



**Pulaski**  
Memorial Hospital

**FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2013 AND 2012**

*CPAs / ADVISORS*



# PULASKI MEMORIAL HOSPITAL

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Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

## 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), which comprise the balance sheets as of September 30, 2013 and 2012, 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 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 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, 2013 and 2012, 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.

### 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  
March 20, 2014

**REQUIRED SUPPLEMENTARY INFORMATION**

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2013 AND 2012

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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, 2013 with comparable information for 2012 and 2011. 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 \$3.2 million or 15%. Net position decreased \$0.5 million during the year ended September 30, 2013. Net Patient Service Revenue increased \$3.7 million or 19%. The increase in revenues is primarily attributable to long-term care operations which commenced during fiscal year 2013. Fiscal year 2013 saw an increase in Total Operating Expenses of \$4.4 million or 22%. Most of the expenses were consistent with last year with the exception of significant increases in Salaries and Benefits and Other Professional Fees and Purchased Services.

During FY 2013, the Hospital saw increase in Net Patient Service Revenue of \$3.7 million caused by long-term care operations. Other operating revenue decreased by \$0.5 million due to a decrease in incentive payments for electronic health records. The Hospital saw a decrease of \$0.8 million in cash and cash equivalents.

During FY 2012, the Hospital, excluding long-term care operations, decreased days of cash on hand from 100 in fiscal year 2012 to 90 in fiscal year 2013. During FY 2013, the increase in expense was the primary reason for the decrease in days of cash on hand.

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# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2013 AND 2012

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

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

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

Table 1 – Balance Sheets

	2013 (millions)	2012 (millions)	2013-2012 Change	2011 (millions)	2012-2011 Change
Current assets	\$ 7.9	\$ 8.2	\$ (0.3)	\$ 6.8	\$ 1.4
Non-current cash and investments	0.9	0.4	0.5	0.4	0.0
Capital assets, net	8.9	6.5	2.4	5.9	0.6
Total assets	<u>\$ 17.7</u>	<u>\$ 15.1</u>	<u>\$ 2.6</u>	<u>\$ 13.1</u>	<u>\$ 2.0</u>
Current liabilities	\$ 3.3	\$ 3.0	\$ 0.3	\$ 2.1	\$ 0.9
Long-term debt and capital leases, net	3.6	0.8	2.8	0.4	0.4
Total liabilities	<u>6.9</u>	<u>3.8</u>	<u>3.1</u>	<u>2.5</u>	<u>1.3</u>
Net position					
Net investment in capital assets	4.9	5.4	(0.5)	5.1	0.3
Restricted expendable	0.4	0.4	0.0	0.4	0.0
Unrestricted	5.5	5.5	0.0	5.1	0.4
Total net position	<u>\$ 10.8</u>	<u>\$ 11.3</u>	<u>\$ (0.5)</u>	<u>\$ 10.6</u>	<u>\$ 0.7</u>

Total assets increased by \$2.6 million. The increase was primarily due to an increase in capital assets. Total liabilities increased as a result of an increase in long-term debt which was used to purchase a significant amount of capital assets.

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2013 AND 2012

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

	2013 (millions)	2012 (millions)	2013-2012 Change	2011 (millions)	2012-2011 Change
<b>Revenues</b>					
Net patient service revenue	\$ 23.3	\$ 19.6	\$ 3.7	\$ 18.6	\$ 1.0
Other	0.9	1.4	(0.5)	0.3	1.1
Total operating revenue	<u>24.2</u>	<u>21.0</u>	<u>3.2</u>	<u>18.9</u>	<u>2.1</u>
<b>Expenses</b>					
Salaries and benefits	12.9	11.6	1.3	11.1	0.5
Medical professional fees	0.7	0.8	(0.1)	0.8	0.0
Other professional fees and purchased service	6.1	2.3	3.8	1.6	0.7
Supplies and drugs	2.1	2.5	(0.4)	2.6	(0.1)
Rent	0.2	0.3	(0.1)	0.1	0.2
Insurance	0.1	0.2	(0.1)	0.2	0.0
Depreciation and amortization	0.8	0.8	0.0	0.7	0.1
Hospital assessment fee program	0.4	0.5	(0.1)	0.0	0.5
Other	1.4	1.3	0.1	1.2	0.1
Total operating expenses	<u>24.7</u>	<u>20.3</u>	<u>4.4</u>	<u>18.3</u>	<u>2.0</u>
Operating income (loss)	(0.5)	0.7	(1.2)	0.6	0.1
Nonoperating revenue (expense)	0.0	0.0	0.0	0.0	0.0
Change in net position	<u>\$ (0.5)</u>	<u>\$ 0.7</u>	<u>\$ (1.2)</u>	<u>\$ 0.6</u>	<u>\$ 0.1</u>

Net position decreased \$0.5 million during the year ended September 30, 2013. The Hospital's Total Operating Revenue experienced an increase of approximately \$3.2 million or 15% due to long-term care operations. Fiscal year 2013 saw an increase in Total Operating Expenses of \$4.4 million or 22%. Most of the expenses were consistent with last year with the exception of a significant increase in Salaries and Benefits. Also, Other Professional Fees and Purchased Services increased significantly due to long-term care operations.

**Table 3 – Statements of Cash Flows**

	2013 (millions)	2012 (millions)	2013-2012 Change	2011 (millions)	2012-2011 Change
<b>Cash Flow Data</b>					
From operating activities	\$ 0.0	\$ 2.1	\$ (2.1)	\$ 2.2	\$ (0.1)
From capital and related financing activities	(0.4)	(1.1)	0.7	(1.1)	0.0
From investing activities	(0.4)	0.0	(0.4)	0.1	(0.1)
Change in cash and cash equivalents	<u>\$ (0.8)</u>	<u>\$ 1.0</u>	<u>\$ (1.8)</u>	<u>\$ 1.2</u>	<u>\$ (0.2)</u>

# PULASKI MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2013 AND 2012

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### Capital Assets and Debt Administration

#### Capital Assets

The Hospital's capital assets increased between September 30, 2013 and 2012 due to construction projects for the medical office building and to renovate, remodel and equip the Hospital's Central Sterile Processing Department and various operating rooms.

Capital assets are comprised of the following as of September 30, 2013 and 2012:

	2013 (millions)	2012 (millions)	2013-2012 Change	2011 (millions)	2012-2011 Change
Land	\$ 0.2	\$ 0.2	\$ 0.0	\$ 0.2	\$ 0.0
Land improvements	0.4	0.3	0.1	0.3	0.0
Leasehold Improvements	0.2	0.2	0.0	0.2	0.0
Buildings and fixtures	9.8	9.0	0.8	8.0	1.0
Equipment	12.2	10.0	2.2	9.4	0.6
Construction in process	0.6	0.5	0.1	0.7	(0.2)
<b>Total</b>	<b>23.4</b>	<b>20.2</b>	<b>3.2</b>	<b>18.8</b>	<b>1.4</b>
Less accumulated depreciation	14.5	13.7	0.8	12.9	0.8
<b>Net capital assets</b>	<b>\$ 8.9</b>	<b>\$ 6.5</b>	<b>\$ 2.4</b>	<b>\$ 5.9</b>	<b>\$ 0.6</b>

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

#### Notes Payable and Capital Leases

As of September 30, 2013 and 2012, the Hospital had approximately a \$3.0 million increase in outstanding notes payable and capital leases. The following illustrates the long-term debt and capital leases held:

	2013 (millions)	2012 (millions)	2013-2012 Change	2011 (millions)	2012-2011 Change
Notes payable	\$ 3.8	\$ 1.0	\$ 2.8	\$ 0.1	\$ 0.9
Capital lease obligations	0.2	0.0	0.2	0.5	(0.5)
	<b>\$ 4.0</b>	<b>\$ 1.0</b>	<b>\$ 3.0</b>	<b>\$ 0.6</b>	<b>\$ 0.4</b>

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

# **PULASKI MEMORIAL HOSPITAL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2013 AND 2012**

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### **Economic Outlook**

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

### **Contacting Hospital Management**

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

# PULASKI MEMORIAL HOSPITAL

## BALANCE SHEETS SEPTEMBER 30, 2013 AND 2012

<b>ASSETS</b>		
	2013	2012
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,160,364	\$ 4,924,612
Patient accounts receivable, net of estimated uncollectable of \$1,629,726 and \$1,743,250 in 2013 and 2012, respectively	3,276,766	2,730,464
Inventory and other current assets	466,019	560,389
Total current assets	7,903,149	8,215,465
<b>Noncurrent cash</b>		
Restricted by contributors and grantors	420,422	408,579
<b>Investments</b>		
	500,000	-0-
<b>Capital assets</b>		
Land and construction in progress	795,032	714,772
Depreciable capital assets, net	8,067,183	5,803,090
Total capital assets	8,862,215	6,517,862
Total assets	\$ 17,685,786	\$ 15,141,906
<b>LIABILITIES AND NET POSITION</b>		
<b>Current liabilities</b>		
Current portion of capital leases	\$ 61,810	\$ 38,703
Current portion of notes payable	363,490	206,180
Accounts payable and accrued expenses	865,953	442,022
Accrued salaries and related liabilities	1,177,535	995,230
Estimated third party settlements	762,320	1,189,777
Other current liabilities	107,099	85,046
Total current liabilities	3,338,207	2,956,958
<b>Long-term liabilities</b>		
Capital leases	157,428	-0-
Long-term notes payable	3,401,950	836,193
Total long-term liabilities	3,559,378	836,193
Total liabilities	6,897,585	3,793,151
<b>Net position</b>		
Net investment in capital assets	4,877,537	5,436,786
Restricted		
Expendable for capital acquisitions	382,420	333,240
Expendable for specific operating activities	38,002	75,339
Total restricted net position	420,422	408,579
Unrestricted		
	5,490,242	5,503,390
Total net position	10,788,201	11,348,755
Total liabilities and net position	\$ 17,685,786	\$ 15,141,906

See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
<b>Revenues</b>		
Net patient service revenue	\$ 23,251,253	\$ 19,617,087
Other	897,687	1,397,604
Total operating revenue	24,148,940	21,014,691
<b>Expenses</b>		
Salaries and benefits	12,926,795	11,626,578
Medical professional fees	641,925	816,508
Other professional fees and purchased services	6,056,230	2,314,670
Supplies and drugs	2,120,731	2,450,845
Rent	173,252	260,233
Insurance	149,274	167,646
Depreciation and amortization	823,010	785,457
Hospital assessment fee program	364,986	518,313
Other	1,439,642	1,298,712
Total operating expenses	24,695,845	20,238,962
Operating income (loss)	(546,905)	775,729
<b>Nonoperating revenue (expense)</b>		
Investment income	26,720	47,131
Interest expense	(103,760)	(40,972)
Other	63,391	(22,853)
Total nonoperating revenue (expense)	(13,649)	(16,694)
Change in net position	(560,554)	759,035
<b>Net position, beginning of year</b>	11,348,755	10,589,720
<b>Net position, end of year</b>	\$ 10,788,201	\$ 11,348,755

See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 22,277,494	\$ 20,210,137
Cash paid to employees for salaries and benefits	(12,744,490)	(11,488,619)
Cash paid to vendors for goods and services	(10,421,579)	(8,011,716)
Other operating receipts, net	897,687	1,397,604
Net cash from operating activities	<u>9,112</u>	<u>2,107,406</u>
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(132,917)	(573,526)
Proceeds from issuance of debt	376,661	-0-
Interest paid on debt	(103,760)	(40,972)
Principal payments on debt	(491,610)	(471,674)
Net cash from capital and related financing activities	<u>(351,626)</u>	<u>(1,086,172)</u>
<b>Investing activities</b>		
Purchase of investments	(500,000)	-0-
Investment and other nonoperating income	90,109	24,276
Net cash from investing activities	<u>(409,891)</u>	<u>24,276</u>
Net change in cash and cash equivalents	(752,405)	1,045,510
<b>Cash and cash equivalents, beginning of year</b>	5,333,191	4,287,681
<b>Cash and cash equivalents, end of year</b>	<u>\$ 4,580,786</u>	<u>\$ 5,333,191</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents		
In current assets	\$ 4,160,364	\$ 4,924,612
In noncurrent cash	420,422	408,579
Total cash and cash equivalents, end of year	<u>\$ 4,580,786</u>	<u>\$ 5,333,191</u>

See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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	<u>2013</u>	<u>2012</u>
<b>Reconciliation of operating income to net cash from operating activities</b>		
Operating income (loss)	\$ (546,905)	\$ 775,729
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	823,010	785,457
Provision for bad debt	1,813,372	1,333,306
Changes in assets and liabilities		
Patient accounts receivable	(2,359,674)	(1,683,597)
Estimated third-party settlements	(427,457)	943,341
Inventory and other current assets	78,477	(92,861)
Accounts payable and accrued expenses	423,931	(49,035)
Other current liabilities	22,053	(13,726)
Accrued salaries and related liabilities	182,305	137,959
Other long-term liabilities	-0-	(29,167)
Net cash flows from operating activities	<u>\$ 9,112</u>	<u>\$ 2,107,406</u>
<b>Noncash investing, capital and related financing activities</b>		
Capital assets acquired through incurrence of liabilities	\$ 3,018,551	\$ 797,485

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See accompanying notes to financial statements.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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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 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.

Pursuant to the provision of long-term care, the Hospital owns the operations of a long-term care facility by way of an arrangement with the manager of the facility. The facility provides inpatient and therapy services. Generally, gross revenue from the operation of the long-term care facility 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 facility. Specifically, during 2013, the Hospital entered into a lease agreement with the long-term care facility to lease the facility managed by the respective manager. Concurrently, the Hospital entered into an agreement with the manager to manage the leased facility. As part of the agreements, the Hospital pays the manager a management fee to continue managing the facility on behalf of the Hospital in accordance with the terms of the agreements. Rental, management, and other fees paid under these agreements approximated \$3,700,000 for 2013. The agreement expires on October 31, 2014 but shall continue for successive two year terms. All parties involved can terminate the agreement without cause with 90 days written notice.

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, 2013 AND 2012

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### Enterprise Fund Accounting

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

### 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 a certificate of deposit which is recorded at contract value.

### Inventory

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

### Noncurrent Cash

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

### Capital Assets

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities, which exceed certain dollar and useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred. The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The estimated useful lives are based on the most current edition of the American Hospital Association's (AHA's) Estimated Useful Lives of Depreciable Hospital Assets, for each individual capital asset.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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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 2013 or 2012.

### Grants and Contributions

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

### Restricted Resources

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

### Net Position

Net position of the Hospital is classified in various components. Net position - net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

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

### Operating Revenues and Expenses

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

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# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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### Patient Accounts Receivable and Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

The Hospital is a provider of services to patients entitled to coverage under Medicare. The Hospital was granted Critical Access Status by Medicare. The Hospital is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports.

Final determination of amounts earned is subject to review by the fiscal intermediary. Medicare reports have been settled through 2008. Management believes adequate provision has been made in the financial statements for any adjustments.

Management estimates an allowance for doubtful accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's patient base.

Net patient revenue from Medicare and Medicaid programs account for approximately 36 percent and 6 percent for the fiscal year ended 2013, and 37 percent and 8 percent, respectively for the fiscal year ended 2012.

### Indiana Hospital Assessment Fee Program

During 2012, the Indiana Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by the Centers for Medicare & Medicaid Services (CMS) retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the statement of revenues, expenses and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. Under the HAF Program, the enhanced Medicaid payments follow the patients and are realized through increased Medicaid rates. During 2013 and 2012, the Hospital recognized HAF Program expense of approximately \$364,986 and \$518,313, respectively, which is included in expenses in the statements of revenues, expenses and changes in net position.

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# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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The HAF Program was pending approval for extension by CMS from July 1, 2013 through June 30, 2017. As such, no amounts have been recognized in the financial statements for the period from July 1, 2013 through September 30, 2013.

### 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 (approximately \$25,000,000 and \$20,000,000 during 2013 and 2012, respectively), an estimated \$237,000 and \$180,000 arose from providing services to charity patients during 2013 and 2012, respectively. The estimated costs of providing patient assistance services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue.

### Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for the years ended September 30, 2013 and 2012 was \$209,051 and \$135,392, respectively.

### Compensated Absences

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

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

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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### Risk Management

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

### Income Taxes

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and has concluded that as of September 30, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

### Electronic Health Records (EHR) Incentive Payments

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

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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The Hospital recognizes EHR incentive payments as income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific agreement requirements. In addition, the financial statement effects of the income must be both recognizable and measurable. During 2013 and 2012, the Hospital recognized \$492,390 and 1,030,500, respectively, in EHR incentive payments as other operating revenue using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes revenue ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

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

### 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 March 20, 2014.

## 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 reported at cost, as discussed in Note 1. As of September 30, 2013 and 2012, the Hospital had \$5,080,786 and \$5,333,191 in deposits, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital. These deposits have maturity dates of one year or less except for the certificate of deposit which matures in June 2018.

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

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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Credit risk – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits consist of the following as of September 30:

	<u>2013</u>	<u>2012</u>
Carrying amount		
Deposits	<u>\$ 5,080,786</u>	<u>\$ 5,333,191</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 4,160,364	\$ 4,924,612
Certificate of deposit	500,000	-0-
Restricted by contributors and grantors	<u>420,422</u>	<u>408,579</u>
	<u>\$ 5,080,786</u>	<u>\$ 5,333,191</u>

### 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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 5,035,032	\$ 4,106,708
Receivable from Medicare	1,574,178	1,845,126
Receivable from Medicaid	<u>919,509</u>	<u>780,475</u>
Total patient accounts receivable	7,528,719	6,732,309
Less allowance for contractual agreements and uncollectible amounts	<u>4,251,953</u>	<u>4,001,845</u>
Patient accounts receivable, net	<u>\$ 3,276,766</u>	<u>\$ 2,730,464</u>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

	2013	2012
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 1,077,535	\$ 895,230
Payable to suppliers	865,953	442,022
Accrued employee health benefit claims	100,000	100,000
Total accounts payable and accrued expenses	\$ 2,043,488	\$ 1,437,252

### 4. CAPITAL ASSETS

Capital asset activity for 2013 and 2012 is listed below.

	Balance September 30, 2012	Additions	Retirements	Transfers	Balance September 30, 2013
Land	\$ 189,325	\$ 6,200	\$ -0-	\$ -0-	\$ 195,525
Land improvements	334,618	-0-	-0-	22,634	357,252
Leasehold Improvements	160,930	-0-	-0-	-0-	160,930
Buildings and fixtures	9,039,002	-0-	-0-	731,621	9,770,623
Fixed equipment	4,050,067	-0-	-0-	1,360,242	5,410,309
Moveable equipment	5,907,744	956,711	-0-	-0-	6,864,455
Construction in process	525,447	2,188,557	-0-	(2,114,497)	599,507
Total	20,207,133	3,151,468	-0-	-0-	23,358,601
Accumulated depreciation	13,689,271	807,115	-0-	-0-	14,496,386
Net capital assets	\$ 6,517,862	\$ 2,344,353	\$ -0-	\$ -0-	\$ 8,862,215

  

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

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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

A schedule of changes in the Hospital's noncurrent liabilities for the years ended September 30, 2013 and 2012 was as follows:

	Balance September 30, 2012	Additions	Reductions	Balance September 30, 2013	Current portion	Long-term portion
Notes payable and capital leases:						
Notes payable	\$ 1,042,373	\$ 3,012,418	\$ (289,351)	\$ 3,765,440	\$ 363,490	\$ 3,401,950
Capital leases	38,703	382,794	(202,259)	219,238	61,810	157,428
Total long-term debt	<u>\$ 1,081,076</u>	<u>\$ 3,395,212</u>	<u>\$ (491,610)</u>	<u>\$ 3,984,678</u>	<u>\$ 425,300</u>	<u>\$ 3,559,378</u>
	Balance September 30, 2011	Additions	Reductions	Balance September 30, 2012	Current portion	Long-term portion
Notes payable and capital leases:						
Notes payable	\$ 553,741	\$ 797,485	\$ (308,853)	\$ 1,042,373	\$ 206,180	\$ 836,193
Capital leases	201,524	-0-	(162,821)	38,703	38,703	-0-
Total long-term debt	<u>755,265</u>	<u>797,485</u>	<u>(471,674)</u>	<u>1,081,076</u>	<u>244,883</u>	<u>836,193</u>
Other liabilities	<u>29,167</u>	<u>-0-</u>	<u>(29,167)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total noncurrent liabilities	<u>\$ 784,432</u>	<u>\$ 797,485</u>	<u>\$ (500,841)</u>	<u>\$ 1,081,076</u>	<u>\$ 244,883</u>	<u>\$ 836,193</u>

During 2012, the Hospital obtained a note payable primarily for a medical office building. The maximum amount available to be borrowed was \$1,028,500. During 2013, the Hospital borrowed the maximum amount. 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. 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 \$3,900,000 as of September 30, 2013.

Also during 2012, the Hospital, the Indiana Finance Authority (Authority), and Alliance Bank (Bank) entered into a Bond Purchase Agreement (Agreement) whereby the Bank purchased from the Authority, Series 2012 Bonds (Bonds) to be held in a private placement as the Bank is the single holder of the Bonds. As such, the Bonds are included in the balance sheets as notes payable. The maximum amount of the bonds to be borrowed was \$1,727,900. During 2013, the Hospital borrowed the maximum amount. 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 \$3,900,000 as of September 30, 2013.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

The Hospital maintains several other notes payable for equipment with a total outstanding balance of approximately \$1,000,000 as of September 30, 2013. Payments, including interest at rates varying from 3.0%, to 5.8% continue through 2018. Generally, equipment is listed as security for the loans. One loan is secured by a certificate of deposit. The net book value of the assets that serve as collateral for these notes approximates the outstanding balance of the notes which is approximately \$1,000,000.

Scheduled principal and interest repayments on notes payable are listed below.

Notes Payable Year ending September 30,	Principal	Interest	Total
2014	\$ 363,490	\$ 149,131	\$ 512,621
2015	332,574	138,411	470,985
2016	305,601	143,977	449,578
2017	247,788	132,422	380,210
2018	105,460	124,160	229,620
2019-2023	450,688	554,650	1,005,338
2024-2028	581,068	426,014	1,007,082
2029-2033	747,180	259,901	1,007,081
2034-2037	631,591	57,578	689,169
	<u>\$ 3,765,440</u>	<u>\$ 1,986,244</u>	<u>\$ 5,751,684</u>

The Hospital has also entered into various capital leases at varying rates of imputed interest from 4.0% to 4.6%, collateralized by leased equipment. The net book value of the equipment that serves as collateral approximates \$300,000 as of September 30, 2013.

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

Capital leases Year ending September 30,	Principal	Interest	Total
2014	\$ 61,810	\$ 7,538	\$ 69,348
2015	47,761	5,563	53,324
2016	49,755	3,567	53,322
2017	51,833	1,490	53,323
2018	8,079	41	8,120
	<u>\$ 219,238</u>	<u>\$ 18,199</u>	<u>\$ 237,437</u>

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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

	<u>2013</u>	<u>2012</u>
Equipment	\$ 1,010,139	\$ 979,321
Accumulated depreciation	707,496	848,884
	<u>\$ 302,643</u>	<u>\$ 130,437</u>

### 6. NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended September 30, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Inpatient services	\$ 8,923,096	\$ 9,006,058
Outpatient services	30,350,727	29,831,717
Long-term care services	3,703,685	-0-
Gross patient service revenue	<u>42,977,508</u>	<u>38,837,775</u>
Contractual allowances	(17,468,874)	(17,541,268)
Charity care	(444,009)	(346,114)
Bad debt	(1,813,372)	(1,333,306)
Deductions from revenue	<u>(19,726,255)</u>	<u>(19,220,688)</u>
Net patient service revenue	<u>\$ 23,251,253</u>	<u>\$ 19,617,087</u>

### 7. 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, 2013 and 2012 was approximately \$2,166,000 and \$2,179,000, respectively.

# PULASKI MEMORIAL HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012

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### 8. 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.

### 9. 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, 2013 and 2012 was as follows:

	Receivables		Revenue	
	2013	2012	2013	2012
Medicare and Medicaid	33%	39%	60%	63%
Blue Cross	9%	7%	13%	15%
Commercial and other payors	23%	14%	20%	16%
Self-pay payors	35%	40%	7%	6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### 10. 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 2013 and 2012 were \$57,870 and \$62,239, respectively.

# **PULASKI MEMORIAL HOSPITAL**

## **NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012**

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### **11. 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, 2013, the Hospital had a remaining commitment of approximately \$400,000 towards various building improvements.