



STATE OF INDIANA
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STATE BOARD OF ACCOUNTS
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June 4, 2024

Board of Trustees
Pulaski Memorial Hospital
Pulaski County, Indiana

We have reviewed the audit report of Pulaski Memorial Hospital which was opined on by Blue & Co., LLC, Independent Public Accountants, for the period October 1, 2019 to September 30, 2020. Per the *Report of Independent Auditors*, the financial statements included in the report present fairly the financial condition of Pulaski Memorial Hospital as of September 30, 2020, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Blue & Co., LLC, prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

The audit report is filed with this letter in our office as a matter of public record.

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner



Pulaski
Memorial Hospital

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2020

CPAs / ADVISORS



PULASKI MEMORIAL HOSPITAL

TABLE OF CONTENTS SEPTEMBER 30, 2020

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited).....	MDA - i
Financial Statements	
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6
Notes to the Financial Statements.....	8



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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Pulaski Memorial Hospital
Winamac, Indiana

We were engaged to audit the accompanying financial statements of Pulaski Memorial Hospital (the Hospital), a component unit of Pulaski County, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the accompanying table of contents.

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 conducting the audit 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. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Detailed records have not been maintained and supporting data was not available for audit. Therefore, we were not able to obtain sufficient and appropriate audit evidence about the amounts at which certain assets and liabilities related to the Hospital's long-term care services are recorded in the accompanying statement of net position as of September 30, 2020 (current assets stated at approximately \$19,511,000, net capital assets stated at \$3,465,000, current liabilities stated at \$22,976,000) and the amounts of revenues (stated at \$94,862,000) and operating expenses (stated at \$94,862,000) for the year then ended.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for our opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

Board of Trustees
Pulaski Memorial Hospital
Winamac, Indiana

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 Government 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 were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the insufficiency of the accounting records, as discussed in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

Blue & Co., LLC

Indianapolis, Indiana
May 8, 2024

REQUIRED SUPPLEMENTARY INFORMATION

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2020

This section of Pulaski Memorial Hospital's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance. Please read it in conjunction with the Hospital's financial statements that follow this MD&A.

Using This Annual Report

The Hospital's financial statements consist of three statements – a statement of net position; 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 statement of net position 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 the 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 \$8.0 million or 6.9% due primarily to long-term care operations during fiscal year 2020 compared to fiscal year 2019. Fiscal year 2020 saw an increase in total operating expenses of approximately \$16.4 million or 14.3%. The majority of the expenses were consistent with the prior year with the exception of significant increases in salaries and benefits and other professional fees and purchased services. Salaries and benefits increased primarily due to wage increases and retention pay during 2020.

The Hospital saw an increase of approximately \$11.0 million in cash and cash equivalents in fiscal year 2020 compared to an increase of approximately \$5.5 in fiscal year 2019. From 2020 to 2019, the increase related to Coronavirus (COVID-19) related funding.

The Statements of Net Position 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 overall better or worse off as a result of the year's activities?" The statement of net position 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.

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2020

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 – Statements of Net Position

	2020 (millions)	2019 (millions)	2020-2019 Change
Current assets	\$ 42.1	\$ 29.8	\$ 12.3
Non-current cash and investments	0.6	0.6	0.0
Capital assets, net	11.0	11.1	(0.1)
Total assets	<u>\$ 53.7</u>	<u>\$ 41.5</u>	<u>\$ 12.2</u>
Current liabilities	\$ 32.1	\$ 25.2	\$ 6.9
Long-term debt and capital leases, net	3.8	4.4	(0.6)
Total liabilities	<u>\$ 35.9</u>	<u>\$ 29.6</u>	<u>\$ 6.3</u>
Net position			
Net investment in capital assets	\$ 6.6	\$ 6.1	\$ 0.5
Restricted expendable	0.1	0.1	0.0
Unrestricted	11.1	5.7	5.4
Total net position	<u>\$ 17.8</u>	<u>\$ 11.9</u>	<u>\$ 5.9</u>

Total assets increased by approximately \$12.2 million from fiscal year 2019 to fiscal year 2020. The increase was primarily due to an increase in current assets related to an increase in cash from certain COVID-19 funding. Total liabilities increased approximately \$6.3 million in fiscal year 2020 compared to fiscal year 2019 as a result of increase in current liabilities from Medicare accelerated and advanced payments and long-term care operations.

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2020 AND 2019

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

	2020 (millions)	Restated 2019 (millions)	2020-2019 Change
Revenues			
Net patient service revenue	\$ 119.7	\$ 118.2	\$ 1.5
Other	4.0	1.2	2.8
Total operating revenue	<u>123.7</u>	<u>119.4</u>	<u>4.3</u>
Expenses			
Salaries and benefits	24.4	23.1	1.3
Medical professional fees	1.5	1.4	0.1
Other professional fees and purchased services	92.0	80.5	11.5
Supplies and drugs	3.1	3.1	0.0
Rent	5.4	5.9	(0.5)
Insurance	0.3	0.3	0.0
Depreciation and amortization	1.7	1.4	0.3
Hospital assessment fee program	0.9	1.0	(0.1)
Other	2.1	2.0	0.1
Total operating expenses	<u>131.4</u>	<u>118.7</u>	<u>12.7</u>
Operating income (loss)	(7.7)	0.7	(8.4)
Nonoperating revenue (expense)	<u>13.6</u>	<u>(0.2)</u>	<u>13.8</u>
Change in net position	<u>\$ 5.9</u>	<u>\$ 0.5</u>	<u>\$ 5.4</u>

Net position increased during the year ended September 30, 2020 by \$5.9 million. Net patient service revenue increased approximately \$1.5 million or 1.3%. The increase in revenues was attributable to long-term care services. Fiscal year 2020 saw an increase in total operating expenses of approximately \$12.7 million or 10.7%. Many of the expenses were consistent with the prior year except for significant increases in salaries and benefits and other professional fees and purchased services. Salaries and benefits increased due to wage increases and retention pay during fiscal year 2020. The increase during 2020 in other professional fees and purchases services was due to long-term care operations. Nonoperating revenue (expense) increased by approximately \$13.8 million in fiscal year 2020 compared to 2019 as a result of COVID-19 funding.

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2020 AND 2019

Table 3 – Statements of Cash Flows

	2020 (millions)	2019 (millions)	2020-2019 Change
From operating activities	\$ (0)	\$ 8.4	\$ (8.5)
From noncapital financing activities	13.6	0.0	13.6
From capital and related financing activities	(2.7)	(5.6)	2.9
From investing activities	0.2	2.7	(2.5)
Change in cash and cash equivalents	<u>\$ 11.0</u>	<u>\$ 5.5</u>	<u>\$ 5.5</u>

The change in cash and cash equivalents increased significantly from fiscal year 2019 to fiscal year 2020.

Capital Assets and Debt Administration

Capital Assets

The Hospital's capital assets slightly decreased in 2020 due to depreciation outpacing additions.

Capital assets are comprised of the following as of September 30, 2020 and 2019:

	2020 (millions)	2019 (millions)	2020-2019 Change
Land	\$ 0.2	\$ 0.2	\$ 0.0
Land improvements	0.4	0.4	0.0
Leasehold Improvements	0.2	0.2	0.0
Buildings and fixtures	13.3	13.3	0.0
Equipment	20.7	19.2	1.5
Construction in process	0.3	0.1	0.2
Total	<u>35.1</u>	<u>33.4</u>	<u>1.7</u>
Less accumulated depreciation	<u>24.1</u>	<u>22.3</u>	<u>1.8</u>
Net capital assets	<u>\$ 11.0</u>	<u>\$ 11.1</u>	<u>\$ (0.1)</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, 2020 AND 2019

Notes Payable and Capital Leases

As of September 30, 2020, the Hospital had approximately \$4.4 million in outstanding notes payable and capital leases which was a decrease of approximately \$0.6 million compared to September 30, 2019. The decrease in long-term debt in fiscal year 2020 was a result of current year payments. The following illustrates the long-term debt and capital leases held:

	2020 (millions)	2019 (millions)	2020-2019 Change
Notes payable	\$ 2.8	\$ 3.0	\$ (0.2)
Capital lease obligations	1.6	2.0	(0.4)
	<u>\$ 4.4</u>	<u>\$ 5.0</u>	<u>\$ (0.6)</u>

*Changes in debt are reflected in the notes to the financial statements.

Sources of Revenue

During 2020, the Hospital derived substantially all of its revenue from patient service and related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 47% and 51% of the Hospital's gross revenues for 2020 and 2019, respectively. The remaining payors include commercial and self-pay.

Economic Outlook

In March 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national, and global economies. The extent to which COVID-19 continues to impact the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts have included, but are not limited to, additional costs for responding to COVID-19, shortages of health care personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to revenue.

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.

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2020 AND 2019

Contacting Hospital Management

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

PULASKI MEMORIAL HOSPITAL

STATEMENT OF NET POSITION SEPTEMBER 30, 2020

ASSETS

Current assets

Cash and cash equivalents	\$	23,950,069
Patient accounts receivable, net of estimated uncollectible of \$1,363,000		12,459,294
Estimated third party settlements		1,696,284
Inventory and other current assets		3,951,200
Total current assets		<u>42,056,847</u>

Noncurrent cash

Restricted by contributors and grantors		133,132
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Investments

500,000

Capital assets

Land and construction in progress		513,212
Depreciable capital assets, net		10,482,068
Total capital assets		<u>10,995,280</u>

Total assets	\$	<u><u>53,685,259</u></u>
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PULASKI MEMORIAL HOSPITAL

STATEMENT OF NET POSITION SEPTEMBER 30, 2020

LIABILITIES AND NET POSITION

Current liabilities

Current portion of capital leases	\$	403,072
Current portion of notes payable		146,346
Accounts payable and accrued expenses		24,399,754
Accrued salaries and related liabilities		1,793,559
Medicare accelerated and advanced payments		4,260,683
Line of credit		398,914
Other current liabilities		577,214
Total current liabilities		<u>31,979,542</u>

Long-term liabilities

Capital leases		1,156,582
Long-term notes payable		2,663,145
Total long-term liabilities		<u>3,819,727</u>
Total liabilities		35,799,269

Net position

Net investment in capital assets		6,626,135
Restricted		
Expendable for capital acquisitions		87,115
Expendable for specific operating activities		46,017
Total restricted net position		<u>133,132</u>
Unrestricted		11,126,723
Total net position		<u>17,885,990</u>
Total liabilities and net position	\$	<u>53,685,259</u>

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED SEPTEMBER 30, 2020

Revenues

Net patient service revenue	\$ 119,706,296
Other	4,017,063
Total operating revenues	<u>123,723,359</u>

Expenses

Salaries and benefits	24,433,527
Medical professional fees	1,477,122
Other professional fees and purchased services	92,049,222
Supplies and drugs	3,123,383
Rent	5,425,215
Insurance	262,395
Depreciation and amortization	1,736,574
Hospital assessment fee program	901,229
Other	1,924,446
Total operating expenses	<u>131,333,113</u>

Operating loss (7,609,754)

Nonoperating revenues (expenses)

Investment income	34,692
Interest expense	(234,703)
Paycheck protection program	2,902,030
COVID-19 grant funds	10,657,807
Other	204,276
Total nonoperating revenues (expenses)	<u>13,564,102</u>

Change in net position 5,954,348

Net position, beginning of year 11,931,642

Net position, end of year \$ 17,885,990

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENT OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2020

Operating activities

Cash received from patients and third party payors	\$ 123,416,803
Cash paid to employees for salaries and benefits	(24,392,949)
Cash paid to vendors for goods and services	(103,143,259)
Other operating receipts, net	4,017,063
Net cash from operating activities	<u>(102,342)</u>

Noncapital financing activities

COVID-19 grant funds	10,657,807
Paycheck protection program	2,902,030
Net cash from noncapital financing activities	<u>13,559,837</u>

Capital and related financing activities

Acquisition and construction of capital assets	(1,671,982)
Payments on line of credit	(200,000)
Proceeds from issuance of debt	-0-
Interest paid on debt	(234,703)
Principal payments on debt	(551,742)
Net cash from capital and related financing activities	<u>(2,658,427)</u>

Investing activities

Maturity of certificates of deposit	-0-
Investment and other nonoperating income	238,968
Net cash from investing activities	<u>238,968</u>

Net change in cash and cash equivalents 11,038,036

Cash and cash equivalents, beginning of year 13,045,165

Cash and cash equivalents, end of year \$ 24,083,201

Reconciliation of cash and cash equivalents to the balance sheets

Cash and cash equivalents	
In current assets	\$ 23,950,069
In noncurrent cash	133,132
Total cash and cash equivalents, end of year	<u>\$ 24,083,201</u>

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENT OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2020

Reconciliation of operating income (loss)	
to net cash from operating activities	
Operating loss	\$ (7,609,754)
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	1,736,574
Provision for bad debt	1,105,598
Changes in assets and liabilities	
Patient accounts receivable	(1,366,868)
Estimated third-party settlements	(288,906)
Inventory and other current assets	(706,636)
Accounts payable and accrued expenses	2,667,978
Medicare accelerated and advanced payments	4,260,683
Other current liabilities	58,411
Accrued salaries and related liabilities	40,578
Net cash flows from operating activities	<u>\$ (102,342)</u>

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2020

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 (the 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.

Use of Estimates

The preparation of financial statements includes 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.

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.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2020

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and, as applicable, 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 net realizable value 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 Education, 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, 2020

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.

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.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2020

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 2020, the Hospital's allowance for uncollectible accounts decreased from approximately \$1,668,000 to \$1,363,000. The decrease was primarily attributable to a decrease in self-pay balances. As September 30, 2020, substantially all of the allowance for uncollectible accounts was reserved for self-pay balances.

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 2015. Management believes adequate provision has been made in the financial statements for any adjustments which is included in estimated third party settlements within the statements of net position.

Medicaid and Hospital Assessment Fee and Healthy Indiana Plan Programs

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and for Medicaid outpatient services on a predetermined fee schedule. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments.

The Hospital participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. 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 statements of revenues, expense, 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. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Beginning July 1, 2017, hospitals also started funding the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to the HIP program mirror the Medicaid payments under the HAF program, but the funding includes physician, state administration, and certain non-hospital expenditures. During 2020, the Hospital recognized HAF and HIP Program expenses of approximately \$901,000, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in the statements of revenues, expenses, and changes in net position as operating expenses. The Medicaid rate increases under the HAF Program and the HIP payments are included in patient service revenue in the statements of revenues, expenses, and changes in net position.

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.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2020

Of the Hospital's total expenses reported within the statements of revenues, expenses and changes in net position, an estimated \$173,000 arose from providing services to charity patients during 2020. 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 2020.

Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for the year ended September 30, 2020 was approximately 147,000.

Compensated Absences

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

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

Risk Management

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

Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 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.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2020

Management has analyzed the tax positions taken by the Hospital and has concluded that as of September 30, 2020, 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.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. These reclassifications had no effect to the prior year net position.

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the statement of net position date for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued which is May 8, 2024.

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, 2020, the Hospital had approximately \$24,583,000 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.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2020

Deposits consist of the following as of September 30, 2020:

Carrying amount	
Deposits	<u>\$ 24,583,201</u>
Included in the balance sheet captions	
Cash and cash equivalents	\$ 23,950,069
Investments - certificates of deposit	500,000
Restricted by contributors and grantors	<u>133,132</u>
	<u>\$ 24,583,201</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, 2020:

Patient accounts receivable	
Receivable from patients and their insurance carriers	\$ 5,253,845
Receivable from Medicare	5,885,260
Receivable from Medicaid	774,376
Receivables related to long-term care operations	<u>8,034,570</u>
Total patient accounts receivable	19,948,051
Less allowance for contractual agreements and uncollectible amounts	<u>7,488,757</u>
Patient accounts receivable, net	<u>\$ 12,459,294</u>
Accounts payable and accrued expenses	
Payable to employees (including payroll taxes)	\$ 1,393,559
Payable to suppliers	24,399,754
Accrued employee health benefit claims	<u>400,000</u>
Total accounts payable and accrued expenses	<u>\$ 26,193,313</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2020

4. CAPITAL ASSETS

Capital asset activity for 2020 is listed below.

	Balance September 30, 2019	Additions	Retirements	Transfers	Balance September 30, 2020
Land	\$ 195,525	\$ -0-	\$ -0-	\$ -0-	\$ 195,525
Land improvements	432,595	-0-	-0-	-0-	432,595
Leasehold Improvements	187,055	-0-	-0-	-0-	187,055
Buildings and fixtures	13,253,037	-0-	-0-	-0-	13,253,037
Fixed equipment	7,363,626	14,749	-0-	-0-	7,378,375
Moveable equipment	11,903,571	1,411,888	-0-	-0-	13,315,459
Construction in process	72,342	245,345	-0-	-0-	317,687
Total	33,407,751	1,671,982	-0-	-0-	35,079,733
Accumulated depreciation	22,347,879	1,736,574	-0-	-0-	24,084,453
Net capital assets	\$ 11,059,872	\$ (64,592)	\$ -0-	\$ -0-	\$ 10,995,280

5. LONG-TERM DEBT

A schedule of changes in the Hospital's long-term liabilities for the year ended September 30, 2020 was as follows:

	Balance September 30, 2019	Additions	Reductions	Balance September 30, 2020	Current portion	Long-term portion
Notes payable and capital leases:						
Notes payable	\$ 2,952,341	\$ -0-	\$ (142,850)	\$ 2,809,491	\$ 146,346	\$ 2,663,145
Capital leases	1,968,546	-0-	(408,892)	1,559,654	403,072	1,156,582
Total long-term debt	\$ 4,920,887	\$ -0-	\$ (551,742)	\$ 4,369,145	\$ 549,418	\$ 3,819,727

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, 2020 was approximately \$817,000. 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, 2020 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 \$817,000 as of September 30, 2020.

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 statements of net position as notes payable. The maximum amount of the bonds to be borrowed was \$1,727,900. The balance as of September 30, 2020 was approximately \$1,382,000. The Bonds bear interest at 4.50% and mature in February of 2037. Principal and interest are paid monthly.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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 \$1,400,000 as of September 30, 2020.

The Hospital maintains several other notes payable (short-term and long-term) for equipment and current operations with a total outstanding balance of approximately \$610,000 as of September 30, 2020. Payments, including interest at rates varying from 3.0%, to 5.25% continue through 2038. These loans are secured by equipment and 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 \$600,000.

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

Notes Payable Year ending September 30,	Principal	Interest	Total
2021	\$ 146,346	\$ 132,478	\$ 278,824
2022	150,410	125,737	276,147
2023	147,079	118,975	266,054
2024	244,310	118,166	362,476
2025	126,404	109,968	236,372
2026-2030	732,486	529,032	1,261,518
2031-2035	948,583	326,643	1,275,226
2036-2040	313,873	80,190	394,063
	<u>\$ 2,809,491</u>	<u>\$ 1,541,189</u>	<u>\$ 4,350,680</u>

The Hospital also maintains three capital leases at imputed interest ranging from 2.00% to 4.28%. These leases are collateralized by leased equipment. The net book value of the equipment that serves as collateral approximates \$1,500,000 as of September 30, 2020.

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

Capital leases Year ending September 30,	Principal	Interest	Total
2021	\$ 403,072	\$ 58,170	\$ 461,242
2022	387,461	41,740	429,201
2023	404,120	25,082	429,202
2024	365,001	7,845	372,846
	<u>\$ 1,559,654</u>	<u>\$ 132,837</u>	<u>\$ 1,692,491</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2020

The following is an analysis of the leased assets included in property and equipment as of September 30, 2020:

Equipment	\$	2,853,268
Accumulated depreciation		1,400,260
	\$	<u>1,453,008</u>

6. LINE OF CREDIT

The Hospital has a line of credit available with a financial institution. The outstanding balance as of September 30, 2020 was approximately \$399,000. At September 30, 2020, the line of credit maximum amount was \$800,000. The interest rate at September 30, 2020 was 4.25%. The line of credit is secured by all equipment with a net book value of approximately \$3,000,000 and matures November 2024.

7. NET PATIENT SERVICE REVENUE

Net patient service revenue for the year ended September 30, 2020 consists of the following:

Inpatient services	\$	11,869,990
Outpatient services		49,107,759
Long-term care services		<u>87,405,426</u>
Gross patient service revenue		148,383,175
Contractual allowances		(27,282,127)
Charity care		(289,154)
Bad debt		<u>(1,105,598)</u>
Deductions from revenue		<u>(28,676,879)</u>
Net patient service revenue	\$	<u>119,706,296</u>

8. EMPLOYEE HEALTH PLAN

The Hospital has established a risk-financing fund for risks associated with medical benefits to employees and dependents. The risk-financing fund is accounted for in the Operating Fund where assets are set aside, and a liability is accrued for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$100,000 per year with an overall aggregate that is based on a formula using enrollment and other factors.

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.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2020

Health insurance and related expenses for the year ended September 30, 2020 was approximately \$4,200,000.

9. ESTIMATED MALPRACTICE COSTS

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence. (\$8,000,000 or \$12,000,000 in the annual aggregate based on hospital bed size) until June 30, 2019. Starting July 1, 2019, the Act requires the Hospital to maintain medical malpractice liability insurance for at least \$500,000 per occurrence (\$10,000,000 or \$15,000,000 in the annual aggregate based on hospital bed size). The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable.

The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonable possible that this estimate could change materially in the near term.

10. CONCENTRATIONS OF CREDIT RISK

The Hospital is primarily located in Winamac, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of acute care gross patient accounts receivable and gross patient revenues from self-pay and third party payors for the year ended September 30, 2020 was as follows:

	<u>Receivables</u>	<u>Revenue</u>
Medicare and Medicaid	52%	47%
Anthem	14%	22%
Commercial and other payors	27%	28%
Self-pay payors	7%	3%
	<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, 2020

11. PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan for employees that meet certain eligibility requirements. The plan provides retirement benefits to plan members. The plan 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 2020 were \$149,589.

12. COMMITMENTS AND CONTINGENCIES

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position, results from operations, and cash flows. At September 30, 2020, the Hospital did not have any significant construction commitments.

13. RENTAL EXPENSE

The Hospital has leases expiring at various times. 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 2020 was approximately \$5,400,000. The rent expense primarily relates to long-term care operations as described in Note 1.

14. COVID-19

On March, 11 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national, and global economies. The extent to which COVID-19 may continue to impact the Hospital's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors the Hospital is not currently able to predict. These impacts have included and may continue to include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue, contributions, and funding.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2020

Management believes the Hospital is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available to be issued.

During 2020, Provider Relief Funds (PRF) authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic. The Hospital received approximately \$10,658,000 of these funds from the CARES Act. PRF amounts are to be recognized to the extent the Hospital meets the terms and conditions. The Hospital recognized the entire amount received in 2020 as COVID-19 grant funds as nonoperating revenue within the statements of revenues, expenses, and changes in net position. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with the terms and conditions, and it is not possible to determine the impact (if any) such claims would have upon the Hospital.

The CARES Act also allowed health care providers to request accelerated and advanced payments for Medicare services. The Hospital requested and received approximately \$4,261,000 of accelerated and advanced Medicare payments under this CARES Act during 2020. The full amount received is included within the statements of net position. These funds were recouped and/or paid back.

Also during 2020, the Hospital received a low interest loan in the approximate amount of \$2,902,000 under the Paycheck Protection Program (PPP) administered by the Small Business Administration. The Hospital elected to treat the PPP funds as a grant and recognize revenue as the conditions for the loan forgiveness are satisfied over the period of time as outlined in the PPP guidance. During 2020, the Hospital recognized PPP funds of approximately \$2,902,000 within nonoperating revenue in the statements of revenues, expenses, and changes in net position. Funds under the PPP were subjected to forgiveness, if certain criteria was met, with the remaining balance repayable within two years of the disbursement. On July 19, 2021, the PPP loan was fully forgiven.

15. SUBSEQUENT EVENTS

Subsequent to September 30, 2020, the Hospital received approximately \$4,000,000 in PRF and American Rescue Plan Act grants.

16. UPCOMING ACCOUNTING PRONOUNCEMENTS

In June of 2017, the GASB issued GASB Statement No. 87, *Leases*, which will be effective for periods beginning after June 15, 2021. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2020

In June of 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for periods beginning after December 15, 2020. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations*, which will be effective for periods beginning after December 15, 2021. This statement clarifies the financial reporting and enhances the supporting disclosures for conduit debt obligations and related commitments in the financial statements of issuers.

In May 2020, GASB issued GASB Statement No. 96, *Subscription-Based Technology Arrangements*, which will be effective for periods beginning after June 15, 2022. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users governments.

In June 2022, the GASB issued GASB Statement No. 101, *Compensated Absences*, which will be effective for periods beginning after December 15, 2023. This statement will require that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means.

The Hospital is presently evaluating the effects these accounting pronouncements will have on its future financial statements, including related disclosures.