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July 12, 2018

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

We have reviewed the audit report opined on by Blue & Co., LLC, Independent Public Accountants, for the period October 1, 2016 to September 30, 2017. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements present fairly the financial condition of the Pulaski Memorial Hospital, as of September 30, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner



Pulaski
Memorial Hospital

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017 AND 2016

CPAs / ADVISORS



PULASKI MEMORIAL HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Pulaski Memorial Hospital
Winamac, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Pulaski Memorial Hospital (Hospital), a component unit of Pulaski County, which comprise the balance sheets as of September 30, 2017 and 2016, 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, 2017 and 2016, 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
June 12, 2018

REQUIRED SUPPLEMENTARY INFORMATION

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2017 AND 2016

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, 2017 with comparable information for 2016 and 2015. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements included in this report. Unless otherwise indicated, amounts are in millions.

Using This Annual Report

The Hospital's financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities and the financial position of the Hospital.

The Balance Sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities).

All of the current year's revenue earned and expenses incurred are accounted for in the Statement of Revenues, Expense and Changes in Net Position.

Finally, the purpose of the Statement of Cash Flows is to provide information about the Hospital's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and the change in cash balance during the year.

Financial Highlights

The Hospital's Total Operating Revenue experienced an increase of approximately \$12.1 million or 13.4% due primarily to acute care rate increases and long-term care operations during fiscal year 2017 compared to fiscal year 2016. Net position decreased by approximately \$0.1 million during the year ended September 30, 2017. Net Patient Service Revenue increased approximately \$11.9 million or 13.4%. The increase in revenues is attributable to acute care rate increases and long-term care operations. Fiscal year 2017 saw an increase in Total Operating Expenses of approximately \$14.4 million or 16.3%. 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. Other Professional Fees and Purchased Services Expenses increased significantly due to long-term care operations. Salaries and Benefits increased primarily due to mix of employees and an increase in benefits during 2017. The Hospital's Total Operating Revenue experienced an increase of approximately \$49.4 million or 121.4% due primarily to the addition of five long-term care facilities in fiscal year 2016 compared to fiscal year 2015. Net position increased by approximately \$2.3 million or 24.0% during the year ended September 30, 2017 compared to the year ended September 30, 2015. Net Patient Service Revenue increased approximately \$49.3 million or 123.6% from fiscal year 2015 to fiscal year 2016. The significant increase in revenues from fiscal year 2015 to fiscal 2016 was attributable to acute care volume increases, expansion initiatives and long-term care operations. Fiscal year 2016 saw an increase from fiscal year 2015 in Total Operating Expenses of approximately \$47.2 million or 116.3%

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2017 AND 2016

The Hospital saw an increase of approximately \$0.1 million in cash and cash equivalents in fiscal year 2017 compared to fiscal year 2016. Cash and cash equivalents increased \$3.3 million in fiscal year 2016 compared to fiscal year 2015. The Hospital, excluding long-term care operations, increased days of cash on hand from 25 in fiscal year 2015 to 37 in fiscal year 2016 and to 48 in fiscal year 2017. During fiscal years 2017 and 2016, positive operating cash flow was the primary reason for the increase in days of cash on hand as the Hospital has made investments in service lines.

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

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

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

Table 1 – Balance Sheets

	2017 (millions)	2016 (millions)	2017-2016 Change	2015 (millions)	2016-2015 Change
Current assets	\$ 24.7	\$ 22.6	\$ 2.1	\$ 11.3	\$ 11.3
Non-current cash and investments	0.7	0.7	0.0	0.7	0.0
Capital assets, net	10.9	9.2	1.7	8.9	0.3
Total assets	<u>\$ 36.3</u>	<u>\$ 32.5</u>	<u>\$ 3.8</u>	<u>\$ 20.9</u>	<u>\$ 11.6</u>
Current liabilities	\$ 19.4	\$ 17.2	\$ 2.2	\$ 7.9	\$ 9.3
Long-term debt and capital leases, net	5.1	3.4	1.7	3.4	0.0
Total liabilities	<u>24.5</u>	<u>20.6</u>	<u>3.9</u>	<u>11.3</u>	<u>9.3</u>
Net position					
Net investment in capital assets	2.8	3.0	(0.2)	5.0	(2.0)
Restricted expendable	0.2	0.2	0.0	0.2	0.0
Unrestricted	8.8	8.7	0.1	4.4	4.3
Total net position	<u>\$ 11.8</u>	<u>\$ 11.9</u>	<u>\$ (0.1)</u>	<u>\$ 9.6</u>	<u>\$ 2.3</u>

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2017 AND 2016

Total assets increased by approximately \$3.8 million from fiscal year 2016 to fiscal year 2017 and \$11.6 million from fiscal year 2015 to fiscal year 2016. The increases were due to an increase in current assets and depreciable capital assets as a result of an increase in other current assets related to long-term care operations and capital asset additions in fiscal year 2017 related to an MRI and CT. Total liabilities increased approximately \$3.9 million in fiscal year 2017 compared to fiscal year 2016 and \$9.3 million in fiscal year 2016 compared to fiscal year 2017 as a result of increase in current liabilities from long-term care operations. The increase in long-term debt in fiscal year 2017 was a result of additional capital leases.

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

	2017 (millions)	2016 (millions)	2017-2016 Change	2015 (millions)	2016-2015 Change
Revenues					
Net patient service revenue	\$ 101.1	\$ 89.2	\$ 11.9	\$ 39.9	\$ 49.3
Other	1.1	0.9	0.2	0.8	0.1
Total operating revenue	<u>102.2</u>	<u>90.1</u>	<u>12.1</u>	<u>40.7</u>	<u>49.4</u>
Expenses					
Salaries and benefits	21.0	19.9	1.1	18.4	1.5
Medical professional fees	1.6	1.6	0.0	1.4	0.2
Other professional fees and purchased services	68.0	55.9	12.1	13.4	42.5
Supplies and drugs	3.2	3.1	0.1	3.0	0.1
Rent	4.3	3.9	0.4	0.7	3.2
Insurance	0.2	0.2	0.0	0.2	0.0
Depreciation and amortization	1.5	1.2	0.3	1.2	0.0
Hospital assessment fee program	0.5	0.3	0.2	0.3	0.0
Other	1.9	1.7	0.2	2.0	(0.3)
Total operating expenses	<u>102.2</u>	<u>87.8</u>	<u>14.4</u>	<u>40.6</u>	<u>47.2</u>
Operating income (loss)	0.0	2.3	(2.3)	0.1	2.2
Nonoperating revenue (expense)	<u>(0.1)</u>	<u>0.0</u>	<u>(0.1)</u>	<u>(0.1)</u>	<u>0.1</u>
Change in net position	<u>\$ (0.1)</u>	<u>\$ 2.3</u>	<u>\$ (2.4)</u>	<u>\$ (0.0)</u>	<u>\$ 2.3</u>

Net position decreased during the year ended September 30, 2017 by \$0.1 million. Net Patient Service Revenue increased approximately \$11.9 million or 13.4%. The increase in revenues was attributable to acute care rate increases and long-term care operations. Fiscal year 2017 saw an increase in Total Operating Expenses of approximately \$14.4 million or 16.3%. 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. Other Professional Fees and Purchased Services Expenses increased significantly due to long-term care operations. Salaries and Benefits increased primarily due to mix of employees and an increase in benefits during fiscal year 2017. Net position increased by approximately \$2.3 million or 24.0% during the year ended September 30, 2017 compared to the year ended September 30, 2015. Net Patient Service Revenue increased approximately \$49.3 million or 123.6% from fiscal year 2015 to fiscal year 2016.

PULASKI MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) SEPTEMBER 30, 2017 AND 2016

The significant increase in revenues from fiscal year 2015 to fiscal 2016 was attributable to acute care volume increases, expansion initiatives and long-term care operations. Fiscal year 2016 saw an increase from fiscal year 2015 in Total Operating Expenses of approximately \$47.2 million or 116.3%. The majority of the expenses from fiscal year 2015 to fiscal year 2016 were consistent with the exception of significant increases in Salaries and Benefits, Rent, and Other Professional Fees and Purchased Services. Salaries and Benefits increased as a result of an increase in employees. Rent and Other Professional Fees and Purchased Services increased significantly due to long-term care operations. Salaries and Benefits increased primarily due to the addition of employees,

Table 3 – Statements of Cash Flows

Cash Flow Data	2017 (millions)	2016 (millions)	2017-2016 Change	2015 (millions)	2016-2015 Change
From operating activities	\$ 4.3	\$ 4.1	\$ 0.2	\$ 0.1	\$ 4.0
From capital and related financing activities	(1.5)	0.7	(2.2)	(0.6)	1.3
From investing activities	0.1	(2.0)	2.1	0.0	(2.0)
Change in cash and cash equivalents	<u>\$ 2.9</u>	<u>\$ 2.8</u>	<u>\$ 0.1</u>	<u>\$ (0.5)</u>	<u>\$ 3.3</u>

The change in cash and cash equivalents remained relatively consistent from fiscal year 2016 to fiscal year 2017 while there was a significant increase in cash in fiscal year 2016 compared to fiscal 2015 due primarily to long-term care operations.

Capital Assets and Debt Administration

Capital Assets

The Hospital's capital assets increased between September 30, 2017, 2016 and 2015 due primarily to equipment purchases, capital leases as well as buildings and fixtures.

Capital assets are comprised of the following as of September 30, 2017 and 2016:

	2017 (millions)	2016 (millions)	2017-2016 Change	2015 (millions)	2016-2015 Change
Land	\$ 0.2	\$ 0.2	\$ 0.0	\$ 0.2	\$ 0.0
Land improvements	0.4	0.4	0.0	0.4	0.0
Leasehold Improvements	0.2	0.2	0.0	0.2	0.0
Buildings and fixtures	12.3	10.7	1.6	10.4	0.3
Equipment	16.8	14.6	2.2	13.9	0.7
Construction in process	0.5	1.0	(0.5)	0.5	0.5
Total	<u>30.4</u>	<u>27.1</u>	<u>3.3</u>	<u>25.6</u>	<u>1.5</u>
Less accumulated depreciation	<u>19.4</u>	<u>17.9</u>	<u>1.5</u>	<u>16.7</u>	<u>1.2</u>
Net capital assets	<u>\$ 11.0</u>	<u>\$ 9.2</u>	<u>\$ 1.8</u>	<u>\$ 8.9</u>	<u>\$ 0.3</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, 2017 AND 2016

Notes Payable and Capital Leases

As of September 30, 2017, the Hospital had approximately \$8.2 million in outstanding notes payable and capital leases which was an increase of approximately \$1.9 million compared to September 30, 2016. The increase in long-term debt in fiscal year 2017 was a result of additional capital leases for imaging equipment. As of September 30, 2017 and 2016, the Hospital had approximately a \$2.4 million increase in outstanding notes payable and capital leases. The following illustrates the long-term debt and capital leases held:

	2017 (millions)	2016 (millions)	2017-2016 Change	2015 (millions)	2016-2015 Change
Notes payable	\$ 5.5	\$ 6.0	\$ (0.5)	\$ 3.8	\$ 2.2
Capital lease obligations	2.7	0.3	2.4	0.1	0.2
	<u>\$ 8.2</u>	<u>\$ 6.3</u>	<u>\$ 1.9</u>	<u>\$ 3.9</u>	<u>\$ 2.4</u>

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

Economic Outlook

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting the Hospital is the increases in labor costs due to the increasing competition for quality health care workers 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, 2017 AND 2016

ASSETS		
	2017	2016
Current assets		
Cash and cash equivalents	\$ 7,739,905	\$ 4,890,606
Patient accounts receivable, net of estimated uncollectible of \$2,219,000 and \$1,654,000 in 2017 and 2016, respectively	10,180,563	10,780,010
Investments	2,159,624	2,133,976
Estimated third party settlements	973,393	2,206,850
Inventory and other current assets	3,621,485	2,572,684
Total current assets	24,674,970	22,584,126
Noncurrent cash		
Restricted by contributors and grantors	201,495	193,087
Investments		
	500,000	500,000
Capital assets		
Land and construction in progress	685,625	1,139,436
Depreciable capital assets, net	10,246,573	8,083,969
Total capital assets	10,932,198	9,223,405
Total assets	\$ 36,308,663	\$ 32,500,618
LIABILITIES AND NET POSITION		
Current liabilities		
Current portion of capital leases	\$ 381,575	\$ 106,760
Current portion of notes payable	2,681,624	2,708,497
Accounts payable and accrued expenses	13,494,383	11,965,121
Accrued salaries and related liabilities	1,642,844	1,669,185
Line of credit	482,914	500,000
Other current liabilities	713,553	262,014
Total current liabilities	19,396,893	17,211,577
Long-term liabilities		
Capital leases	2,358,224	167,791
Long-term notes payable	2,749,105	3,265,215
Total long-term liabilities	5,107,329	3,433,006
Total liabilities	24,504,222	20,644,583
Net position		
Net investment in capital assets	2,761,670	2,975,142
Restricted		
Expendable for capital acquisitions	135,127	134,911
Expendable for specific operating activities	66,368	58,176
Total restricted net position	201,495	193,087
Unrestricted		
Total net position	8,841,276	8,687,806
Total liabilities and net position	\$ 36,308,663	\$ 32,500,618

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Revenues		
Net patient service revenue	\$ 101,149,366	\$ 89,211,431
Other	1,055,083	937,052
Total operating revenue	102,204,449	90,148,483
Expenses		
Salaries and benefits	20,983,784	19,861,131
Medical professional fees	1,555,925	1,628,666
Other professional fees and purchased services	67,987,045	55,908,043
Supplies and drugs	3,237,359	3,101,156
Rent	4,254,768	3,887,155
Insurance	184,592	192,024
Depreciation and amortization	1,547,379	1,158,662
Hospital assessment fee program	454,235	301,084
Other	1,989,170	1,802,778
Total operating expenses	102,194,257	87,840,699
Operating income	10,192	2,307,784
Nonoperating revenue (expense)		
Investment income	24,788	109,858
Interest expense	(179,723)	(178,393)
Other	93,149	37,363
Total nonoperating revenue (expense)	(61,786)	(31,172)
Change in net position	(51,594)	2,276,612
Net position, beginning of year	11,856,035	9,579,423
Net position, end of year	\$ 11,804,441	\$ 11,856,035

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Operating activities		
Cash received from patients and third party payors	\$ 102,982,270	\$ 81,867,571
Cash paid to employees for salaries and benefits	(21,010,125)	(19,757,921)
Cash paid to vendors for goods and services	(78,731,094)	(59,616,111)
Other operating receipts, net	1,055,083	1,566,620
Net cash from operating activities	4,296,134	4,060,159
Capital and related financing activities		
Acquisition and construction of capital assets	(649,389)	(1,218,067)
Payments on line of credit	(17,086)	-0-
Proceeds from issuance of debt	2,164,766	2,656,976
Interest paid on debt	(179,723)	(178,393)
Principal payments on debt	(2,849,284)	(594,487)
Net cash from capital and related financing activities	(1,530,716)	666,029
Investing activities		
Purchase of certificates of deposit	(2,159,624)	(2,133,976)
Maturity of certificates of deposit	2,133,976	-0-
Investment and other nonoperating income	117,937	147,221
Net cash from investing activities	92,289	(1,986,755)
Net change in cash and cash equivalents	2,857,707	2,739,433
Cash and cash equivalents, beginning of year	5,083,693	2,344,260
Cash and cash equivalents, end of year	\$ 7,941,400	\$ 5,083,693
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 7,739,905	\$ 4,890,606
In noncurrent cash	201,495	193,087
Total cash and cash equivalents, end of year	\$ 7,941,400	\$ 5,083,693

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
	<u> </u>	<u> </u>
Reconciliation of operating income		
to net cash from operating activities		
Operating income (loss)	\$ 10,192	\$ 2,307,784
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,547,379	1,158,662
Provision for bad debt	1,894,866	1,713,153
Changes in assets and liabilities		
Patient accounts receivable	(1,295,419)	(6,759,714)
Estimated third-party settlements	1,233,457	(1,216,887)
Inventory and other current assets	(1,048,801)	(157,743)
Accounts payable and accrued expenses	1,529,262	6,760,023
Other current liabilities	451,539	151,671
Accrued salaries and related liabilities	(26,341)	103,210
Net cash flows from operating activities	<u>\$ 4,296,134</u>	<u>\$ 4,060,159</u>
 Noncash investing, capital and related financing activities		
Capital assets acquired through incurrence of liabilities	\$ 2,606,783	\$ 246,485

See accompanying notes to financial statements.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

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

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

Use of Estimates

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

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Measurement Focus and Basis of Accounting

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

Cash and Cash Equivalents

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

Investments

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

Inventory

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

Other Current Assets

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

Noncurrent Cash

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

Capital Assets

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

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during either 2017 or 2016.

Grants and Contributions

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

Restricted Resources

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

Net Position

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

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

Operating Revenues and Expenses

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

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

Patient Accounts Receivable and Revenues and Estimated Third Party Settlements

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

Management estimates an allowance for doubtful accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's patient base. During 2017, the Hospital's allowance for uncollectible accounts increased from approximately \$1,654,000 to \$2,219,000. The increase was primarily attributable to a shift in payor mix increasing the allowance for self-pay balances. As September 30, 2017 and 2016, substantially all of the allowance for uncollectible accounts was reserved for self-pay balances.

The Hospital's acute care net patient revenue from Medicare and Medicaid programs accounted for approximately 19 percent and 1 percent, respectively for the fiscal year ended 2017, and 19 percent and 1 percent, respectively for the fiscal year ended 2016.

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.

Indiana Hospital Assessment Fee Program

The purpose of the Hospital Assessment Fee Program (HAF Program) is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the statement of revenues, expenses and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. Under the HAF Program, the enhanced Medicaid payments follow the patients and are realized through increased Medicaid rates. During 2017 and 2016, the Hospital recognized HAF Program expense of \$454,235 and \$301,084, respectively, which is included in expenses in the statements of revenues, expenses and changes in net position.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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 \$147,000 and \$161,000 arose from providing services to charity patients during 2017 and 2016, 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 2017.

Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for the years ended September 30, 2017 and 2016 was \$156,118 and \$146,583, 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, 2017 AND 2016

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, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued which is June 12, 2018.

Reclassifications

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

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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, 2017 and 2016, the Hospital had \$10,601,024 and \$7,717,669 in deposits, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital. These deposits mature in one year or less.

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

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

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

Deposits consist of the following as of September 30:

	2017	2016
Carrying amount		
Deposits	<u>\$ 10,601,024</u>	<u>\$ 7,717,669</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 7,739,905	\$ 4,890,606
Investments - certificates of deposit	2,659,624	2,633,976
Restricted by contributors and grantors	201,495	193,087
	<u>\$ 10,601,024</u>	<u>\$ 7,717,669</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 5,871,626	\$ 5,422,154
Receivable from Medicare	1,745,084	2,376,765
Receivable from Medicaid	1,057,437	1,052,822
Receivables related to long-term care operations	6,899,514	6,788,938
Total patient accounts receivable	<u>15,573,661</u>	<u>15,640,679</u>
Less allowance for contractual agreements and uncollectible amounts	<u>5,393,098</u>	<u>4,860,669</u>
Patient accounts receivable, net	<u>\$ 10,180,563</u>	<u>\$ 10,780,010</u>
	<u>2017</u>	<u>2016</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 1,442,844	\$ 1,469,185
Payable to suppliers	13,494,383	11,965,121
Accrued employee health benefit claims	200,000	200,000
Total accounts payable and accrued expenses	<u>\$ 15,137,227</u>	<u>\$ 13,634,306</u>

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

4. CAPITAL ASSETS

Capital asset activity for 2017 and 2016 is listed below.

	Balance September 30, 2016	Additions	Retirements	Transfers	Balance September 30, 2017
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	10,748,464	-0-	-0-	1,540,507	12,288,971
Fixed equipment	5,713,856	1,599,690	-0-	-0-	7,313,546
Moveable equipment	8,893,961	569,786	-0-	-0-	9,463,747
Construction in process	943,911	1,086,696	-0-	(1,540,507)	490,100
Total	27,115,367	3,256,172	-0-	-0-	30,371,539
Accumulated depreciation	17,891,962	1,547,379	-0-	-0-	19,439,341
Net capital assets	\$ 9,223,405	\$ 1,708,793	\$ -0-	\$ -0-	\$ 10,932,198

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

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

5. LONG-TERM DEBT

A schedule of changes in the Hospital's long-term liabilities for the years ended September 30, 2017 and 2016 was as follows:

	Balance September 30, 2016	Additions	Reductions	Balance September 30, 2017	Current portion	Long-term portion
Notes payable and capital leases:						
Notes payable	\$ 5,973,712	\$ 2,164,766	\$ (2,707,749)	\$ 5,430,729	\$ 2,681,624	\$ 2,749,105
Capital leases	274,551	2,606,783	(141,535)	2,739,799	381,575	2,358,224
Total long-term debt	\$ 6,248,263	\$ 4,771,549	\$ (2,849,284)	\$ 8,170,528	\$ 3,063,199	\$ 5,107,329
	Balance September 30, 2015	Additions	Reductions	Balance September 30, 2016	Current portion	Long-term portion
Notes payable and capital leases:						
Notes payable	\$ 3,832,821	\$ 2,656,976	\$ (516,085)	\$ 5,973,712	\$ 2,708,497	\$ 3,265,215
Capital leases	106,468	246,485	(78,402)	274,551	106,760	167,791
Total long-term debt	\$ 3,939,289	\$ 2,903,461	\$ (594,487)	\$ 6,248,263	\$ 2,815,257	\$ 3,433,006

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, 2017 was approximately \$914,000. 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, 2017 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 \$2,400,000 as of September 30, 2017.

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, 2017 was approximately \$1,542,000. 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 \$2,400,000 as of September 30, 2017.

The Hospital maintains several other notes payable (short-term and long-term) for equipment and current operations with a total outstanding balance of approximately \$3,065,000 as of September 30, 2017. Payments, including interest at rates varying from 2.3%, to 6.0% continue through 2023. These loans are secured by equipment and a certificate of deposit.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

The net book value of the assets that serve as collateral for these notes approximates the outstanding balance of the notes which is approximately \$3,100,000. Scheduled principal and interest repayments on notes payable are listed below.

Notes Payable Year ending September 30,	Principal	Interest	Total
2018	\$ 2,681,624	\$ 150,875	\$ 2,832,499
2019	231,436	131,915	363,351
2020	163,097	123,175	286,272
2021	156,776	115,348	272,124
2022	97,382	109,266	206,648
2023-2027	571,593	465,216	1,036,809
2028-2032	735,250	301,593	1,036,843
2033-2037	793,571	93,953	887,524
	\$ 5,430,729	\$ 1,491,341	\$ 6,922,070

The Hospital also maintains four 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 \$2,700,000 as of September 30, 2017.

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

Capital leases Year ending September 30,	Principal	Interest	Total
2018	\$ 381,575	\$ 108,775	\$ 490,350
2019	391,596	92,533	484,129
2020	408,495	75,633	484,128
2021	393,204	58,170	451,374
2022	387,461	41,740	429,201
2023-2027	777,468	32,927	810,395
	\$ 2,739,799	\$ 409,778	\$ 3,149,577

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

	2017	2016
Equipment	\$ 3,093,964	\$ 487,182
Accumulated depreciation	344,332	203,208
	\$ 2,749,632	\$ 283,974

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

6. LINE OF CREDIT

The Hospital has a line of credit available with a financial institution. The outstanding balance as of September 30, 2017 and 2016 was approximately \$483,000 and \$500,000, respectively. At September 30, 2017, the line of credit maximum amount was \$600,000. The interest rate at September 30, 2017 was 5.25%. The line of credit is secured by all equipment and matures August 2018.

7. FAIR VALUE MEASUREMENTS

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

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

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

The Hospital's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no significant transfers between levels during 2017 and 2016.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2017 and 2016.

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

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

The following tables sets forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and 2016 are as follows:

		September 30, 2017			
		Total	Level 1	Level 2	Level 3
Assets					
Money market funds included in cash and cash equivalents					
	\$	98,692	-0-	\$ 98,692	\$ -0-
		September 30, 2016			
		Total	Level 1	Level 2	Level 3
Assets					
Money market funds included in cash and cash equivalents					
	\$	98,544	-0-	\$ 98,544	\$ -0-

8. NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended September 30, 2017 and 2016 consists of the following:

	2017	2016
Inpatient services	\$ 13,400,876	\$ 12,979,063
Outpatient services	49,926,123	49,792,539
Long-term care services	68,944,609	56,507,171
Gross patient service revenue	132,271,608	119,278,773
Contractual allowances	(28,945,313)	(28,030,994)
Charity care	(282,063)	(323,195)
Bad debt	(1,894,866)	(1,713,153)
Deductions from revenue	(31,122,242)	(30,067,342)
Net patient service revenue	\$ 101,149,366	\$ 89,211,431

9. EMPLOYEE HEALTH PLAN

The Hospital has established a risk-financing fund for risks associated with medical benefits to employees and dependents. The risk-financing fund is accounted for in the Operating Fund where assets are set aside and a liability is accrued for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$100,000 per year with an overall aggregate of approximately \$2,000,000.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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, 2017 and 2016 was approximately \$3,800,000 and \$3,900,000, respectively.

10. MEDICAL MALPRACTICE

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

11. 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, 2017 and 2016 was as follows:

	Receivables		Revenue	
	2017	2016	2017	2016
Medicare and Medicaid	36%	45%	54%	57%
Blue Cross	16%	11%	21%	20%
Commercial and other payors	27%	26%	23%	21%
Self-pay payors	21%	18%	2%	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.

12. 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.

PULASKI MEMORIAL HOSPITAL

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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 2017 and 2016 were \$124,825 and \$120,574, respectively.

13. 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, 2017, the Hospital did not have any significant construction commitments.

14. RENTAL EXPENSE

The Hospital has leases expiring at various times through 2018. 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 2017 and 2016 was approximately \$4,300,000 and \$3,900,000, respectively. The rent expense primarily relates to long-term care operations as described in Note 1.

15. UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for periods beginning after June 15, 2019. 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.

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