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August 18, 2021

Board of Trustees
Pulaski Memorial Hospital
616 E 13th St.
Winamac, IN 46996

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, 2018 to September 30, 2019. 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, 2019, 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 purple ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner



Pulaski
Memorial Hospital

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2019 AND 2018

CPAs / ADVISORS



PULASKI MEMORIAL HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Pulaski Memorial Hospital
Winamac, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Pulaski Memorial Hospital (the Hospital), a component unit of Pulaski County, which comprise the balance sheets as of September 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Trustees
Pulaski Memorial Hospital
Winamac, Indiana

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2019 and 2018, 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
August 9, 2021

REQUIRED SUPPLEMENTARY INFORMATION

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2019 AND 2018

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, 2019 with comparable information for 2018 and 2017. 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 in management's discussion and analysis.

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 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 \$1.8 million or 1.7% due primarily to acute care rate increases and outpatient services during fiscal year 2019 compared to fiscal year 2018. Fiscal year 2019 saw an increase in total operating expenses of approximately \$0.8 million or 0.7%. The majority of the expenses were consistent with the prior year with the exception of significant increases in salaries and benefits. Salaries and benefits increased primarily due to mix of employees and an increase in benefits during 2019. The Hospital's total operating revenue experienced an increase of approximately \$4.7 million or 4.4% due primarily to long-term care operations during fiscal year 2018 compared to fiscal year 2017. Net position increased by approximately \$0.5 million during the year ended September 30, 2019 compared to a decrease of \$0.4 million during the year ended September 30, 2018. Net position decreased by approximately \$0.1 million during the year ended September 30, 2017. Fiscal year 2018 saw an increase from fiscal year 2017 in total operating expenses of approximately \$5.0 million or 4.7% due to other professional fees and purchased services primarily related to long-term care operations.

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2019 AND 2018

The Hospital saw an increase of approximately \$5.5 million in cash and cash equivalents in fiscal year 2019 compared to a decrease of approximately \$0.5 in fiscal year 2018. Cash and cash equivalents decreased by approximately \$2.9 million in fiscal year 2017. The Hospital, excluding long-term care operations, experienced a decrease in days of cash on hand from 48 in fiscal year 2017 to 44 in fiscal year 2018 and up to 66 in fiscal year 2019. From 2019 to 2018, the increase related to improved operating cash flow.

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

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

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

Table 1 – Balance Sheets

	2019 (millions)	2018 (millions)	2019-2018 Change	2017 (millions)	2018-2017 Change
Current assets	\$ 29.8	\$ 26.0	\$ 3.8	\$ 24.7	\$ 1.3
Non-current cash and investments	0.6	0.6	0.0	0.7	(0.1)
Capital assets, net	11.1	10.5	0.6	10.9	(0.4)
Total assets	<u>\$ 41.5</u>	<u>\$ 37.1</u>	<u>\$ 4.4</u>	<u>\$ 36.3</u>	<u>\$ 0.8</u>
Current liabilities	\$ 25.2	\$ 20.8	\$ 4.4	\$ 19.4	\$ 1.4
Long-term debt and capital leases, net	4.4	4.9	(0.5)	5.1	(0.2)
Total liabilities	<u>\$ 29.6</u>	<u>\$ 25.7</u>	<u>\$ 3.9</u>	<u>\$ 24.5</u>	<u>\$ 1.2</u>
Net position					
Net investment in capital assets	\$ 6.1	\$ 2.4	\$ 3.7	\$ 2.8	\$ (0.4)
Restricted expendable	0.1	0.1	0.0	0.2	(0.1)
Unrestricted	5.7	8.9	(3.2)	8.8	0.1
Total net position	<u>\$ 11.9</u>	<u>\$ 11.4</u>	<u>\$ 0.5</u>	<u>\$ 11.8</u>	<u>\$ (0.4)</u>

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2019 AND 2018

Total assets increased by approximately \$4.4 million from fiscal year 2018 to fiscal year 2019 and \$0.8 million from fiscal year 2017 to fiscal year 2018. The increases were due to an increase in current assets related to acute care and long-term care operations. Total liabilities increased approximately \$3.9 million in fiscal year 2019 compared to fiscal year 2018 and \$1.2 million in fiscal year 2018 compared to fiscal year 2017 as a result of increase in current liabilities from long-term care operations.

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

	2019 (millions)	2018 (millions)	2019-2018 Change	2017 (millions)	2018-2017 Change
Revenues					
Net patient service revenue	\$ 107.5	\$ 105.8	\$ 1.7	\$ 101.1	\$ 4.7
Other	1.2	1.1	0.1	1.1	0.0
Total operating revenue	108.7	106.9	1.8	102.2	4.7
Expenses					
Salaries and benefits	23.1	22.0	1.1	21.0	1.0
Medical professional fees	1.4	1.4	0.0	1.6	(0.2)
Other professional fees and purchased services	70.6	71.4	(0.8)	68.0	3.4
Supplies and drugs	3.2	3.5	(0.3)	3.2	0.3
Rent	5.0	4.4	0.6	4.3	0.1
Insurance	0.3	0.2	0.1	0.2	0.0
Depreciation and amortization	1.4	1.5	(0.1)	1.5	0.0
Hospital assessment fee program	1.0	0.8	0.2	0.5	0.3
Other	2.0	2.0	0.0	1.9	0.1
Total operating expenses	108.0	107.2	0.8	102.2	5.0
Operating income (loss)	0.7	(0.3)	1.0	0.0	(0.3)
Nonoperating revenue (expense)	(0.2)	(0.1)	(0.1)	(0.1)	0.0
Change in net position	\$ 0.5	\$ (0.4)	\$ 0.9	\$ (0.1)	\$ (0.3)

Net position increased during the year ended September 30, 2019 by \$0.5 million. Net patient service revenue increased approximately \$1.7 million or 1.6%. The increase in revenues was attributable to acute care rate increases and outpatient services. Fiscal year 2019 saw an increase in total operating expenses of approximately \$0.8 million or 0.7%. Many of the expenses were consistent with the prior year except for a significant increase in salaries and benefits. Salaries and benefits increased primarily due to mix of employees and an increase in benefits during fiscal year 2019. Net position decreased by approximately \$0.4 million during the year ended September 30, 2018 compared to a decrease for the year ended September 30, 2017 of \$0.1 million. Net patient service revenue increased approximately \$4.7 million or 4.4% from fiscal year 2017 to fiscal year 2018. The increase in revenues from fiscal year 2017 to fiscal 2018 was attributable long-term care operations. Fiscal year 2018 saw an increase from fiscal year 2017 in total operating expenses of approximately \$5.0 million or 4.7%.

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2019 AND 2018

Many of the expenses from fiscal year 2017 to fiscal year 2018 were consistent with the exception of significant increases in salaries and benefits and other professional fees and purchased services. Other Professional fees and purchased services increased significantly due to long-term care operations. Salaries and benefits increased primarily due to mix of employees and an increase in benefits.

Table 3 – Statements of Cash Flows

	2019	2018	2019-2018	2017	2018-2017
Cash Flow Data	(millions)	(millions)	Change	(millions)	Change
From operating activities	\$ 8.4	\$ 1.0	\$ 7.4	\$ 4.3	\$ (3.3)
From capital and related financing activities	(5.6)	(1.3)	(4.3)	(1.5)	0.2
From investing activities	2.7	(0.2)	2.9	0.1	(0.3)
Change in cash and cash equivalents	<u>\$ 5.5</u>	<u>\$ (0.5)</u>	<u>\$ 6.0</u>	<u>\$ 2.9</u>	<u>\$ (3.4)</u>

The change in cash and cash equivalents increased significantly from fiscal year 2018 to fiscal year 2019 while there was a significant decrease from fiscal year 2017 to fiscal year 2018.

Capital Assets and Debt Administration

Capital Assets

The Hospital's capital assets increased in 2019 due to additions outpacing depreciation. Capital assets decreased from fiscal year 2017 to fiscal year 2018.

Capital assets are comprised of the following as of September 30, 2019 and 2018:

	2019	2018	2019-2018	2017	2018-2017
	(millions)	(millions)	Change	(millions)	Change
Land	\$ 0.2	\$ 0.3	\$ (0.1)	\$ 0.2	\$ 0.1
Land improvements	0.4	0.4	0.0	0.4	0.0
Leasehold Improvements	0.2	0.2	0.0	0.2	0.0
Buildings and fixtures	13.2	13.3	(0.1)	12.2	1.1
Equipment	19.3	17.3	2.0	16.8	0.5
Construction in process	0.1	0.0	0.1	0.5	(0.5)
Total	33.4	31.5	1.9	30.3	1.2
Less accumulated depreciation	22.3	21.0	1.3	19.4	1.6
Net capital assets	<u>\$ 11.1</u>	<u>\$ 10.5</u>	<u>\$ 0.6</u>	<u>\$ 10.9</u>	<u>\$ (0.4)</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, 2019 AND 2018

Notes Payable and Capital Leases

As of September 30, 2019, the Hospital had approximately \$5.0 million in outstanding notes payable and capital leases which was a decrease of approximately \$3.1 million compared to September 30, 2018. The decrease in long-term debt in fiscal year 2019 was a result of current year payments. As of September 30, 2018 and 2017, the Hospital's outstanding long-term debt was relatively consistent. The following illustrates the long-term debt and capital leases held:

	2019 (millions)	2018 (millions)	2019-2018 Change	2017 (millions)	2018-2017 Change
Notes payable	\$ 3.0	\$ 5.7	\$ (2.7)	\$ 5.5	\$ 0.2
Capital lease obligations	2.0	2.4	(0.4)	2.7	(0.3)
	<u>\$ 5.0</u>	<u>\$ 8.1</u>	<u>\$ (3.1)</u>	<u>\$ 8.2</u>	<u>\$ (0.1)</u>

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

Economic Outlook

Subsequent to year end, 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 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 as well as labor shortages. 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. 16th Street, PO Box 279, Winamac, Indiana 46996.

PULASKI MEMORIAL HOSPITAL

BALANCE SHEETS SEPTEMBER 30, 2019 AND 2018

ASSETS

	2019	2018
Current assets		
Cash and cash equivalents	\$ 12,928,599	\$ 7,407,833
Patient accounts receivable, net of estimated uncollectible of \$1,668,000 and \$1,603,000 in 2019 and 2018, respectively.	12,198,024	10,853,036
Investments	-0-	2,486,031
Estimated third party settlements	1,167,884	1,407,378
Inventory and other current assets	3,484,058	3,829,509
Total current assets	29,778,565	25,983,787
Noncurrent cash		
Restricted by contributors and grantors	116,566	95,911
Investments	500,000	500,000
Capital assets		
Land and construction in progress	267,867	350,346
Depreciable capital assets, net	10,792,005	10,138,877
Total capital assets	11,059,872	10,489,223
Total assets	\$ 41,455,003	\$ 37,068,921

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

BALANCE SHEETS SEPTEMBER 30, 2019 AND 2018

LIABILITIES AND NET POSITION

	2019	2018
Current liabilities		
Current portion of capital leases	\$ 408,496	\$ 391,596
Current portion of notes payable	140,198	2,779,558
Accounts payable and accrued expenses	21,731,776	14,050,631
Accrued salaries and related liabilities	1,752,981	1,770,001
Line of credit	598,914	648,914
Other current liabilities	518,803	1,136,366
Total current liabilities	25,151,168	20,777,066
Long-term liabilities		
Capital leases	1,560,050	1,968,871
Long-term notes payable	2,812,143	2,920,125
Total long-term liabilities	4,372,193	4,888,996
Total liabilities	29,523,361	25,666,062
Net position		
Net investment in capital assets	6,138,985	2,429,073
Restricted		
Expendable for capital acquisitions	86,909	86,693
Expendable for specific operating activities	29,657	9,218
Total restricted net position	116,566	95,911
Unrestricted	5,676,091	8,877,875
Total net position	11,931,642	11,402,859
Total liabilities and net position	\$ 41,455,003	\$ 37,068,921

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Revenues		
Net patient service revenue	\$ 107,510,301	\$ 105,777,876
Other	1,191,695	1,073,755
Total operating revenue	108,701,996	106,851,631
Expenses		
Salaries and benefits	23,144,247	21,977,705
Medical professional fees	1,390,142	1,377,823
Other professional fees and purchased services	70,600,653	71,424,795
Supplies and drugs	3,201,141	3,489,139
Rent	5,040,566	4,444,763
Insurance	251,068	230,233
Depreciation and amortization	1,397,727	1,510,811
Hospital assessment fee program	956,305	843,892
Other	1,993,031	1,873,033
Total operating expenses	107,974,880	107,172,194
Operating income (loss)	727,116	(320,563)
Nonoperating revenue (expense)		
Investment income	14,022	29,713
Interest expense	(279,505)	(267,526)
Other	67,150	156,794
Total nonoperating revenue (expense)	(198,333)	(81,019)
Change in net position	528,783	(401,582)
Net position, beginning of year	11,402,859	11,804,441
Net position, end of year	\$ 11,931,642	\$ 11,402,859

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Operating activities		
Cash received from patients and third party payors	\$ 106,404,807	\$ 104,828,402
Cash paid to employees for salaries and benefits	(23,161,267)	(21,850,548)
Cash paid to vendors for goods and services	(76,023,873)	(83,069,625)
Other operating receipts, net	1,191,695	1,073,755
Net cash from operating activities	8,411,362	981,984
Capital and related financing activities		
Acquisition and construction of capital assets	(2,121,153)	(1,067,959)
Borrowings from line of credit	-0-	210,000
Payments on line of credit	(50,000)	(33,000)
Proceeds from issuance of debt	173,250	3,062,787
Interest paid on debt	(279,505)	(267,526)
Principal payments on debt	(3,312,513)	(3,173,165)
Net cash from capital and related financing activities	(5,589,921)	(1,268,863)
Investing activities		
Purchase of certificates of deposit	-0-	(2,486,031)
Maturity of certificates of deposit	2,486,031	2,148,747
Investment and other nonoperating income	233,949	186,507
Net cash from investing activities	2,719,980	(150,777)
Net change in cash and cash equivalents	5,541,421	(437,656)
Cash and cash equivalents, beginning of year	7,503,744	7,941,400
Cash and cash equivalents, end of year	<u>\$ 13,045,165</u>	<u>\$ 7,503,744</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 12,928,599	\$ 7,407,833
In noncurrent cash	116,566	95,911
Total cash and cash equivalents, end of year	<u>\$ 13,045,165</u>	<u>\$ 7,503,744</u>

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Reconciliation of operating income (loss) to net cash from operating activities		
Operating income (loss)	\$ 727,116	\$ (320,563)
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,397,727	1,510,811
Provision for bad debt	1,321,438	1,473,553
Changes in assets and liabilities		
Patient accounts receivable	(2,666,426)	(2,146,026)
Estimated third-party settlements	239,494	(433,985)
Inventory and other current assets	345,451	(208,024)
Accounts payable and accrued expenses	7,681,145	556,248
Other current liabilities	(617,563)	422,813
Accrued salaries and related liabilities	(17,020)	127,157
Net cash flows from operating activities	<u>\$ 8,411,362</u>	<u>\$ 981,984</u>

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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, 2019 AND 2018

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, 2019 AND 2018

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

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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 2019, the Hospital's allowance for uncollectible accounts increased from approximately \$1,603,000 to \$1,668,000. The decrease was primarily attributable to a decrease in self-pay balances. As September 30, 2019 and 2018, substantially all of the allowance for uncollectible accounts was reserved for self-pay balances.

The Hospital's acute care net patient revenue from Medicare and Medicaid programs accounted for approximately 16 percent and 3 percent, respectively for the fiscal year ended 2019, and 22 percent and 5 percent, respectively for the fiscal year ended 2018.

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 balance sheets.

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 assets. 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 2019 and 2018, the Hospital recognized HAF and HIP Program expenses of approximately \$956,000 and \$844,000, respectively, 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 assets.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue.

Of the Hospital's total expenses reported within the statements of revenues, expenses and changes in net position, an estimated \$443,000 and \$281,000 arose from providing services to charity patients during 2019 and 2018, respectively. The estimated costs of providing patient assistance services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue. There were no significant changes to the Hospital's charity care policy during 2019.

Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for the years ended September 30, 2019 and 2018 was 158,000 and 131,000, respectively.

Compensated Absences

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

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

Risk Management

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

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 22 of the Indiana statutes. As such, the Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986. As a governmental entity under Section 115, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and has concluded that as of September 30, 2019 and 2018, 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 balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements were available to be issued which is August 9, 2021.

2. DEPOSITS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depositary 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, 2019 and 2018, the Hospital had approximately \$13,545,000 and \$10,490,000 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.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital believes that it is not exposed to any significant credit risk on investments. The Hospital does not have a formal policy for credit and concentration of credit risks.

Deposits consist of the following as of September 30:

	2019	2018
Carrying amount		
Deposits	<u>\$ 13,545,165</u>	<u>\$ 10,489,775</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 12,928,599	\$ 7,407,833
Investments - certificates of deposit	500,000	2,986,031
Restricted by contributors and grantors	116,566	95,911
	<u>\$ 13,545,165</u>	<u>\$ 10,489,775</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, 2019 and 2018:

	2019	2018
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 5,758,846	\$ 6,087,543
Receivable from Medicare	2,463,871	3,206,171
Receivable from Medicaid	895,522	894,138
Receivables related to long-term care operations	8,799,348	7,421,062
Total patient accounts receivable	17,917,587	17,608,914
Less allowance for contractual agreements and uncollectible amounts	5,719,563	6,755,878
Patient accounts receivable, net	<u>\$ 12,198,024</u>	<u>\$ 10,853,036</u>
	2019	2018
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 1,352,981	\$ 1,570,001
Payable to suppliers	21,731,776	14,050,631
Accrued employee health benefit claims	400,000	200,000
Total accounts payable and accrued expenses	<u>\$ 23,484,757</u>	<u>\$ 15,820,632</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

4. CAPITAL ASSETS

Capital asset activity for 2019 and 2018 is listed below.

	Balance September 30, 2018	Additions	Retirements	Transfers	Balance September 30, 2019
Land	\$ 348,302	\$ -0-	\$ (152,777)	\$ -0-	\$ 195,525
Land improvements	432,595	-0-	-0-	-0-	432,595
Leasehold Improvements	187,055	-0-	-0-	-0-	187,055
Buildings and fixtures	13,232,908	20,129	-0-	-0-	13,253,037
Fixed equipment	7,363,626	-0-	-0-	-0-	7,363,626
Moveable equipment	9,872,845	2,030,726	-0-	-0-	11,903,571
Construction in process	2,044	70,298	-0-	-0-	72,342
Total	31,439,375	2,121,153	(152,777)	-0-	33,407,751
Accumulated depreciation	20,950,152	1,397,727	-0-	-0-	22,347,879
Net capital assets	<u>\$ 10,489,223</u>	<u>\$ 723,426</u>	<u>\$ (152,777)</u>	<u>\$ -0-</u>	<u>\$ 11,059,872</u>

	Balance September 30, 2017	Additions	Retirements	Transfers	Balance September 30, 2018
Land	\$ 195,525	\$ 152,777	\$ -0-	\$ -0-	\$ 348,302
Land improvements	432,595	-0-	-0-	-0-	432,595
Leasehold improvements	187,055	-0-	-0-	-0-	187,055
Buildings and fixtures	12,288,971	399,450	-0-	544,487	13,232,908
Fixed equipment	7,313,546	29,101	-0-	20,979	7,363,626
Moveable equipment	9,463,747	386,050	-0-	23,048	9,872,845
Construction in process	490,100	100,581	(123)	(588,514)	2,044
Total	30,371,539	1,067,959	(123)	-0-	31,439,375
Accumulated depreciation	19,439,341	1,510,811	-0-	-0-	20,950,152
Net capital assets	<u>\$ 10,932,198</u>	<u>\$ (442,852)</u>	<u>\$ (123)</u>	<u>\$ -0-</u>	<u>\$ 10,489,223</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

5. LONG-TERM DEBT

A schedule of changes in the Hospital's long-term liabilities for the years ended September 30, 2019 and 2018 was as follows:

	Balance September 30, 2018	Additions	Reductions	Balance September 30, 2019	Current portion	Long-term portion
Notes payable and capital leases:						
Notes payable	\$ 5,699,683	\$ 173,250	\$ (2,920,592)	\$ 2,952,341	\$ 140,198	\$ 2,812,143
Capital leases	2,360,467	-0-	(391,921)	1,968,546	408,496	1,560,050
Total long-term debt	<u>\$ 8,060,150</u>	<u>\$ 173,250</u>	<u>\$ (3,312,513)</u>	<u>\$ 4,920,887</u>	<u>\$ 548,694</u>	<u>\$ 4,372,193</u>
	Balance September 30, 2017	Additions	Reductions	Balance September 30, 2018	Current portion	Long-term portion
Notes payable and capital leases:						
Notes payable	\$ 5,430,729	\$ 3,062,787	\$ (2,793,833)	\$ 5,699,683	\$ 2,779,558	\$ 2,920,125
Capital leases	2,739,799	-0-	(379,332)	2,360,467	391,596	1,968,871
Total long-term debt	<u>\$ 8,170,528</u>	<u>\$ 3,062,787</u>	<u>\$ (3,173,165)</u>	<u>\$ 8,060,150</u>	<u>\$ 3,171,154</u>	<u>\$ 4,888,996</u>

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, 2019 was approximately \$851,000. 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, 2019 was 5.95%. Principal and interest are paid monthly. This note payable is secured by certain capital assets of the Hospital with an approximate net book value of \$2,000,000 as of September 30, 2019.

The Hospital, the Indiana Finance Authority (Authority), and Alliance Bank (Bank) entered into a Bond Purchase Agreement (Agreement) whereby the Bank purchased from the Authority, Series 2012 Bonds (Bonds) to be held in a private placement as the Bank is the single holder of the Bonds. As such, the Bonds are included in the balance sheets as notes payable. The maximum amount of the bonds to be borrowed was \$1,727,900. The balance as of September 30, 2019 was approximately \$1,438,000. The Bonds bear interest at 4.50% and mature in February of 2037. Principal and interest are paid monthly. The Bonds were obtained to renovate, remodel, and equip the Hospital's Central Sterile Processing Department and various operating rooms. This note payable is secured by certain capital assets of the Hospital with an approximate net book value of \$2,000,000 as of September 30, 2019.

The Hospital maintains several other notes payable (short-term and long-term) for equipment and current operations with a total outstanding balance of approximately \$663,000 as of September 30, 2019. Payments, including interest at rates varying from 3.0%, to 5.25% continue through 2038.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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 \$700,000.

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

Notes Payable Year ending September 30,	Principal	Interest	Total
2020	\$ 140,198	\$ 138,918	\$ 279,116
2021	143,389	132,478	275,867
2022	150,410	125,737	276,147
2023	147,079	118,975	266,054
2024	244,310	118,166	362,476
2025-2029	701,734	529,032	1,230,766
2030-2034	902,551	326,643	1,229,194
2035-2039	522,670	80,190	602,860
	<u>\$ 2,952,341</u>	<u>\$ 1,570,139</u>	<u>\$ 4,522,480</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 \$2,000,000 as of September 30, 2019.

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

Capital leases Year ending September 30,	Principal	Interest	Total
2020	\$ 408,496	\$ 75,633	\$ 484,129
2021	393,031	58,170	451,201
2022	387,461	41,740	429,201
2023	404,120	25,082	429,202
2024	375,438	7,845	383,283
	<u>\$ 1,968,546</u>	<u>\$ 208,470</u>	<u>\$ 2,177,016</u>

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

	2019	2018
Equipment	\$ 2,853,268	\$ 2,853,268
Accumulated depreciation	972,939	545,618
	<u>\$ 1,880,329</u>	<u>\$ 2,307,650</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

6. LINE OF CREDIT

The Hospital has a line of credit available with a financial institution. The outstanding balance as of September 30, 2019 and 2018 was approximately \$599,000 and \$649,000, respectively. At September 30, 2019, the line of credit maximum amount was \$800,000. The interest rate at September 30, 2019 was 4.25%. The line of credit is secured by all equipment with a net book value of approximately \$3,000,000 at September 30, 2019 and matures November 2021.

7. NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended September 30, 2019 and 2018 consists of the following:

	2019	2018
Inpatient services	\$ 15,245,097	\$ 15,044,120
Outpatient services	50,976,556	47,582,604
Long-term care services	72,445,717	72,870,711
Gross patient service revenue	138,667,370	135,497,435
Contractual allowances	(29,008,281)	(27,731,004)
Charity care	(827,350)	(515,002)
Bad debt	(1,321,438)	(1,473,553)
Deductions from revenue	(31,157,069)	(29,719,559)
Net patient service revenue	<u>\$ 107,510,301</u>	<u>\$ 105,777,876</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.

Health insurance and related expenses for the years ended September 30, 2019 and 2018 was approximately \$4,291,000 and \$4,175,000, respectively.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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 years ended September 30, 2019 and 2018 was as follows:

	Receivables		Revenue	
	2019	2018	2019	2018
Medicare and Medicaid	42%	47%	51%	52%
Blue Cross	10%	15%	20%	21%
Commercial and other payors	32%	23%	26%	25%
Self-pay payors	16%	15%	3%	2%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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 2019 and 2018 were \$151,130 and \$139,479, respectively.

12. COMMITMENTS AND CONTINGENCIES

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position, results from operations, and cash flows. At September 30, 2019, the Hospital did not have any significant construction commitments.

13. RENTAL EXPENSE

The Hospital has leases expiring at various times through 2019. 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 2019 and 2018 was approximately \$5,041,000 and \$4,445,000, respectively. The rent expense primarily relates to long-term care operations as described in Note 1.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

14. SUBSEQUENT EVENTS

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.

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 \$12,000,000 of these funds from the CARES Act. PRF amounts will be recognized to the extent the Hospital meets the terms and conditions. Compliance with the terms and conditions may also be subject to future government review and interpretation as they are emerging and uncertain at the time the financial statements were available to be issued. 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 \$4,000,000 of accelerated and advanced Medicare payments under this CARES Act during 2020. These funds will be recouped and/or paid back during 2021.

Also during 2020, the Hospital received a low interest loan in the approximate amount of \$2,900,000 under the Paycheck Protection Program (PPP) administered by the Small Business Administration. The PPP loan is unsecured, bears interest at 1% and funds advanced under the program are subject to forgiveness, if certain criteria is met, with the remaining balance repayable within two years of disbursement. The PPP loan may be forgivable to the extent that employers incur and spend the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period as defined by the PPP guidance. In addition, employers must maintain specified employment and wage levels during the pandemic and submit adequate documentation of such expenditures to qualify for loan forgiveness. On July 19, 2021, the PPP loan was fully forgiven.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

15. UPCOMING ACCOUNTING PRONOUNCEMENTS

In November 2016, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for certain asset retirement obligations. An asset retirement obligation is a legally enforceable liability associated with the retirement of a tangible capital asset. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 83, *Certain Asset Retirement Obligations*, by one year. GASB Statement No. 83 will be effective for periods beginning after June 15, 2019.

In January of 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*, which will be effective for periods beginning after December 15, 2019. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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.

In March 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which will be effective for periods beginning after June 15, 2019. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

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.

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In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61*, which will be effective for periods beginning after December 15, 2019. This statement clarifies the financial reporting for majority owed equity interests in the financial statements of entities that hold such interests.

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 June 2020, the GASB issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which will be effective for periods beginning after June 15, 2021. This statement addresses the determination of financial accountability for a potential component unit and the financial burden criteria of a potential component unit.

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