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January 23, 2013

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

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period October 1, 2010 to September 30, 2011. 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, 2011 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, 2011 AND 2010

CPAs / ADVISORS

blue

PULASKI MEMORIAL HOSPITAL

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CPAs / ADVISORS

blue

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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, 2011 and 2010 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, 2011 and 2010, and its results of 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.

Board of Trustees
Pulaski Memorial Hospital
Winamac, Indiana

Accounting principles generally accepted in the United States of America require 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 audit 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

February 28, 2012

REQUIRED SUPPLEMENTARY INFORMATION

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2011 AND 2010

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, 2011 with comparable information for 2010 and 2009. 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

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, management discusses various components of the annual report and provide an analysis of the current financial statement information.

- The *"basic financial statements"* 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, 2011 and 2010 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 operating, investing and financing activities 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 $1.10 million. Net assets increased $0.10 million during the year ended September 30, 2011. Net Patient Service Revenue increased $1.20 million or 7%. An updated budgeting process coupled with a concentration on contract re-negotiation has assisted in controlling expense level growth in the last year. Fiscal year 2011 saw a reduction in Total Operating Expenses of $0.20 million or 1%. Most of the expenses were consistent with last year with the exception of a slight increase in Salaries and Benefits and a slight decrease in Other Professional Fees.

During the current year, the Hospital saw increase in Net Patient Service Revenue of $1.20 million caused by outpatient activity and approximately $0.50 million in DSH monies. The Hospital was able to decrease expenses by $0.20 million and saw a $1.10 million increase in cash and cash equivalents.

During FY 2011, the Hospital increased days of cash on hand from 58 in fiscal year 2010 to 81 in fiscal year 2011. During FY 2011, an injection of approximately $0.50 million in Disproportionate Share (DSH) and Upper Payment Limit (UPL) funding improved cash flow.

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, 2011 and 2010 and for the years then ended.

Table 1 – Balance Sheets

	2011 (millions)	2010 (millions)	2011-2010 Change	2009 (millions)	2010-2009 Change
Current assets	$ 6.8	$ 6.5	$ 0.3	$ 7.5	$ (1.0)
Non-current cash	0.4	0.3	0.1	0.8	(0.5)
Capital assets and other assets	4.5	4.7	(0.2)	5.3	(0.6)
Total assets	$ 11.7	$ 11.5	$ 0.2	$ 13.6	$ (2.1)
Current liabilities	$ 2.1	$ 2.0	$ 0.1	$ 2.7	$ (0.7)
Long-term debt and capital leases, net	0.4	0.4	0.0	0.6	(0.2)
Total liabilities	2.5	2.4	0.1	3.3	(0.9)
Net assets					
Invested in capital assets, net of related debt	3.8	3.9	(0.1)	4.3	(0.4)
Restricted expendable	0.4	0.4	0.0	0.8	(0.4)
Unrestricted	5.0	4.8	0.2	5.2	(0.4)
Total net assets	$ 9.2	$ 9.1	$ 0.1	$ 10.3	$ (1.2)

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

	2011 (millions)	2010 (millions)	2011-2010 Change	2009 (millions)	2010-2009 Change
Revenue					
Net patient service revenue	$ 18.6	$ 17.4	$ 1.2	$ 19.9	$ (2.5)
Other revenue	0.3	0.4	(0.1)	0.7	(0.3)
Total operating revenue	18.9	17.8	1.1	20.6	(2.8)
Expenses					
Salaries and benefits	11.1	10.8	0.3	11.0	(0.2)
Medical professional fees	0.8	0.9	(0.1)	0.8	0.1
Other professional fees	1.6	1.9	(0.3)	1.9	0.0
Medical supplies and drugs	2.6	2.6	0.0	3.0	(0.4)
Rent	0.1	0.1	0.0	0.1	0.0
Insurance	0.2	0.2	0.0	0.3	(0.1)
Depreciation and amortization	1.3	1.3	0.0	1.3	0.0
Other	1.3	1.4	(0.1)	1.3	0.1
Total operating expenses	19.0	19.2	(0.2)	19.7	(0.5)
Operating income (loss)	(0.1)	(1.4)	1.3	0.9	(2.3)
Nonoperating revenue (expense)	0.0	0.1	(0.1)	0.1	0.0
Change in assets	$ (0.1)	$ (1.3)	$ 1.2	$ 1.0	$ (2.3)

Table 3 – Statements of Cash Flows

Cash Flow Data	2011 (millions)	2010 (millions)	2011-2010 Change	2009 (millions)	2010-2009 Change
From operating activities	$ 2.2	$ (0.1)	$ 2.3	$ 2.3	$ (2.4)
From capital and related financing activities	(1.1)	(0.9)	(0.2)	(0.9)	0.0
From investing activities	0.1	0.1	0.0	0.2	(0.1)
Change in cash and cash equivalents	$ 1.2	$ (0.9)	$ 2.1	$ 1.6	$ (2.5)

Capital Assets and Debt Administration

Capital Assets

The Hospital capital assets remained consistent between September 30, 2011 and 2010.

Capital assets are comprised of the following as of September 30, 2011 and 2010:

	2011 (millions)	2010 (millions)	2011-2010 Change	2009 (millions)	2010-2009 Change
Land	$ 0.2	$ 0.2	$ 0.0	$ 0.2	$ 0.0
Land improvements	0.3	0.3	0.0	0.3	0.0
Buildings	7.4	7.2	0.2	7.2	0.0
Leasehold Improvements	0.2	0.2	0.0	0.2	0.0
Equipment	11.3	10.7	0.6	10.3	0.4
Construction in process	1.5	1.1	0.4	0.7	0.4
Total	20.9	19.7	1.2	18.9	0.8
Less accumulated depreciation	16.3	15.1	1.2	13.8	1.3
Net capital assets	$ 4.6	$ 4.6	$ 0.0	$ 5.1	$ (0.5)

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

Long-term Debt and Capital Leases

As of September 30, 2011 and 2010, 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:

	2011 (millions)	2010 (millions)	Change	2009 (millions)	Change
Notes payable	$ 0.6	$ 0.1	$ 0.5	$ 0.0	$ 0.1
Capital lease obligations	0.2	0.5	(0.3)	0.8	(0.3)
	$ 0.8	$ 0.6	$ 0.2	$ 0.8	$ (0.2)

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

Economic Factors

The local economy is feeling the effects as evidenced in layoffs in the major manufacturers within the community we serve. Management anticipates emergency room 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), the Hospital is reimbursed the cost of providing inpatient and outpatient services to Medicare patients, which is approximately 45% of the Hospital's revenue.

Contacting Hospital Management

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

PULASKI MEMORIAL HOSPITAL

BALANCE SHEETS
SEPTEMBER 30, 2011 AND 2010

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	$ 3,887,508	$ 2,751,896
Patient accounts receivable, net of estimated uncollectable of $1,640,667 and $1,581,042 in 2011 and 2010, respectively	2,380,173	2,645,530
Inventory and other current assets	475,714	563,636
Estimated third party settlements	-0-	577,046
Total current assets	6,743,395	6,538,108
Noncurrent cash		
Restricted by contributors and grantors	400,173	351,397
Capital assets		
Land and construction in progress	1,726,093	1,316,573
Depreciable capital assets, net	2,786,343	3,274,453
Total capital assets	4,512,436	4,591,026
Other assets	29,167	64,167
Total assets	$ 11,685,171	$ 11,544,698

LIABILITIES AND NET ASSETS

Current liabilities		
Current portion of capital leases	$ 176,867	$ 255,230
Current portion of notes payable	171,576	44,554
Accounts payable and accrued expenses	491,057	791,278
Accrued salaries and related liabilities	857,271	826,359
Estimated third party settlements	246,436	-0-
Other current liabilities	98,772	118,699
Total current liabilities	2,041,979	2,036,120
Long-term liabilities		
Capital leases	24,657	211,306
Long-term notes payable	382,165	104,075
Other long-term liabilities	29,167	64,167
Total long-term liabilities	435,989	379,548
Total liabilities	2,477,968	2,415,668
Net assets		
Unrestricted	5,049,859	4,787,734
Invested in capital assets, net of related debt	3,757,171	3,975,861
Restricted		
Expendable for capital acquisitions	330,753	282,150
Expendable for specific operating activities	69,420	83,285
Total net assets	9,207,203	9,129,030
Total liabilities and net assets	$ 11,685,171	$ 11,544,698

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Revenues		
Net patient service revenue	$ 18,581,480	$ 17,433,243
Other	348,485	394,199
Total operating revenue	18,929,965	17,827,442
Expenses		
Salaries and benefits	11,051,377	10,764,847
Medical professional fees	829,789	860,577
Other professional fees	1,641,436	1,853,082
Supplies and drugs	2,550,549	2,605,575
Rent	87,794	123,933
Insurance	173,042	198,080
Depreciation and amortization	1,280,068	1,373,324
Other	1,277,067	1,407,058
Total operating expenses	18,891,122	19,186,476
Operating income (loss)	38,843	(1,359,034)
Nonoperating revenue (expense)		
Investment income	27,895	43,541
Interest expense	(38,110)	(35,454)
Other	49,545	94,281
Total nonoperating revenue (expense)	39,330	102,368
Change in net assets	78,173	(1,256,666)
Net assets, beginning of year	9,129,030	10,385,696
Net assets, end of year	$ 9,207,203	$ 9,129,030

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Operating activities		
Cash received from patients and third party payors	$ 19,670,319	$ 17,057,402
Cash paid to employees for salaries and benefits	(11,020,465)	(10,851,860)
Cash paid to vendors for goods and services	(6,831,702)	(6,697,717)
Other operating receipts, net	348,485	396,490
Net cash from operating activities	2,166,637	(95,685)
Capital and related financing activities		
Acquisition and construction of capital assets	(631,308)	(596,607)
Proceeds from sale of capital assets	-0-	2,290
Interest paid on debt	(38,110)	(35,454)
Principal payments on debt	(390,271)	(318,132)
Net cash from capital and related financing activities	(1,059,689)	(947,903)
Investing activities		
Investment and other nonoperating income	77,440	137,822
Net cash from investing activities	77,440	137,822
Net change in cash and cash equivalents	1,184,388	(905,766)
Cash and cash equivalents, beginning of year	3,103,293	4,009,059
Cash and cash equivalents, end of year	$ 4,287,681	$ 3,103,293
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	$ 3,887,508	$ 2,751,896
In noncurrent cash	400,173	351,397
Total cash and cash equivalents, end of year	$ 4,287,681	$ 3,103,293

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Reconciliation of operating (loss) income to net cash from operating activities		
Operating income (loss)	$ 38,843	$ (1,359,034)
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,280,068	1,373,324
Loss on disposal of capital assets	-0-	2,291
Provision for bad debt	1,586,389	1,733,573
Changes in assets and liabilities		
Patient accounts receivable	(1,321,032)	(844,368)
Estimated third-party settlements	823,482	(1,265,046)
Supplies and other current assets	87,922	242,796
Other assets	(4,798)	3,169
Accounts payable and accrued expenses	(300,222)	222,255
Other current liabilities	(19,927)	(82,632)
Accrued salaries and related liabilities	30,912	(87,013)
Other long-term liabilities	(35,000)	(35,000)
Net cash flows from operating activities	$ 2,166,637	$ (95,685)
Noncash investing, capital and related financing activities		
Capital assets included in accounts payable	$ -0-	$ 174,042
Capital assets acquired through incurrence of liabilities	$ 530,371	$ -0-

See accompanying notes to financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

Use of Estimates

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

Enterprise Fund Accounting

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

Cash and Cash Equivalents

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

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

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

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

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

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

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 2011 or 2010.

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 into three components as stated below.

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.

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.

Patient Accounts Receivable, 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 40 percent and 2 percent for the fiscal year ended 2011, and 36 percent and 3 percent, respectively for the fiscal year ended 2010.

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, 2011 and 2010 was $118,502 and $215,631, 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.

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 not-for-profit organization under Section 501(c)(3).

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, 2011 and 2010, 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.

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 February 28, 2012.

2. DEPOSITS

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

The Hospital's deposits are generally are reported at cost, as discussed in Note 1. As of September 30, 2011 and 2010, the Hospital had $4,287,681 and $3,103,293 in deposits and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital. These deposits have maturity dates of one year or less.

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

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:

	2011	2010
Carrying amount		
Deposits	$ 4,287,681	$ 3,103,293
Included in the balance sheet captions		
Cash and cash equivalents	$ 3,887,508	$ 2,751,896
Restricted by contributors and grantors	400,173	351,397
	$ 4,287,681	$ 3,103,293

3. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year-end consisted of the following amounts at September 30, 2011 and 2010:

	2011	2010
Patient accounts receivable		
Receivable from patients and their insurance carriers	$ 3,911,336	$ 3,837,641
Receivable from Medicare	1,547,906	1,822,767
Receivable from Medicaid	652,220	956,214
Total patient accounts receivable	6,111,462	6,616,622
Less allowance for contractual agreements and uncollectible amounts	3,731,289	3,971,092
Patient accounts receivable, net	$ 2,380,173	$ 2,645,530

	2011	2010
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	$ 757,271	$ 726,359
Payable to suppliers	491,057	791,278
Accrued employee health benefit claims	100,000	100,000
Total accounts payable and accrued expenses	$ 1,348,328	$ 1,617,637

4. CAPITAL ASSETS

Capital asset activity for 2011 and 2010 is as follows:

	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-	10,976	292,089
Leasehold Improvements	160,931	1,418	-0-	-0-	162,349
Buildings and fixtures	7,242,612	-0-	-0-	115,273	7,357,885
Fixed equipment	3,620,989	44,940	-0-	125,386	3,791,315
Moveable equipment	7,065,433	428,429	-0-	25,738	7,519,600
Construction in process	1,127,249	686,892	-0-	(277,373)	1,536,768
Total	19,687,652	1,161,679	-0-	-0-	20,849,331
Accumulated depreciation	15,096,626	1,240,269	-0-	-0-	16,336,895
Net capital assets	$ 4,591,026	$ (78,590)	$ -0-	$ -0-	$ 4,512,436

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

5. PHYSICIAN RELOCATION AGREEMENTS AND OTHER MINIMUM REVENUE GUARANTEES

Consistent with the Hospital's policy on physician relocation and recruitment, the Hospital provides income guarantee agreements to certain physicians who agree to relocate to the community to fill a need in the Hospital's service area and commit to remain in practice there. Annually, under such agreements, the Hospital is required to make payments to the physicians in excess of the amounts they earn in their practice up to the amount of the income guarantee. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically five years. The Hospital also provides minimum revenue collection guarantees to Hospital-based physician groups providing certain services at the Hospital with terms of one year. At September 30, 2011 and 2010, the maximum potential amount of future payments under these guarantees was approximately $29,000 and $64,000 respectively, which is included in the other assets and other long-term liabilities in the balance sheets.

6. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

A schedule of changes in the Hospital's noncurrent liabilities for the years ended September 30, 2011 and 2010 was as follows:

	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	615,165	530,371	(390,271)	755,265	348,443	406,822
Other Liabilities	64,167	-0-	(35,000)	29,167	-0-	29,167
Total noncurrent liabilities	$ 679,332	$ 530,371	$ (425,271)	$ 784,432	$ 348,443	$ 435,989

	Balance September 30, 2009	Additions	Reductions	Balance September 30, 2010	Current portion	Long-term portion
Notes Payable and Capital Leases:						
Notes Payable	$ -0-	$ 174,042	$ (25,413)	$ 148,629	$ 44,554	$ 104,075
Capital Leases	759,242	-0-	(292,706)	466,536	255,230	211,306
Total Long-Term Debt	759,242	174,042	(318,119)	615,165	299,784	315,381
Other Liabilities	99,167	-0-	(35,000)	64,167	-0-	64,167
Total noncurrent liabilities	$ 858,409	$ 174,042	$ (353,119)	$ 679,332	$ 299,784	$ 379,548

The Hospital obtained seven notes payable for equipment throughout 2011 and 2010. 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 Hospital has also entered into various capital leases at varying rates of imputed interest from 2.9% to 4.6%, collateralized by leased equipment.

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

Year ending September 30,	Principal	Interest	Total
2012	$ 171,576	$ 20,398	$ 191,974
2013	169,310	12,965	182,275
2014	120,307	6,204	126,511
2015	68,224	2,653	70,877
2016	24,324	293	24,617
	$ 553,741	$ 42,513	$ 596,254

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

Capital leases Year ending September 30,	Principal	Interest	Total
2012	$ 176,867	$ 6,866	$ 183,733
2013	24,657	279	24,936
	$ 201,524	$ 7,145	$ 208,669

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

	2011	2010
Equipment	$ 979,321	$ 979,321
Accumulated depreciation	606,084	406,019
	$ 373,237	$ 573,302

Subsequent to September 30, 2011, the Hospital issued revenue bonds approximating $1,700,000 million to fund construction projects.

7. PATIENT SERVICE REVENUE

Patient service revenue for the years ended September 30, 2011 and 2010 consists of the following:

	2011	2010
Inpatient services	$ 8,751,648	$ 10,325,177
Outpatient services	28,371,752	26,784,018
Gross patient service revenue	37,123,400	37,109,195
Contractual allowances	(16,623,079)	(17,475,649)
Charity care	(332,452)	(466,730)
Bad debt	(1,586,389)	(1,733,573)
Deductions from revenue	(18,541,920)	(19,675,952)
Net patient service revenue	$ 18,581,480	$ 17,433,243

8. EMPLOYEE HEALTH PLAN

The Hospital has established a risk-financing fund for risks associated with medical benefits to employees and dependents. The risk-financing fund is accounted for in the Operating Fund where assets are set aside and a liability is accrued for claim settlements. An excess policy through commercial insurance covers individual claims in excess of $100,000 per year 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, 2011 and 2010 was approximately $1,935,000 and $1,898,000, respectively.

9. MEDICAL MALPRACTICE

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

10. CONCENTRATIONS OF CREDIT RISK

The Hospital 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, 2011 and 2010 was as follows:

	Receivables		Revenue	
	2011	2010	2011	2010
Medicare and Medicaid	36%	42%	62%	61%
Blue Cross	8%	8%	17%	18%
Commercial and other payors	16%	14%	16%	14%
Self-pay payors	40%	36%	5%	7%
	100%	100%	100%	100%

11. 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 2011 and 2010 were $63,708 and $65,130, respectively.

12. 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, 2011, the Hospital had a remaining commitment of approximately $1,700,000 towards the construction of various healthcare projects.