medical supplies and pharmaceuticals.

### Noncurrent Cash

*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 such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities, which exceed certain dollar and useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred. The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The estimated useful lives are 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.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

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### 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 2012 or 2011.

### 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 Position

Net position of the Hospital is classified in various components. Net position - net investment in capital assets consists 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 net position consists of assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

### Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net position 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.

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# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

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### Patient Accounts Receivable and Revenues

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 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.

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.

Net patient revenue from Medicare and Medicaid programs account for approximately 39 percent and 9 percent for the fiscal year ended 2012, and 40 percent and 2 percent, respectively for the fiscal year ended 2011.

### Indiana Hospital Assessment Fee Program

During 2012, the Indiana Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by the Centers for Medicare & Medicaid Services retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the statement of revenues, expenses and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. Under the HAF Program, the enhanced Medicaid payments follow the patients and are realized through increased Medicaid rates. During 2012 and 2011, the Hospital recognized HAF Program expense of approximately \$518,000 and \$-0-, respectively, which is included in expenses in the statements of revenues, expenses and changes in net position. The HAF program resulted in Medicaid rate increases of approximately \$920,000 and \$-0-, respectively.

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# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

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### Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of the Hospital's total expenses reported (approximately \$20,200,000 and \$18,400,000 during 2012 and 2011, respectively), an estimated \$180,000 and \$164,000 arose from providing services to charity patients during 2012 and 2011, respectively. The estimated costs of providing patient assistance services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue.

### Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for the years ended September 30, 2012 and 2011 was \$135,392 and \$118,502, 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.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

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### 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.

### Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. As such, the Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986. As a governmental entity under Section 115, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and has concluded that as of September 30, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

### Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare program. To qualify for these payments, the Hospital must meet “meaningful use” criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (ending on September 30<sup>th</sup>). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital’s cost reports. For Critical Access Hospitals, the payment calculation is based upon the net book value of the qualifying assets multiplied by the Medicare utilization using Medicare to total inpatient days plus 20%, not to exceed 100%. The total days are multiplied by a factor of total charges excluding charity care to total charges. Critical Access Hospitals can be reimbursed over a four year period for additional qualifying assets not claimed in the first year. The transitional factor ranges from 100% in first payment year and decreases by 25% each payment year until it is completely phased out in the fifth year.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

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The Hospital recognizes EHR incentive payments as income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific agreement requirements. In addition, the financial statement effects of the income must be both recognizable and measurable. During 2012 and 2011, the Hospital recognized \$1,030,500 and \$-0-, respectively, in EHR incentive payments as other operating revenue using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes revenue ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other revenue in the statements of revenues, expenses and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

### Minimum Revenue Guarantees

The Guarantees topic of the FASB Accounting Standards Codification 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. Liabilities for minimum revenue guarantees are included in the other long-term liabilities section of the balance sheets.

### 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 May 28, 2013.

## 2. RESTATEMENT

The accompanying financial statements as of and for the year ended September 30, 2011, and the net position as of September 30, 2010, have been restated to reflect a correction in the Hospital's depreciation of capital assets. As a result of management's review of its capital assets, physical inventory and related reconciliation, management determined that depreciation was not being calculated correctly. The net book value of the Hospital's capital assets was understated by approximately \$1,400,000 as of September 30, 2011 and \$800,000 as of September 30, 2010.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

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The following is a summary of the restatement for 2011:

	September 30, 2011		
	Originally Reported	Adjustment	Restated
<b>Balance sheet</b>			
Capital assets, net	\$ 4,512,436	\$ 1,382,517	\$ 5,894,953
Total assets	\$ 11,685,171	\$ 1,382,517	\$ 13,067,688
Net position - net investment in capital assets	\$ 3,757,171	\$ 1,382,517	\$ 5,139,688
Total net position	\$ 9,207,203	\$ 1,382,517	\$ 10,589,720
<b>Statement of revenues, expenses and changes in net position</b>			
Depreciation and amortization	\$ 1,280,068	\$ (536,432)	\$ 743,636
Total operating expenses	\$ 18,891,122	\$ (536,432)	\$ 18,354,690
Operating income	\$ 38,843	\$ 536,432	\$ 575,275
Change in net position	\$ 78,173	\$ 536,432	\$ 614,605
Beginning net position	\$ 9,129,030	\$ 846,085	\$ 9,975,115
<b>Statement of cash flows</b>			
Reconciliation of operating income to net cash flows from operating activities			
Operating income	\$ 38,843	\$ 536,432	\$ 575,275
Depreciation and amortization	\$ 1,280,068	\$ (536,432)	\$ 743,636

### 3. 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, 2012 and 2011, the Hospital had \$5,333,191 and \$4,287,681 in deposits, 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, 2012 AND 2011

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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:

	<u>2012</u>	<u>2011</u>
Carrying amount		
Deposits	<u>\$ 5,333,191</u>	<u>\$ 4,287,681</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 4,924,612	\$ 3,887,508
Restricted by contributors and grantors	<u>408,579</u>	<u>400,173</u>
	<u>\$ 5,333,191</u>	<u>\$ 4,287,681</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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 4,106,708	\$ 3,972,450
Receivable from Medicare	1,845,126	1,504,909
Receivable from Medicaid	<u>780,475</u>	<u>634,103</u>
Total patient accounts receivable	6,732,309	6,111,462
Less allowance for contractual agreements and uncollectible amounts	<u>4,001,845</u>	<u>3,731,289</u>
Patient accounts receivable, net	<u>\$ 2,730,464</u>	<u>\$ 2,380,173</u>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

	2012	2011
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 895,230	\$ 757,271
Payable to suppliers	442,022	491,057
Accrued employee health benefit claims	100,000	100,000
Total accounts payable and accrued expenses	\$ 1,437,252	\$ 1,348,328

### 5. CAPITAL ASSETS

Capital asset activity for 2012 and 2011 is listed below. Prior year amounts have been adjusted in accordance with the restatement.

	Balance September 30, 2011	Additions	Retirements	Transfers	Balance September 30, 2012
Land	\$ 189,325	\$ -0-	\$ -0-	\$ -0-	\$ 189,325
Land improvements	292,088	-0-	-0-	42,530	334,618
Leasehold Improvements	160,930	-0-	-0-	-0-	160,930
Buildings and fixtures	8,030,023	5,015	-0-	1,003,964	9,039,002
Fixed equipment	3,872,163	30,768	-0-	147,136	4,050,067
Moveable equipment	5,590,669	236,257	-0-	80,818	5,907,744
Construction in process	700,924	1,098,971	-0-	(1,274,448)	525,447
Total	18,836,122	1,371,011	-0-	-0-	20,207,133
Accumulated depreciation	12,941,169	748,102	-0-	-0-	13,689,271
Net capital assets	\$ 5,894,953	\$ 622,909	\$ -0-	\$ -0-	\$ 6,517,862

  

	Balance September 30, 2010	Additions	Retirements	Transfers	Balance September 30, 2011
Land	\$ 189,325	\$ -0-	\$ -0-	\$ -0-	\$ 189,325
Land improvements	281,113	-0-	-0-	10,975	292,088
Leasehold improvements	160,930	-0-	-0-	-0-	160,930
Buildings and fixtures	7,656,150	-0-	-0-	373,873	8,030,023
Fixed equipment	3,603,198	43,579	-0-	225,386	3,872,163
Moveable equipment	5,180,830	405,801	-0-	4,038	5,590,669
Construction in process	649,266	665,930	-0-	(614,272)	700,924
Total	17,720,812	1,115,310	-0-	-0-	18,836,122
Accumulated depreciation	12,237,330	703,839	-0-	-0-	12,941,169
Net capital assets	\$ 5,483,482	\$ 411,471	\$ -0-	\$ -0-	\$ 5,894,953

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

### 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, 2012 and 2011, the maximum potential amount of future payments under these guarantees was approximately \$-0- and \$29,000, respectively, which is included in the assets and liabilities within the balance sheets.

### 7. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

A schedule of changes in the Hospital's noncurrent liabilities for the years ended September 30, 2012 and 2011 was as follows:

	Balance September 30, 2011	Additions	Reductions	Balance September 30, 2012	Current portion	Long-term portion
Notes payable and capital leases:						
Notes payable	\$ 553,741	\$ 797,485	\$ (308,853)	\$ 1,042,373	\$ 206,180	\$ 836,193
Capital leases	201,524	-0-	(162,821)	38,703	38,703	-0-
Total long-term debt	<u>755,265</u>	<u>797,485</u>	<u>(471,674)</u>	<u>1,081,076</u>	<u>244,883</u>	<u>836,193</u>
Other liabilities	<u>29,167</u>	<u>-0-</u>	<u>(29,167)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total noncurrent liabilities	<u>\$ 784,432</u>	<u>\$ 797,485</u>	<u>\$ (500,841)</u>	<u>\$ 1,081,076</u>	<u>\$ 244,883</u>	<u>\$ 836,193</u>
	Balance September 30, 2010	Additions	Reductions	Balance September 30, 2011	Current portion	Long-term portion
Notes payable and capital leases:						
Notes payable	\$ 148,629	\$ 530,371	\$ (125,259)	\$ 553,741	\$ 171,576	\$ 382,165
Capital leases	466,536	-0-	(265,012)	201,524	176,867	24,657
Total long-term debt	<u>615,165</u>	<u>530,371</u>	<u>(390,271)</u>	<u>755,265</u>	<u>348,443</u>	<u>406,822</u>
Other liabilities	<u>64,167</u>	<u>-0-</u>	<u>(35,000)</u>	<u>29,167</u>	<u>-0-</u>	<u>29,167</u>
Total noncurrent liabilities	<u>\$ 679,332</u>	<u>\$ 530,371</u>	<u>\$ (425,271)</u>	<u>\$ 784,432</u>	<u>\$ 348,443</u>	<u>\$ 435,989</u>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

During 2012, the Hospital obtained a note payable for a medical office building. The maximum amount available to be borrowed is \$1,028,500. The amount outstanding as of September 30, 2012 approximated \$174,000. The remaining amount available was borrowed subsequent to September 30, 2012. This note payable bears interest based on the five year U.S. Treasury rate plus 2.75% with a minimum interest rate of 5.95%. This note payable is secured by certain capital assets of the Hospital with an approximate net book value of \$3,900,000 as of September 30, 2012.

During 2012, the Hospital, the Indiana Finance Authority (Authority), and Alliance Bank (Bank) entered into a Bond Purchase Agreement (Agreement) whereby the Bank purchased from the Authority, Series 2012 Bonds (Bonds) to be held in a private placement as the Bank is the single holder of the Bonds. As such, the Bonds are included in the balance sheets as notes payable. The maximum amount of the bonds to be borrowed is \$1,727,900. The amount outstanding as of September 30, 2012 approximated \$370,000. Subsequent to September 30, 2012, the Hospital borrowed an additional \$690,952. The Bonds bear interest at 4.50% and mature February 1, 2037. The Bonds were obtained to renovate, remodel and equip the Hospital's Central Sterile Processing Department and various operating rooms. This note payable is secured by certain capital assets of the Hospital with an approximate net book value of \$3,900,000 as of September 30, 2012.

The Hospital maintains several other notes payable for equipment with a total outstanding balance of approximately \$498,000 as of September 30, 2012. Payments, including interest at rates varying from 4.0%, to 5.8% continue through 2016. The equipment is listed as security for the loans. The net book value of the equipment that serves as collateral for these notes approximates the outstanding balance of the notes which is approximately \$500,000.

Scheduled principal and interest repayments on notes payable are listed below. The amounts include the principal and interest due as if the maximum amounts were borrowed on the debt instruments.

Notes Payable Year ending September 30,	Principal	Interest	Total
2013	\$ 206,180	\$ 104,289	\$ 310,469
2014	191,774	123,983	315,757
2015	155,649	120,087	275,736
2016	105,544	131,694	237,238
2017	105,267	127,467	232,734
2018-2022	428,695	576,673	1,005,368
2023-2027	552,620	454,431	1,007,051
2028-2032	710,466	296,616	1,007,082
2033-2037	800,956	94,119	895,075
	<u>\$ 3,257,151</u>	<u>\$ 2,029,359</u>	<u>\$ 5,286,510</u>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

The Hospital has also entered into various capital leases at varying rates of imputed interest from 2.9% to 4.6%, collateralized by leased equipment. The net book value of the equipment that serves as collateral approximates \$130,000 as of September 30, 2012.

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

Capital leases Year ending September 30,	Principal	Interest	Total
2013	<u>\$ 38,703</u>	<u>\$ 582</u>	<u>\$ 39,285</u>

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

	2012	2011
Equipment	\$ 979,321	\$ 979,321
Accumulated depreciation	848,884	606,084
	<u>\$ 130,437</u>	<u>\$ 373,237</u>

### 8. NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended September 30, 2012 and 2011 consists of the following:

	2012	2011
Inpatient services	\$ 9,006,058	\$ 8,751,648
Outpatient services	29,831,717	28,371,752
Gross patient service revenue	38,837,775	37,123,400
Contractual allowances	(17,541,268)	(16,623,079)
Charity care	(346,114)	(332,452)
Bad debt	(1,333,306)	(1,586,389)
Deductions from revenue	<u>(19,220,688)</u>	<u>(18,541,920)</u>
Net patient service revenue	<u>\$ 19,617,087</u>	<u>\$ 18,581,480</u>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

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### 9. 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 with an overall aggregate of approximately \$1,000,000.

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, 2012 and 2011 was approximately \$2,179,000 and \$1,935,000, respectively.

### 10. 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.

### 11. CONCENTRATIONS OF CREDIT RISK

The Hospital is primarily located in Winamac, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable and gross patient revenues from self-pay and third party payors for the years ended September 30, 2012 and 2011 was as follows:

	Receivables		Revenue	
	2012	2011	2012	2011
Medicare and Medicaid	39%	35%	63%	62%
Blue Cross	7%	7%	15%	17%
Commercial and other payors	14%	15%	16%	16%
Self-pay payors	40%	43%	6%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011

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### 12. PENSION PLAN

#### Plan Description

The Hospital has a defined contribution pension plan for employees that meet certain eligibility requirements. The plan provides retirement benefits to plan members. The plan was established by written agreement between the Board of Trustees and the Plan Administrator. Reports of the plan are available by contacting the Hospital's accounting department.

#### Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital's Board of Trustees and the plan administrator. Employees who are eligible may authorize pre-tax deferral contributions for a maximum allowed by regulations. The current employer contribution matching rate is 25% of an eligible participant's deferral up to 6% of eligible compensation. Employer contributions to the plan for 2012 and 2011 were \$62,239 and \$63,708, respectively.

### 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, results from operations, and cash flows.

At September 30, 2012, the Hospital had a remaining commitment of approximately \$2,000,000 towards the construction of various healthcare projects.

### 14. SUBSEQUENT EVENT

Subsequent to September 30, 2012, the Hospital entered into an agreement with a distinct lessor entity to lease a long-term care facility operated by a related management company. Additionally, the Hospital entered into agreements with the related management company to manage the leased long-term care facility. As part of the agreements, the Hospital will pay the management company a fee to continue managing the long-term care facility on behalf of the Hospital in accordance with the terms of the agreements. While the lease is in effect, the performance of all activities of the management company shall be on behalf of the Hospital. Furthermore, the Hospital retains ultimate authority and legal responsibility for the operation and control of the long-term care facility.

# **PULASKI MEMORIAL HOSPITAL**

## **NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2012 AND 2011**

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Under the agreement, all gross patient revenues from the operation of the long-term care facility will be the property of the Hospital and the Hospital shall be responsible for all operating expenses and working capital requirements. The agreements expire in October of 2014 and are automatically extended for successive terms of two years unless appropriately terminated. All parties involved can terminate the agreement without cause with 90 days written notice.