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December 28, 2010

Board of Directors
Pulaski Memorial Hospital
P.O. Box 279
Winamac, IN 46996

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period October 1, 2008 to September 30, 2009. 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, 2009 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



"CLOSER TO YOU
IN SO MANY WAYS"

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2009 AND 2008**

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, 2009 and 2008 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2009 and 2008, and the results of its operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Blue & Co., LLC

February 5, 2010

REQUIRED SUPPLEMENTARY INFORMATION

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2009 AND 2008

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, 2009 and 2008. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements. Unless otherwise indicated, amounts are in millions.

Using This Annual Report

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

- In the "*management's discussion and analysis*" section of this report the management of the hospital discuss various components of the annual report and provide an analysis of the current financial statement information.
- The "*basic financial statement*" section of this report includes a series of financial statements, which provide information about the activities of the Hospital as a whole. The Balance Sheets reveal the assets, liabilities and net assets of the Hospital on September 30, 2009 and 2008 while the Statements of Revenues, Expenses and Changes in Net Assets summarize the revenues and expenses, including nonoperating items for the years then ended. The Statements of Cash Flows summarize the change in cash and cash equivalents as a result of the financial activity during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

Financial Highlights

The Hospital's Total Operating Revenue experienced an increase of approximately \$0.4 million. Net assets increased \$1.0 million during the year ended September 30, 2009. Net Patient Service Revenue increased \$0.5 million or 2.6%. An updated budgeting process coupled with a concentration on contract re-negotiation has assisted in controlling expense level growth in the last year. FY2009 saw a reduction in Total Operating Expenses of \$0.4 million or 1.4%. Most of the expenses held the line with last year with slight decreases noted in Salaries and Benefits, and a slight increase in professional fees.

An injection of approximately \$0.6 million in DSH, UPL, and HCI payments helped in improving days of cash on hand from 43 in FY2008 74 in FY2009. Total Cash and Cash Equivalents showed gains for FY2008 (\$2.4 million) to FY 2009 (\$4.0 million).

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2009 AND 2008

Summarized Financial Statement Information

The Hospital's net assets are the difference between its assets and liabilities. The following information documents in summary the net assets and the changes in net assets related to activities of the Hospital as of September 30, 2009 and 2008 and for the years then ended.

	2009 <u>(millions)</u>	2008 <u>(millions)</u>
Current assets	\$ 7.5	\$ 5.5
Non-current cash and investments	0.8	0.6
Capital assets and other assets	5.3	6.0
Total assets	<u>\$ 13.6</u>	<u>\$ 12.1</u>
Current liabilities	\$ 2.6	\$ 2.0
Long-term debt and capital leases, net	0.6	0.8
Total liabilities	<u>\$ 3.2</u>	<u>\$ 2.8</u>
Net assets		
Invested in capital assets, net of related debt	\$ 4.3	\$ 4.7
Restricted expendable	0.8	0.6
Unrestricted	5.3	4.0
	<u>\$ 10.4</u>	<u>\$ 9.3</u>
	2009 <u>(millions)</u>	2008 <u>(millions)</u>
Revenue		
Net patient service revenue	\$ 19.9	\$ 19.4
Other revenue	0.7	0.8
Total operating revenue	<u>20.6</u>	<u>20.2</u>
Expenses		
Salaries and benefits	10.9	11.5
Medical professional fees	0.7	0.7
Other professional fees	1.9	1.7
Medical supplies and drugs	3.0	3.0
Rent	0.2	0.2
Insurance	0.3	0.3
Depreciation and amortization	1.3	1.2
Other	1.3	1.4
Total operating expenses	<u>19.6</u>	<u>20.0</u>
Operating income	1.0	0.2
Nonoperating revenue (expense)	0.1	(0.2)
Change in assets	<u>\$ 1.1</u>	<u>\$ 0.0</u>

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2009 AND 2008

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2009 and 2008, the Hospital had \$5.1 million invested in capital assets. Capital assets are comprised of the following as of September 30, 2009 and 2008:

	2009 <u>(millions)</u>	2008 <u>(millions)</u>
Land	\$ 0.2	\$ 0.2
Land improvements	0.3	0.3
Buildings	7.4	7.4
Equipment	10.3	10.0
Construction in process	<u>0.7</u>	<u>0.5</u>
Total	18.9	18.4
Less accumulated depreciation	<u>13.8</u>	<u>12.5</u>
Net capital assets	<u>\$ 5.1</u>	<u>\$ 5.9</u>

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

Long-term Debt and Capital Leases

As of September 30, 2009 and 2008, the Hospital had approximately \$0.8 million and \$1.0 million in outstanding notes payable and capital leases, respectively. The following documents the long-term debt and capital leases held:

	2009 <u>(millions)</u>	2008 <u>(millions)</u>
Notes payable	\$ 0.0	\$ 0.1
Capital lease obligations	<u>0.8</u>	<u>0.9</u>
	<u>\$ 0.8</u>	<u>\$ 1.0</u>

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

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2009 AND 2008

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. 16th Street, PO Box 279, Winamac, Indiana 46996.

PULASKI MEMORIAL HOSPITAL

BALANCE SHEETS SEPTEMBER 30, 2009 AND 2008

ASSETS

	2009	2008
Current assets		
Cash and cash equivalents	\$ 3,199,568	\$ 1,739,826
Patient accounts receivable, net of estimated uncollectibles of \$1,880,369 and \$1,795,057 in 2009 and 2008, respectively	3,534,735	2,770,972
Estimated third party settlements	-0-	111,971
Supplies and other current assets	806,432	866,696
Total current assets	7,540,735	5,489,465
Noncurrent cash		
Restricted by contributors and grantors	809,491	640,080
Total noncurrent cash and investments	809,491	640,080
Capital assets		
Land and construction in progress	884,936	713,688
Depreciable capital assets, net	4,266,520	5,161,352
Total capital assets	5,151,456	5,875,040
Other assets	109,584	144,584
Total assets	\$ 13,611,266	\$ 12,149,169

LIABILITIES AND NET ASSETS

Current liabilities		
Current maturities of capital leases	\$ 288,305	\$ 386,894
Accounts payable and accrued expenses	564,458	397,412
Accrued salaries and related liabilities	913,372	1,058,539
Estimated third party settlements	688,000	-0-
Other current liabilities	201,331	133,492
Total current liabilities	2,655,466	1,976,337
Long-term liabilities		
Capital leases	470,937	670,689
Other long-term liabilities	99,167	134,167
Total long-term liabilities	570,104	804,856
Total liabilities	3,225,570	2,781,193
Net assets		
Unrestricted	5,273,575	4,038,876
Invested in capital assets, net of related debt	4,293,047	4,683,290
Restricted		
Expendable for capital acquisitions	740,539	577,536
Expendable for specific operating activities	78,535	68,274
Total net assets	10,385,696	9,367,976
Total liabilities and net assets	\$ 13,611,266	\$ 12,149,169

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Revenues		
Net patient service revenue	\$ 19,879,358	\$ 19,378,966
Other	671,337	769,508
Total operating revenue	<u>20,550,695</u>	<u>20,148,474</u>
Expenses		
Salaries and benefits	10,936,559	11,536,019
Medical professional fees	737,359	715,652
Other professional fees	1,934,956	1,694,130
Supplies and drugs	3,021,130	2,960,692
Rent	144,644	177,666
Insurance	298,533	280,873
Depreciation and amortization	1,335,081	1,243,393
Other	1,280,605	1,359,251
Total operating expenses	<u>19,688,867</u>	<u>19,967,676</u>
Operating income	861,828	180,798
Nonoperating revenue (expense)		
Investment income	66,778	46,935
Interest expense	(42,184)	(48,036)
Other	131,298	(150,828)
Total nonoperating revenue (expense)	<u>155,892</u>	<u>(151,929)</u>
Change in net assets	1,017,720	28,869
Net assets, beginning of year	<u>9,367,976</u>	<u>9,339,107</u>
Net assets, end of year	<u><u>\$ 10,385,696</u></u>	<u><u>\$ 9,367,976</u></u>

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
Operating activities		
Cash received from patients and third party payors	\$ 19,915,566	\$ 20,363,530
Cash paid to employees for salaries and benefits	(11,081,726)	(11,349,910)
Cash paid to vendors for goods and services	(7,166,776)	(7,724,464)
Other operating receipts, net	671,212	1,015,964
Net cash from operating activities	2,338,276	2,305,120
Capital and related financing activities		
Acquisition and construction of capital assets	(477,992)	(401,572)
Proceeds from sale of capital assets	3,980	-0-
Interest paid on long-term debt	(42,184)	(48,036)
Payments on line of credit	-0-	(150,000)
Proceeds on long-term debt	-0-	125,000
Principal payments on long-term debt	(391,003)	(352,225)
Net cash from capital and related financing activities	(907,199)	(826,833)
Investing activities		
Investment and other nonoperating income	198,076	(103,893)
Net cash from investing activities	198,076	(103,893)
Net change in cash and cash equivalents	1,629,153	1,374,394
Cash and cash equivalents, beginning of year	2,379,906	1,005,512
Cash and cash equivalents, end of year	\$ 4,009,059	\$ 2,379,906
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 3,199,568	\$ 1,739,826
In noncurrent cash and investments	809,491	640,080
Total cash and cash equivalents	\$ 4,009,059	\$ 2,379,906

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
Reconciliation of operating loss to net cash from operating activities		
Operating income	\$ 861,828	\$ 180,798
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,335,081	1,243,393
(Gain) loss on disposal of capital assets	(125)	246,456
Provision for bad debt	1,281,107	1,402,017
Changes in assets and liabilities		
Patient accounts receivable	(2,044,870)	(717,771)
Estimated third-party settlements	799,971	300,318
Supplies and other current assets	60,264	(221,648)
Other assets	(9,698)	7,760
Accounts payable and accrued expenses	167,046	(364,752)
Other current liabilities	67,839	77,440
Accrued salaries and related liabilities	(145,167)	186,109
Other long-term liabilities	(35,000)	(35,000)
Net cash flows from operating activities	\$ 2,338,276	\$ 2,305,120

Property was acquired under capital leases in the amount of \$92,662 and \$1,042,780 for 2009 and 2008, respectively.

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

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.

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.

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.

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. Cash paid for interest in 2009 and 2008 was \$42,184 and \$48,036, respectively.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

Noncurrent Cash

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

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

Capital Assets

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

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

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

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

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

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

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 2009 or 2008.

Grants and Contributions

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

Restricted Resources

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

Net Assets

Net assets of the Hospital are classified in three components.

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

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

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

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

Operating Revenues and Expenses

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

Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur. Net patient service revenues in the accompanying statements of revenues, expenses and changes in net assets were increased by approximately \$278,000 during 2009, to reflect changes in the estimated settlements for certain prior years. Net patient service revenues in the accompanying statements of revenues, expenses and changes in net assets were increased by approximately \$376,000 during 2008, to reflect changes in the estimated settlements for certain prior years.

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 2007. Management believes adequate provision has been made in the financial statements for any adjustments.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

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 41 percent and 6 percent, respectively, of the Hospital's net patient service revenue for the fiscal year ended 2009, and 35 percent and 6 percent, respectively, of the Hospital's net patient revenue for the fiscal year ended 2008.

Charity Care

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

Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for the years ended September 30, 2009 and 2008 was \$130,601 and \$120,439, respectively.

Compensated Absences

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

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

Risk Management

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

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

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).

Accounting for Uncertainty in Income Taxes

The Income Tax Topic of the FASB ASC clarifies accounting principles generally accepted in the United States of America for recognition, measurement, presentation and disclosure relating to uncertain tax positions. It applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted, the Hospital elected to defer application until issuance of its September 30, 2010 financial statements. For financial statements covering periods prior to fiscal year 2010, the Hospital evaluates uncertain tax positions in accordance with existing accounting principles generally accepted in the United States of America and makes such accruals and disclosures as might be required thereunder.

Fair Value Measurements

The Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification requires certain disclosures regarding the fair value of financial instruments. The Hospital partially adopted the provisions of the topic for fiscal year 2009, but will delay adoption related to non-financial assets and non-financial liabilities. Companies are permitted to partially defer the effective date for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2010. When fully adopted, the Hospital will apply the provisions to certain nonfinancial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the financial statements.

When fully adopted, the Hospital will apply the provisions of the topic to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the financial statements.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

Minimum Revenue Guarantees

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

The Hospital adopted this topic as required for all new minimum revenue guarantees issued or modified on or after 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 the topic 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.

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 February 5, 2010.

2. CHARITY CARE

Charges excluded from patient service revenue under the Hospital's charity care policy were \$312,889 and \$345,912 for 2009 and 2008, respectively.

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.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

The Hospital's deposits are generally reported at cost, as discussed in Note 1. As of September 30, 2009 and 2008, the Hospital had the following deposits and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

September 30, 2009					
Cash and cash equivalents	Carrying Amount	Deposit Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
	\$ 4,009,059	\$ 4,009,059	\$ -0-	\$ -0-	\$ -0-
September 30, 2008					
Cash and cash equivalents	Carrying Amount	Deposit Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
	\$ 2,379,906	\$ 2,379,906	\$ -0-	\$ -0-	\$ -0-

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.

Deposits consist of the following as of September 30, 2009 and 2008:

	2009	2008
Cash and cash equivalents	\$ 4,009,059	\$ 2,379,906
Included in the following balance sheet		
Cash and cash equivalents	\$ 3,199,568	\$ 1,739,826
Restricted by contributors and grantors	809,491	640,080
	\$ 4,009,059	\$ 2,379,906

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

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, 2009 and 2008:

	2009	2008
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 4,360,007	\$ 4,134,179
Receivable from Medicare	1,734,706	1,611,199
Receivable from Medicaid	1,163,333	1,131,480
Total patient accounts receivable	7,258,046	6,876,858
Less allowance for contractual agreements and uncollectible amounts	3,723,311	4,105,886
Patient accounts receivable, net	\$ 3,534,735	\$ 2,770,972
 Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 738,858	\$ 733,539
Payable to suppliers	564,458	397,412
Accrued employee health benefit claims	174,514	325,000
Total accounts payable and accrued expenses	\$ 1,477,830	\$ 1,455,951

5. CAPITAL ASSETS

Capital asset activity for 2009 and 2008 is as follows:

	Balance September 30, 2008	Additions	Retirements	Transfers	Balance September 30, 2009
Land	\$ 189,325	\$ -0-	\$ -0-	\$ -0-	\$ 189,325
Land improvements	281,113	-0-	-0-	-0-	281,113
Buildings and fixtures	7,401,988	1,555	(1,555)	-0-	7,401,988
Fixed equipment	3,565,295	53,034	-0-	641	3,618,970
Moveable equipment	6,388,122	341,898	(2,300)	2,278	6,729,998
Construction in process	524,364	174,167	-0-	(2,919)	695,612
Total	18,350,207	570,654	(3,855)	-0-	18,917,006
Accumulated depreciation	12,475,167	1,290,383	-0-	-0-	13,765,550
Net capital assets	\$ 5,875,040	\$ (719,729)	\$ (3,855)	\$ -0-	\$ 5,151,456

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

	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
Total	17,753,419	1,267,870	(671,082)	-0-	18,350,207
Accumulated depreciation	11,683,637	1,216,153	(424,623)	-0-	12,475,167
Net capital assets	<u>\$ 6,069,782</u>	<u>\$ 51,717</u>	<u>\$ (246,459)</u>	<u>\$ -0-</u>	<u>\$ 5,875,040</u>

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, 2009 and 2008, the maximum potential amount of future payments under these guarantees was approximately \$99,000, 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%.

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

8. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

A schedule of changes in the Hospital's noncurrent liabilities for the years ended September 30, 2009 and 2008, was as follows:

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

	Balance September 30, 2007	Additions	Reductions	Balance September 30, 2008	Current portion	Long-term portion
Notes Payable and Capital Leases:						
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
Total Long-Term Debt	418,513	1,167,784	(528,714)	1,057,583	386,894	670,689
Other Liabilities	169,167	-0-	(35,000)	134,167	-0-	134,167
Total Noncurrent liabilities	\$ 587,680	\$ 1,167,784	\$ (563,714)	\$ 1,191,750	\$ 386,894	\$ 804,856

Long-Term Debt

The Hospital obtained an unsecured note payable during 2008. Payments, including interest at prime plus 2.25%, of \$10,831 were 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 were due monthly through May 2009. These notes were paid in full during fiscal year 2009.

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

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

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

Year ending September 30,	Principal	Interest
2010	\$ 288,305	\$ 28,993
2011	255,231	20,221
2012	177,003	6,615
2013	38,703	279
	<u>\$ 759,242</u>	<u>\$ 56,108</u>

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

	2009	2008
Equipment	\$ 979,321	\$ 1,083,296
Accumulated depreciation	406,019	317,879
	<u>\$ 573,302</u>	<u>\$ 765,417</u>

9. PATIENT SERVICE REVENUE

Patient service revenue for the years ended September 30, 2009 and 2008 consists of the following:

	2009	2008
Inpatient services	\$ 12,490,602	\$ 10,400,782
Outpatient services	25,904,418	24,297,052
Gross patient service revenue	38,395,020	34,697,834
Contractual allowances	(16,921,666)	(13,570,939)
Charity care	(312,889)	(345,912)
Bad debt	(1,281,107)	(1,402,017)
Deductions from revenue	<u>(18,515,662)</u>	<u>(15,318,868)</u>
Net patient service revenue	<u>\$ 19,879,358</u>	<u>\$ 19,378,966</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

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 \$100,000 per year.

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

Health insurance expense for the years ended September 30, 2009 and 2008, was approximately \$2,047,000 and \$2,434,000 respectively.

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. Accounts receivable and revenues from self-pay and third-party payors were as follows:

	Receivables		Revenue	
	2009	2008	2009	2008
Medicare and Medicaid	41%	41%	62%	61%
Blue Cross	10%	9%	18%	15%
Commercial and other payors	16%	14%	15%	17%
Self-pay payors	33%	36%	5%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2009 AND 2008

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.