



**Pulaski**  
Memorial Hospital

**FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2016 AND 2015**

*CPAs / ADVISORS*



# PULASKI MEMORIAL HOSPITAL

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Pulaski Memorial Hospital  
Winamac, Indiana

### Report on the Financial Statements

We have audited the accompanying financial statements of Pulaski Memorial Hospital (Hospital), a component unit of Pulaski County, which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees  
Pulaski Memorial Hospital  
Winamac, Indiana

### 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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Change in Accounting Principles

As discussed in Note 2 to the financial statements, in 2016, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinion is not modified with respect to this matter.

### Reports on Required Supplementary Information

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 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**

Indianapolis, Indiana  
June 1, 2017

**REQUIRED SUPPLEMENTARY INFORMATION**

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2016 AND 2015

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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, 2016 with comparable information for 2015 and 2014. 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 \$49.0 million or 120.4% due primarily to the addition of five long-term care facilities during 2016. Net position increased by approximately \$2.3 million or 24.0% during the year ended September 30, 2016. Net Patient Service Revenue increased approximately \$48.2 million or 120.8%. The significant increase in revenues is attributable to acute care volume increases, expansion initiatives and long-term care operations. Fiscal year 2016 saw an increase in Total Operating Expenses of approximately \$46.8 million or 115.3%. The majority of the expenses were consistent with the prior year with the exception of significant increases in Salaries and Benefits, Rent, and Other Professional Fees and Purchased Services. Salaries and Benefits increased as a result of an increase in employees. Rent and Other Professional Fees and Purchased Services increased significantly due to long-term care operations. Salaries and Benefits increased primarily due to the addition of employees during 2016.

Other operating revenue increased in 2016 compared to 2015. The increase of approximately \$0.8 million was primarily due to long-term care operations. The Hospital saw an increase of approximately \$2.8 million in cash and cash equivalents.

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2016 AND 2015

The Hospital, excluding long-term care operations, increased days of cash on hand from 25 in fiscal year 2015 to 37 in fiscal year 2016. During fiscal year 2016, the addition of long-term care facilities was the primary reason for the increase in days of cash on hand as the Hospital has made investments in service lines.

### **The Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows**

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

	2016 (millions)	2015 (millions)	2016-2015 Change	2014 (millions)	2015-2014 Change
Current assets	\$ 22.6	\$ 11.3	\$ 11.3	\$ 7.8	\$ 3.5
Non-current cash and investments	0.7	0.7	0.0	0.7	0.0
Capital assets, net	9.2	8.9	0.3	9.5	(0.6)
Total assets	<u>\$ 32.5</u>	<u>\$ 20.9</u>	<u>\$ 11.6</u>	<u>\$ 18.0</u>	<u>\$ 2.9</u>
Current liabilities	\$ 17.2	\$ 7.9	\$ 9.3	\$ 4.7	\$ 3.2
Long-term debt and capital leases, net	3.4	3.4	0.0	3.7	(0.3)
Total liabilities	<u>20.6</u>	<u>11.3</u>	<u>9.3</u>	<u>8.4</u>	<u>2.9</u>
Net position					
Net investment in capital assets	3.0	5.0	(2.0)	5.3	(0.3)
Restricted expendable	0.2	0.2	0.0	0.2	0.0
Unrestricted	8.7	4.4	4.3	4.1	0.3
Total net position	<u>\$ 11.9</u>	<u>\$ 9.6</u>	<u>\$ 2.3</u>	<u>\$ 9.6</u>	<u>\$ 0.0</u>

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2016 AND 2015

Total assets increased by approximately \$11.6 million. The increase was due to an increase in current assets as a result of an increase in cash and cash equivalents, patient accounts receivable, short-term investments, receivables related to long-term care operations and estimated third party settlements. Total liabilities increased approximately \$9.3 million as a result of an increase in current liabilities from long-term care operations and additional debt borrowings.

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

	2016 (millions)	2015 (millions)	2016-2015 Change	2014 (millions)	2015-2014 Change
<b>Revenues</b>					
Net patient service revenue	\$ 88.1	\$ 39.9	\$ 48.2	\$ 30.0	\$ 9.9
Other	1.6	0.8	0.8	0.9	(0.1)
Total operating revenue	<u>89.7</u>	<u>40.7</u>	<u>49.0</u>	<u>30.9</u>	<u>9.8</u>
<b>Expenses</b>					
Salaries and benefits	19.9	18.4	1.5	15.8	2.6
Medical professional fees	1.6	1.4	0.2	1.1	0.3
Other professional fees and purchased services	55.5	13.4	42.1	8.3	5.1
Supplies and drugs	3.1	3.0	0.1	2.9	0.1
Rent	3.9	0.7	3.2	0.4	0.3
Insurance	0.2	0.2	0.0	0.2	0.0
Depreciation and amortization	1.2	1.2	0.0	1.1	0.1
Hospital assessment fee program	0.3	0.3	0.0	0.5	(0.2)
Other	1.7	2.0	(0.3)	1.7	0.3
Total operating expenses	<u>87.4</u>	<u>40.6</u>	<u>46.8</u>	<u>32.0</u>	<u>8.6</u>
Operating income (loss)	2.3	0.1	2.2	(1.1)	1.2
Nonoperating revenue (expense)	0.0	(0.1)	0.1	(0.1)	0.0
Change in net position	<u>\$ 2.3</u>	<u>\$ 0.0</u>	<u>\$ 2.3</u>	<u>\$ (1.2)</u>	<u>\$ 1.2</u>

Net position increased during the year ended September 30, 2016. Net Patient Service Revenue increased approximately \$48.2 million or 120.8%. The increase in revenues was attributable to acute care volume increases, expansion initiatives and long-term care operations. Fiscal year 2016 saw an increase in Total Operating Expenses of approximately \$46.8 million or 115.3%. The majority of the expenses were consistent with last year with the exception of significant increases in Salaries and Benefits, Rent, and Other Professional Fees and Purchased Services. Salaries and Benefits increased as a result of an increase in employees. Rent and Other Professional Fees and Purchased Services increased significantly due to long-term care operations. Salaries and Benefits increased primarily due to the addition of employees during 2016.



# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2016 AND 2015

Table 3 – Statements of Cash Flows

<b>Cash Flow Data</b>	2016 (millions)	2015 (millions)	2016-2015 Change	2014 (millions)	2015-2014 Change
From operating activities	\$ 4.1	\$ 0.1	\$ 4.0	\$ (0.2)	\$ 0.3
From capital and related financing activities	0.7	(0.6)	1.3	(1.6)	1.0
From investing activities	(2.0)	0.0	(2.0)	0.0	0.0
Change in cash and cash equivalents	<u>\$ 2.8</u>	<u>\$ (0.5)</u>	<u>\$ 3.3</u>	<u>\$ (1.8)</u>	<u>\$ 1.3</u>

Cash and cash equivalents increased from 2015 to 2016 due to cash from operating activities and proceeds from the issuance of debt.

### **Capital Assets and Debt Administration**

#### Capital Assets

The Hospital's capital assets increased between September 30, 2016 and 2015 due primarily to equipment purchases.

Capital assets are comprised of the following as of September 30, 2016 and 2015:

	2016 (millions)	2015 (millions)	2016-2015 Change	2014 (millions)	2015-2014 Change
Land	\$ 0.2	\$ 0.2	\$ 0.0	\$ 0.2	\$ 0.0
Land improvements	0.4	0.4	0.0	0.4	0.0
Leasehold Improvements	0.2	0.2	0.0	0.2	0.0
Buildings and fixtures	10.7	10.4	0.3	10.4	-
Equipment	14.6	13.9	0.7	13.6	0.3
Construction in process	1.0	0.5	0.5	0.3	0.2
Total	<u>27.1</u>	<u>25.6</u>	<u>1.5</u>	<u>25.1</u>	<u>0.5</u>
Less accumulated depreciation	<u>17.9</u>	<u>16.7</u>	<u>1.2</u>	<u>15.6</u>	<u>1.1</u>
Net capital assets	<u>\$ 9.2</u>	<u>\$ 8.9</u>	<u>\$ 0.3</u>	<u>\$ 9.5</u>	<u>-\$ 0.6</u>

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

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2016 AND 2015

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### Notes Payable and Capital Leases

As of September 30, 2016 and 2015, the Hospital had approximately a \$2.4 million increase in outstanding notes payable and capital leases. The following illustrates the long-term debt and capital leases held:

	2016 (millions)	2015 (millions)	2016-2015 Change	2014 (millions)	2015-2014 Change
Notes payable	\$ 6.0	\$ 3.8	\$ 2.2	\$ 4.1	\$ (0.3)
Capital lease obligations	0.3	0.1	0.2	0.2	(0.1)
	<u>\$ 6.3</u>	<u>\$ 3.9</u>	<u>\$ 2.4</u>	<u>\$ 4.3</u>	<u>\$ (0.4)</u>

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

### **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, 2016 AND 2015

### ASSETS

	2016	2015
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,890,606	\$ 2,111,945
Patient accounts receivable, net of estimated uncollectible of \$1,654,000 and \$1,349,000 in 2016 and 2015, respectively	10,780,010	5,733,449
Investments	2,133,976	-0-
Estimated third party settlements	2,206,850	989,963
Inventory and other current assets	2,572,684	2,414,941
Total current assets	22,584,126	11,250,298
<b>Noncurrent cash</b>		
Restricted by contributors and grantors	193,087	232,315
<b>Investments</b>		
	500,000	500,000
<b>Capital assets</b>		
Land and construction in progress	1,139,436	672,217
Depreciable capital assets, net	8,083,969	8,245,298
Total capital assets	9,223,405	8,917,515
Total assets	\$ 32,500,618	\$ 20,900,128

### LIABILITIES AND NET POSITION

<b>Current liabilities</b>		
Current portion of capital leases	\$ 106,760	\$ 49,755
Current portion of notes payable	2,708,497	503,035
Accounts payable and accrued expenses	11,965,121	5,205,098
Accrued salaries and related liabilities	1,669,185	1,565,975
Line of credit	500,000	500,000
Other current liabilities	262,014	110,343
Total current liabilities	17,211,577	7,934,206
<b>Long-term liabilities</b>		
Capital leases	167,791	56,713
Long-term notes payable	3,265,215	3,329,786
Total long-term liabilities	3,433,006	3,386,499
Total liabilities	20,644,583	11,320,705
<b>Net position</b>		
Net investment in capital assets	2,975,142	4,978,226
Restricted		
Expendable for capital acquisitions	134,911	134,448
Expendable for specific operating activities	58,176	97,867
Total restricted net position	193,087	232,315
Unrestricted	8,687,806	4,368,882
Total net position	11,856,035	9,579,423
Total liabilities and net position	\$ 32,500,618	\$ 20,900,128

See accompanying notes to financial statements.

## PULASKI MEMORIAL HOSPITAL

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
<b>Revenues</b>		
Net patient service revenue	\$ 88,131,019	\$ 39,894,663
Other	1,566,620	752,643
Total operating revenue	<u>89,697,639</u>	<u>40,647,306</u>
<b>Expenses</b>		
Salaries and benefits	19,861,131	18,446,878
Medical professional fees	1,628,666	1,443,582
Other professional fees and purchased services	55,457,199	13,429,328
Supplies and drugs	3,101,156	3,023,286
Rent	3,887,155	744,985
Insurance	192,024	183,236
Depreciation and amortization	1,158,662	1,169,732
Hospital assessment fee program	301,084	257,811
Other	1,802,778	1,856,658
Total operating expenses	<u>87,389,855</u>	<u>40,555,496</u>
Operating income	2,307,784	91,810
<b>Nonoperating revenue (expense)</b>		
Investment income	109,858	12,554
Interest expense	(178,393)	(167,215)
Other	37,363	5,962
Total nonoperating revenue (expense)	<u>(31,172)</u>	<u>(148,699)</u>
Change in net position	2,276,612	(56,889)
<b>Net position, beginning of year</b>	<u>9,579,423</u>	<u>9,636,312</u>
<b>Net position, end of year</b>	<u>\$ 11,856,035</u>	<u>\$ 9,579,423</u>

See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 81,867,571	\$ 36,861,928
Cash paid to employees for salaries and benefits	(19,757,921)	(18,302,543)
Cash paid to vendors for goods and services	(59,616,111)	(19,248,477)
Other operating receipts, net	1,566,620	752,643
Net cash from operating activities	4,060,159	63,551
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(1,218,067)	(544,998)
Borrowings on line of credit	-0-	500,000
Proceeds from issuance of debt	2,656,976	200,000
Interest paid on debt	(178,393)	(167,215)
Principal payments on debt	(594,487)	(538,468)
Net cash from capital and related financing activities	666,029	(550,681)
<b>Investing activities</b>		
Purchase of certificates of deposit	(2,133,976)	-0-
Investment and other nonoperating income	147,221	18,516
Net cash from investing activities	(1,986,755)	18,516
Net change in cash and cash equivalents	2,739,433	(468,614)
<b>Cash and cash equivalents, beginning of year</b>	2,344,260	2,812,874
<b>Cash and cash equivalents, end of year</b>	\$ 5,083,693	\$ 2,344,260
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents		
In current assets	\$ 4,890,606	\$ 2,111,945
In noncurrent cash	193,087	232,315
Total cash and cash equivalents, end of year	\$ 5,083,693	\$ 2,344,260

See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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	2016	2015
	<u>                    </u>	<u>                    </u>
<b>Reconciliation of operating income</b>		
<b>to net cash from operating activities</b>		
Operating income (loss)	\$ 2,307,784	\$ 91,810
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,158,662	1,169,732
Provision for bad debt	1,204,326	1,984,650
Changes in assets and liabilities		
Patient accounts receivable	(6,250,887)	(3,259,821)
Estimated third-party settlements	(1,216,887)	(1,740,641)
Inventory and other current assets	(157,743)	(1,640,343)
Accounts payable and accrued expenses	6,760,023	3,341,519
Other current liabilities	151,671	(10,767)
Accrued salaries and related liabilities	103,210	127,412
Net cash flows from operating activities	<u>\$ 4,060,159</u>	<u>\$ 63,551</u>
 <b>Noncash investing, capital and related financing activities</b>		
Capital assets acquired through incurrence of liabilities	\$ 246,485	\$ -0-

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See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and 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 care as well as long-term care services.

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.

Pursuant to the provision of long-term care, the Hospital owns the operations of certain long-term care facilities by way of an arrangement with the managers of the facilities. The facilities provide inpatient and therapy services. Generally, gross revenue from the operation of the long-term care facilities is the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the manager shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities. The Hospital has entered into lease agreements with the long-term care facilities to lease the facilities managed by the respective managers. Concurrently, the Hospital entered into agreements with the managers to manage the leased facilities. As part of the agreements, the Hospital pays the managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. The agreements expire at various times and all parties involved can generally terminate the agreement without cause with 90 days written notice. The Hospital added several long-term care facilities during fiscal year 2016.

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.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

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### Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

### 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.

### Investments

Investments consist of certificates of deposit which are recorded at contract value and are classified as current and non-current based on maturity.

### 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.

### Other Current Assets

Other current assets primarily include prepaid expenses, other receivables and long-term care related receivables.

### 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.

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# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

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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 2016 or 2015.

### 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 and expenses include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues and expenses. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

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### Patient Accounts Receivable and Revenues and Estimated Third Party Settlements

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.

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. During 2016, the Hospital's allowance for uncollectible accounts increased from approximately \$1,349,000 to \$1,654,000. The increase was primarily attributable to the addition of long-term care operations during 2016. As September 30, 2016 and 2015, substantially all of the allowance for uncollectible accounts was reserved for self-pay balances.

The Hospital's acute care net patient revenue from Medicare and Medicaid programs accounted for approximately 19 percent and 1 percent, respectively for the fiscal year ended 2016, and 26 percent and 3 percent, respectively for the fiscal year ended 2015.

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 2014. Management believes adequate provision has been made in the financial statements for any adjustments which is included in estimated third party settlements within the balance sheets.

### Indiana Hospital Assessment Fee Program

The purpose of the Hospital Assessment Fee Program (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 2016 and 2015, the Hospital recognized HAF Program expense of \$301,084 and \$257,811, respectively, which is included in expenses in the statements of revenues, expenses and changes in net position.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

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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 within the statements of revenues, expenses and changes in net position, an estimated \$156,000 and \$208,000 arose from providing services to charity patients during 2016 and 2015, 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. There were no significant changes to the Hospital's charity care policy during 2016.

### Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for the years ended September 30, 2016 and 2015 was \$146,583 and \$288,698, 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.

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# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

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### Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 22 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, 2016 and 2015, 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.

### 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 issued which is June 1, 2017.

### Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications had no impact on the previously reported net position or change in net position.

## **2. CHANGE IN ACCOUNTING PRINCIPLES**

During 2016, the Hospital implemented GASB Statement No. 72 *Fair Value Measurement and Application*. This statement addressed accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. There was no impact to these financial statement disclosures as a result of adoption of this standard as these disclosures have been provided historically.

During 2016, the Hospital implemented GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addressed the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact to these financial statement disclosures as a result of adoption of this standard.

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# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

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### 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, 2016 and 2015, the Hospital had \$7,717,669 and \$2,844,260 in deposits, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital. These deposits mature in 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. The Hospital does not have a formal policy for credit and concentration of credit risks.

Deposits consist of the following as of September 30:

	2016	2015
Carrying amount		
Deposits	<u>\$ 7,717,669</u>	<u>\$ 2,844,260</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 4,890,606	\$ 2,111,945
Investments - certificates of deposit	2,633,976	500,000
Restricted by contributors and grantors	193,087	232,315
	<u>\$ 7,717,669</u>	<u>\$ 2,844,260</u>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

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### 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 5,422,154	\$ 5,904,371
Receivable from Medicare	2,376,765	1,788,472
Receivable from Medicaid	1,052,822	1,046,117
Receivables related to long-term care operations	6,788,938	1,288,329
Total patient accounts receivable	<u>15,640,679</u>	<u>10,027,289</u>
Less allowance for contractual agreements and uncollectible amounts	<u>4,860,669</u>	<u>4,293,840</u>
Patient accounts receivable, net	<u>\$ 10,780,010</u>	<u>\$ 5,733,449</u>
	<u>2016</u>	<u>2015</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 1,469,185	\$ 1,465,975
Payable to suppliers	11,965,121	5,205,098
Accrued employee health benefit claims	200,000	100,000
Total accounts payable and accrued expenses	<u>\$ 13,634,306</u>	<u>\$ 6,771,073</u>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

### 5. CAPITAL ASSETS

Capital asset activity for 2016 and 2015 is listed below.

	Balance September 30, 2015	Additions	Retirements	Transfers	Balance September 30, 2016
Land	\$ 195,525	\$ -0-	\$ -0-	\$ -0-	\$ 195,525
Land improvements	432,595	-0-	-0-	-0-	432,595
Leasehold Improvements	182,208	-0-	-0-	4,847	187,055
Buildings and fixtures	10,424,101	-0-	-0-	324,363	10,748,464
Fixed equipment	5,621,905	5,401	-0-	86,550	5,713,856
Moveable equipment	8,317,789	576,172	-0-	-0-	8,893,961
Construction in process	476,692	882,979	-0-	(415,760)	943,911
Total	25,650,815	1,464,552	-0-	-0-	27,115,367
Accumulated depreciation	16,733,300	1,158,662	-0-	-0-	17,891,962
Net capital assets	<u>\$ 8,917,515</u>	<u>\$ 305,890</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 9,223,405</u>

  

	Balance September 30, 2014	Additions	Retirements	Transfers	Balance September 30, 2015
Land	\$ 195,525	\$ -0-	\$ -0-	\$ -0-	\$ 195,525
Land improvements	432,595	-0-	-0-	-0-	432,595
Leasehold improvements	160,930	-0-	-0-	21,278	182,208
Buildings and fixtures	10,424,101	-0-	-0-	-0-	10,424,101
Fixed equipment	5,468,429	41,918	-0-	111,558	5,621,905
Moveable equipment	8,131,387	186,402	-0-	-0-	8,317,789
Construction in process	292,850	316,678	-0-	(132,836)	476,692
Total	25,105,817	544,998	-0-	-0-	25,650,815
Accumulated depreciation	15,563,568	1,169,732	-0-	-0-	16,733,300
Net capital assets	<u>\$ 9,542,249</u>	<u>\$ (624,734)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 8,917,515</u>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

### 6. SHORT-TERM AND LONG-TERM DEBT

A schedule of changes in the Hospital's long-term liabilities for the years ended September 30, 2016 and 2015 was as follows:

	Balance September 30, 2015	Additions	Reductions	Balance September 30, 2016	Current portion	Long-term portion
Notes payable and capital leases:						
Notes payable	\$ 3,832,821	\$ 2,656,976	\$ (516,085)	\$ 5,973,712	\$ 2,708,497	\$ 3,265,215
Capital leases	106,468	246,485	(78,402)	274,551	106,760	167,791
<b>Total long-term debt</b>	<b>\$ 3,939,289</b>	<b>\$ 2,903,461</b>	<b>\$ (594,487)</b>	<b>\$ 6,248,263</b>	<b>\$ 2,815,257</b>	<b>\$ 3,433,006</b>
	Balance September 30, 2014	Additions	Reductions	Balance September 30, 2015	Current portion	Long-term portion
Notes payable and capital leases:						
Notes payable	\$ 4,123,529	\$ 200,000	\$ (490,708)	\$ 3,832,821	\$ 503,035	\$ 3,329,786
Capital leases	154,228	-0-	(47,760)	106,468	49,755	56,713
<b>Total long-term debt</b>	<b>\$ 4,277,757</b>	<b>\$ 200,000</b>	<b>\$ (538,468)</b>	<b>\$ 3,939,289</b>	<b>\$ 552,790</b>	<b>\$ 3,386,499</b>

The Hospital has a note payable primarily related to a medical office building. The maximum amount available to be borrowed was \$1,028,500. The balance as of September 30, 2016 was approximately \$942,000. 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% and matures in February of 2037. The interest rate at September 30, 2016 was 5.95%. Principal and interest are paid monthly. This note payable is secured by certain capital assets of the Hospital with an approximate net book value of \$2,500,000 as of September 30, 2016.

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 was \$1,727,900. The balance as of September 30, 2016 was approximately \$1,591,000. The Bonds bear interest at 4.50% and mature in February of 2037. Principal and interest are paid monthly. 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 \$2,500,000 as of September 30, 2016.

The Hospital maintains several other notes payable (short-term and long-term) for equipment and current operations with a total outstanding balance of approximately \$3,441,000 as of September 30, 2016. Payments, including interest at rates varying from 2.3%, to 6.0% continue through 2023. These loans are secured by equipment and a certificate of deposit.



## PULASKI MEMORIAL HOSPITAL

### NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

The net book value of the assets that serve as collateral for these notes approximates the outstanding balance of the notes which is approximately \$3,400,000. Scheduled principal and interest repayments on notes payable are listed below.

Notes Payable Year ending September 30,	Principal	Interest	Total
2017	\$ 2,708,497	\$ 166,809	\$ 2,875,306
2018	467,869	150,352	618,221
2019	282,130	132,436	414,566
2020	428,938	364,029	792,967
2021	502,614	274,914	777,528
2022-2026	694,855	337,526	1,032,381
2027-2031	525,109	166,570	691,679
2032-2036	339,743	63,727	403,470
2037	23,957	494	24,451
	<u>\$ 5,973,712</u>	<u>\$ 1,656,857</u>	<u>\$ 7,630,569</u>

The Hospital also maintains three capital leases at imputed interest ranging from 2.00% to 4.10%. These leases are collateralized by leased equipment. The net book value of the equipment that serves as collateral approximates \$284,000 as of September 30, 2016.

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

Year ending September 30,	Principal	Interest	Total
2017	\$ 106,760	\$ 2,589	\$ 109,349
2018	59,805	1,241	61,046
2019	54,927	1,099	56,026
2020	53,059	1,099	54,158
	<u>\$ 274,551</u>	<u>\$ 6,028</u>	<u>\$ 280,579</u>

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

	2016	2015
Equipment	\$ 487,182	\$ 240,697
Accumulated depreciation	203,208	81,965
	<u>\$ 283,974</u>	<u>\$ 158,732</u>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

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### 7. LINE OF CREDIT

The Hospital has a line of credit available with a financial institution. The outstanding balance as of September 30, 2016 and 2015 was \$500,000 and \$-0-, respectively. At September 30, 2016, the line of credit maximum amount was \$600,000. The interest rate at September 30, 2016 was 4.25%. The line of credit is secured by all equipment and matures May 2017.

### 8. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The Hospital's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no significant transfers between levels during 2016 and 2015.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2016 and 2015.

- *Money market funds:* Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV); however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

The following tables sets forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and 2015 are as follows:

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
Assets				
Money market funds included in cash and cash equivalents	\$ 98,544	\$ -0-	\$ 98,544	\$ -0-

	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Assets				
Money market funds included in cash and cash equivalents	\$ 98,396	\$ -0-	\$ 98,396	\$ -0-

### 9. NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended September 30, 2016 and 2015 consists of the following:

	2016	2015
Inpatient services	\$ 12,979,063	\$ 11,884,894
Outpatient services	49,792,539	44,249,822
Long-term care services	55,426,759	10,941,789
Gross patient service revenue	118,198,361	67,076,505
Contractual allowances	(28,539,821)	(24,800,691)
Charity care	(323,195)	(396,501)
Bad debt	(1,204,326)	(1,984,650)
Deductions from revenue	(30,067,342)	(27,181,842)
Net patient service revenue	\$ 88,131,019	\$ 39,894,663

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

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### 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 with an overall aggregate of approximately \$2,000,000.

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 and related expenses for both years ended September 30, 2016 and 2015 was approximately \$3,400,000.

### 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 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 acute care gross patient accounts receivable and gross patient revenues from self-pay and third party payors for the years ended September 30, 2016 and 2015 was as follows:

	Receivables		Revenue	
	2016	2015	2016	2015
Medicare and Medicaid	45%	42%	57%	57%
Blue Cross	11%	12%	20%	19%
Commercial and other payors	26%	22%	21%	20%
Self-pay payors	18%	24%	2%	4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Substantially all of the patient accounts receivable and related revenues from long-term care operations are concentrated in Medicare and Medicaid.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

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### 13. 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 name is the Pulaski Memorial Hospital Retirement Savings Plan. 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. The third party administrator of the plan is Massachusetts Mutual Life Insurance Company.

#### 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 2016 and 2015 were \$120,574 and \$102,029, respectively.

### 14. 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, 2016, the Hospital did not have any significant construction commitments.

### 15. RENTAL EXPENSE

The Hospital has leases expiring at various times through 2017. Leases that do not meet the criteria for capitalization are classified as operating leases with the related rentals charged to operating as incurred. The majority of the leases are cancelable. Total rent expense for 2016 and 2015 was approximately \$3,900,000 and \$700,000, respectively. The rent expense primarily relates to long-term care operations as described in Note 1.