

# Gibson General

H O S P I T A L

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2017 AND 2016**

*CPAs / ADVISORS*



# GIBSON GENERAL HOSPITAL

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Gibson General Hospital  
Princeton, Indiana

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Gibson General Hospital (Hospital), which comprise the consolidated balance sheet as of September 30, 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the consolidated 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 Hospital'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 consolidated 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  
Gibson General Hospital  
Princeton, Indiana

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2017, and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Prior Period Financial Statements

The consolidated financial statements of the Hospital as of September 30, 2016, were audited by other auditors whose report dated January 9, 2017, expressed an unmodified opinion on those consolidated financial statements.

### Correction of an Error

As discussed in Note 2 to the consolidated financial statements, management determined that the 2016 consolidated financial statements incorrectly reported the accrual for a joint venture distribution of \$328,480 as an equity/net asset account. Thus, this error resulted in a restatement from equity to a liability (included within accounts payable) within the 2016 consolidated financial statements. Also, management determined that interest expense was incorrectly reported in the 2016 consolidated statement of operations and changes in net assets in addition to a mathematical error in calculating the excess (deficit) revenues over expenses. There was no impact on the 2016 consolidated change in net assets as a result of these corrections. Our opinion is not modified with respect to this matter.

### Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information identified in the accompanying table of contents is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management, and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**Blue & Co., LLC**

Indianapolis, Indiana  
January 24, 2018

# GIBSON GENERAL HOSPITAL

## CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2017 AND 2016

<b>ASSETS</b>	2017	2016 as restated
	2017	2016 as restated
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,219,140	\$ 3,376,512
Investments	175,699	175,000
Patient accounts receivable, net of allowance for uncollectible accounts of \$2,002,000 in 2017 and \$2,181,000 in 2016	3,285,892	3,023,199
Other receivables	659,732	831,831
Supplies	783,371	756,580
Prepaid expenses	248,364	324,612
Total current assets	11,372,198	8,487,734
<b>Assets whose use is limited</b>		
Pledged as collateral	1,000,000	1,003,961
<b>Property and equipment, net</b>	10,288,648	11,322,393
<b>Beneficial interest in net assets of Community Foundation Alliance</b>	59,692	57,419
<b>Other assets</b>	18,430	-0-
Total assets	\$ 22,738,968	\$ 20,871,507
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 639,702	\$ 921,886
Accrued expenses	1,552,565	1,650,744
Estimated third-party settlements	733,664	251,553
Deferred revenue	925,541	69,297
Current portion of long-term debt	124,283	7,998,277
Total current liabilities	3,975,755	10,891,757
<b>Long-term debt, less current portion</b>	6,982,014	-0-
Total liabilities	10,957,769	10,891,757
<b>Net assets</b>		
Unrestricted		
Controlling interest	11,684,700	9,710,633
Non-controlling interest	11,800	160,956
Total unrestricted net assets	11,696,500	9,871,589
Temporarily restricted	25,007	50,742
Permanently restricted	59,692	57,419
Total net assets	11,781,199	9,979,750
Total liabilities and net assets	\$ 22,738,968	\$ 20,871,507

See accompanying notes to consolidated financial statements.

# GIBSON GENERAL HOSPITAL

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016 as restated
<b>Unrestricted revenues, gains and other support</b>		
Net patient service revenue	\$ 29,644,813	\$ 29,473,681
Less provision for bad debts	2,504,411	2,889,598
Net patient service revenue net of provision for bad debts	27,140,402	26,584,083
Management services revenue	2,156,713	2,826,301
Rental revenue	509,192	619,614
Other revenue	411,899	570,625
Total unrestricted revenues, gains and other support	30,218,206	30,600,623
<b>Expenses</b>		
Salaries and wages	13,278,490	14,088,785
Employee benefits	3,065,523	4,167,024
Physician fees	1,151,964	2,108,449
Supplies and drugs	2,801,786	2,630,659
Dues and subscriptions	332,675	264,459
Purchased services	3,156,965	3,247,616
Rent and leases	404,543	440,576
Repairs and maintenance	869,615	903,316
Utilities	634,046	666,426
Insurance	400,619	331,587
Depreciation	1,269,751	1,253,796
Interest	295,898	244,290
Hospital assessment fee	625,118	445,673
Other	383,707	544,384
Total expenses	28,670,700	31,337,040
Operating income (loss)	1,547,506	(736,417)
<b>Nonoperating revenues</b>		
Contributions	352,126	191,131
Investment return	13,556	342,876
Net assets released from restriction	31,829	265
Total nonoperating revenues	397,511	534,272
Excess revenues over expenses	1,945,017	(202,145)
<b>Other changes in unrestricted net assets</b>		
Unrealized gain on investments	-0-	1,081
Other	(48,112)	(111,907)
Distributions related to PMG joint venture	(71,994)	-0-
Change in unrestricted net assets	1,824,911	(312,971)
<b>Temporarily restricted net assets</b>		
Contributions	6,094	-0-
Net assets released from restriction	(31,829)	(265)
Change in temporarily restricted net assets	(25,735)	(265)
<b>Permanently restricted net assets</b>		
Change in beneficial interest in net assets of Community Foundation	2,273	(6,071)
Change in net assets	1,801,449	(319,307)
<b>Net assets</b>		
Beginning of year	9,979,750	10,299,057
End of year	\$ 11,781,199	\$ 9,979,750

See accompanying notes to consolidated financial statements.

# GIBSON GENERAL HOSPITAL

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

	2017	2016 as restated
<b>Operating activities</b>		
Change in net assets	\$ 1,801,449	\$ (319,307)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,269,751	1,253,796
Amortization of debt issue costs	3,853	3,853
Provision for bad debts	2,504,411	2,889,598
Realized and unrealized loss on investments, net	-0-	(215,103)
Distributions	71,994	-0-
Change in beneficial interest in net assets of Community Foundation Alliance	(2,273)	6,071
Change in operating assets and liabilities		
Patient accounts receivable	(2,767,104)	(2,233,651)
Other receivables	172,099	(375,080)
Supplies	(26,791)	59,633
Prepaid expenses	76,248	(149,666)
Other assets	(18,430)	-0-
Accounts payable	(49,780)	90,279
Accrued expenses	(98,179)	11,781
Estimated third-party settlements	482,111	232,090
Deferred revenue	856,244	39,880
Net cash flows from operating activities	4,275,603	1,294,174
<b>Investing activities</b>		
Proceeds from sale of investments	3,262	3,498,830
Purchases of investments	-0-	(240,761)
Additions to property and equipment	(236,006)	(497,939)
Net cash flows from investing activities	(232,744)	2,760,130
<b>Financing activities</b>		
Proceeds from issuance of long-term debt	-0-	300,000
Payments on line of credit	-0-	(600,000)
Principal payments on long-term debt	(887,865)	(972,310)
Payments for bond issuance costs	(7,968)	(43,098)
Distributions related to PMG joint venture	(304,398)	-0-
Net cash flows from financing activities	(1,200,231)	(1,315,408)
Net change in cash and cash equivalents	2,842,628	2,738,896
<b>Cash and cash equivalents</b>		
Beginning of year	3,376,512	637,616
End of year	\$ 6,219,140	\$ 3,376,512
<b>Noncash investing, capital and related financing activities</b>		
Property and equipment included in liabilities	\$ -0-	\$ 1,460,720
<b>Supplemental disclosure of cash flows information</b>		
Cash paid for interest	\$ 292,045	\$ 240,437

See accompanying notes to consolidated financial statements.

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### 1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Gibson General Hospital (Hospital) in the preparation of its consolidated financial statements are summarized below:

#### Organization

The Hospital, located in Princeton, Indiana, is a not-for-profit acute care hospital providing inpatient, outpatient, and other ancillary services to the residents of Gibson County, Indiana and surrounding counties. It also operates a home health agency in the same geographic area.

Gibson General Health Foundation, Inc. (Foundation) is affiliated with the Hospital through individuals holding common memberships of their respective governing bodies and through the dedication of fundraising efforts by the Foundation for the benefit of the Hospital. Pain Management, LLC (Pain Management) is a joint venture in which the Hospital holds a controlling interest. The consolidated financial statements include a non-controlling interest related to Pain Management. Pain Management was dissolved during 2017 and all amounts will be liquidated subsequent to September 30, 2017. These entities are collectively referred to as the Hospital.

During 2014, the Hospital entered into an arrangement whereby the skilled nursing facility and assisted living residential beds and associated revenues were transferred to Perry County Memorial Hospital (Perry County). As part of arrangement, the Hospital entered into certain lease and management agreements whereas Perry County leases the skilled nursing facility and assisted living residential beds from the Hospital. The leased facilities and beds are managed by the Hospital.

From the revenues generated, Perry County pays the Hospital for the provision of management services in accordance with the management agreement including compensation for the associated operating expenses incurred as well certain defined management fees. The management fees consist of a base fee, a subordinated management fee, and if applicable, an incentive management fee and incentive quality management fee. The total management services revenue earned by the Hospital for 2017 and 2016 was approximately \$2,157,000 and \$2,826,000, respectively, and is included in the accompanying consolidated financial statements.

Also from the revenues generated, Perry County pays the Hospital for the usage of facilities and intangible assets in accordance with the lease and intangible property license agreements, which approximated \$450,000 in 2017 and 2016, respectively, and is included in rental revenue within the accompanying consolidated financial statements.

The Hospital has a net receivable related to this arrangement as of September 30, 2017 and 2016 approximating \$371,000 and \$376,000, respectively, which is included in other receivables within the accompanying consolidated financial statements. This receivable primarily consists of working capital accounts between the Hospital and Perry County. Other unrelated amounts included in other receivables approximated \$289,000 and \$456,000 as of September 30, 2017 and 2016.

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# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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The agreements were effective in June of 2014 with an initial term, which expired on May 30, 2016. The term is automatically extended for successive two-year periods unless either party elects to terminate the agreements. The agreements can be terminated by either party with 90 days written notice without cause.

### Principles of Consolidation

The accompanying consolidated financial statements include accounts of the Hospital, the Foundation, and Pain Management. All material intercompany balances and transactions have been eliminated in consolidation.

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

### Cash and Cash Equivalents

The Hospital considers highly liquid investments available for operating purposes with an original maturity of 90 days or less to be cash and cash equivalents for the purposes of the consolidated statements of cash flows. 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 and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

### Investments and Investment Return

Investments consist of certificates of deposit and are carried at contract value, and any differences between fair value and contract value are immaterial to the financial statements as a whole. Investment return includes dividend, interest and other investment income, and realized and unrealized gains and losses on investments carried at fair value. Investment income that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment income is reflected in the consolidated statements of operations and changes in net assets as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### Patient Accounts Receivable and Net Patient Service Revenue

Patient service revenue and the related accounts receivable are recorded at the time services to patients are performed. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. These estimated retroactive adjustments under reimbursement agreements are included with estimated third-party payor settlements. 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.

### Allowance for Uncollectible Accounts

Patient accounts receivable are reduced by an allowance for uncollectible accounts based on the Hospital's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay payments, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

During 2017, the Hospital's allowance for uncollectible accounts decreased approximately \$179,000 from approximately \$2,181,000 to \$2,002,000, primarily related to a decrease in the gross accounts receivable balance and an improvement of the overall aging of the Hospital's accounts receivable. The Hospital's self-pay related write-offs decreased by approximately \$830,000 to \$2,680,000 in 2017 from \$3,510,000 in 2016. The change was the result of trends related to shifts in payor mix due to health care reform and an increase in insurance coverage for patients who were previously uninsured or underinsured. The Hospital did not change its charity care or financial assistance policies during 2017 or 2016.

As of September 30, 2017, the allowance for uncollectible accounts of approximately \$2,002,000 was comprised of approximately \$1,800,000 reserved for self-pay balances and \$202,000 reserved for third-party payor balances. As of September 30, 2016, the allowance for uncollectible accounts of approximately \$2,181,000 was comprised of approximately \$1,961,000 reserved for self-pay balances and \$220,000 reserved for third-party payor balances.

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# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### Other Receivables

Other receivables consist primarily of receivables related to the management services agreement with Perry County and rent receivables.

### Supplies

Supplies consist of inventory (primarily pharmaceuticals and medical supplies) and are stated at the lower of cost (first-in, first-out method) or market value.

### Assets Limited as to Use

Assets limited as to use include assets pledged as collateral related to assets restricted in relation to certain agreements with Old National Bank. See Note 10 for further details.

### Property, Equipment, and Provision for Depreciation

Property and equipment are recorded at historical cost except for donations, which are recorded at fair market value at the date of the donation. Property and equipment include expenditures for additions and repairs that substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor renewals are expensed as incurred.

The property and equipment of the Hospital are being depreciated over their estimated useful lives using the straight-line method. The ranges of useful lives used in computing depreciation are as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	10-15 years
Buildings and improvements	10-50 years
Equipment	3-20 years

### Beneficial Interest in Net Assets of Community Foundation Alliance

Community Foundation Alliance (Alliance) and the Hospital are financially interrelated organizations as defined by accounting principles generally accepted in the United States of America. The Alliance seeks private support for and holds net assets on behalf of the Hospital. The Hospital accounts for its interest in the net assets of the Alliance in a manner similar to the equity method. The interest is stated at fair value, and changes in the interest are included in change in net assets. Transfers of assets between the Alliance and the Hospital are recognized as increases or decreases in the interest.

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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The Hospital and the Foundation transferred assets to the Alliance and retained a beneficial interest in those assets. The Hospital and the Foundation are to receive interest annually, but none of the principal. Variance power was granted to the Alliance; however, the Alliance will consult with the Hospital and the Foundation at such times as reasonably requested concerning the investment of the fund and allow input concerning the investment of the fund.

### Accrued Expenses

Accrued expenses related primarily to accrued wages and associated compensated absences for vacation and sick leave benefits. The expense and the related liability for compensated absence benefits are recognized when earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the employee's regular pay and termination pay rates in effect at the balance sheet dates, plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes computed using rates in effect at that date.

### Estimated Third-Party Settlements

Estimated third-party settlements for the Medicare and Medicaid programs reflect the differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year, and any differences owed to or by the Hospital after such reports have been audited. As of September 30, 2017, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through September 30, 2015.

Changes to any previous year's estimated settlement are reflected in the period the intermediary finalizes its audit of cost reports, or when additional information becomes available. During 2017 and 2016, differences between original estimates and subsequent revisions for the final settlement of cost reports were immaterial to the consolidated financial statements as a whole.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

### Deferred Revenue

Deferred revenue relates primarily to amounts received as part of the Contribution and Management Services agreements with Deaconess Hospital. See Note 16 for further details.

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are amortized over the term of the respective debt. The deferred financing costs incurred in issuing the debt are classified as a reduction of long-term debt and are amortized using the effective-interest method over the term of the respective debt.

### Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets, the use of which is limited by donors or grantors to a specific time or purpose, are used to differentiate from unrestricted net assets on which donors or grantors place no restrictions or that arise as a result of the operations of the Hospital for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted net assets at fair market value at the date of donation.

Resources restricted by donors for property and equipment replacement or expansion are added to unrestricted net assets to the extent expended within the period.

Permanently restricted net assets have been restricted by donors to be maintained by the Hospital and the Foundation in perpetuity.

A summary of temporarily restricted net assets as of September 30, 2017 and 2016 follows:

	2017	2016
Purchase of equipment and emergency department expansion	\$ 7,002	\$ 7,905
Childhood obesity	7,056	7,603
Other	10,949	35,234
	<u>\$ 25,007</u>	<u>\$ 50,742</u>

Permanently restricted net assets consist of the Hospital's interest in the net assets of Community Foundation Alliance.

### 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. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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The Hospital's patient assistance policy reflects the current economic conditions and other factors unique to the Hospital's customer base. Patient assistance provided during 2017 and 2016, measured at established rates, was approximately \$998,000 and \$756,000, respectively. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The Hospital receives reimbursements from certain governmental payors to assist in the funding of patient assistance.

Of the Hospital's total expenses reported, an estimated \$504,000 and \$423,000 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 to gross patient service revenue. There were no significant changes in the Hospital's patient assistance policy during 2017.

### Contributions

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. During 2017 and 2016, there were no gifts of long-lived assets with restrictions.

### Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, excess revenues over expenses. Changes in unrestricted net assets that are excluded from performance indicator include unrealized gains and losses on investments other than trading securities, distributions, contributions of long-lived assets and certain other items.

### Federal and State Income Taxes

The Hospital and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code. As such, the Hospital and Foundation are generally exempt from income taxes. However, both are required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only. Pain Management was organized as a limited liability company, whereby net taxable income is taxed directly to the members and not Pain Management. Accordingly, no current or deferred provision for income taxes has been made for the years ended September 30, 2017 and 2016.

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and Foundation and recognize a tax liability if they have 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, Foundation and Pain Management, 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 consolidated financial statements. These entities are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Hospital and Foundation filed their federal and state income tax returns for periods through September 30, 2016. Pain Management has filed its federal and state income tax returns for periods through December 31, 2016. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

### Advertising Costs

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expenses were approximately \$157,000 and \$203,000 in 2017 and 2016, respectively.

### Reclassifications

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the current year presentation. There was no impact to the 2016 consolidated change in net assets as a result of these reclassifications.

### Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the Hospital's ability to continue as a going concern for a period of one year from the date the consolidated financial statements are available to be issued.

### Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is January 24, 2018.

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### Recently Issued Accounting Standards

On May 28, 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that “an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services”. On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date for all entities by one year.

These new standards, which the Hospital is not required to adopt until its year ending September 30, 2020, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the Hospital is not required to adopt until its year ending September 30, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity’s statement of financial position.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the Hospital is not required to adopt until its year ending September 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two-phase project to amend not-for-profit financial reporting requirements.

On November 17, 2016, the FASB issued ASU No. 2016-18, *Statement of Cash (Topic 230) – Restricted Cash*. This new standard intends to eliminate diversity in practice by requiring the statement of cash flows to present the change in the total cash and cash equivalents, which will include restricted cash and cash equivalents. The Hospital will be required to adopt this new standard in the year ending September 30, 2019.

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



# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

### 2. RESTATEMENT AND RECLASSIFICATIONS

During 2017, management determined that the 2016 consolidated financial statements incorrectly reported the accrual for a joint venture distribution of \$328,480 as an equity account. Thus, this error resulted in a restatement from equity/net assets to a liability (included within accounts payable) within the 2016 consolidated financial statements. There was no impact to the 2016 consolidated change in net assets as a result of this error.

Additionally, certain amounts in the 2016 consolidated balance sheet have been reclassified to conform to the current year presentation. There was no impact to the 2016 consolidated change in net assets as a result of these reclassifications.

The following table summarizes the significant changes related to the error and reclassifications noted above:

	September 30, 2016			
	Originally reported	Restatement	Reclassification	Restated
Consolidated balance sheet				
Accounts payable	\$ 542,106	\$ 328,480	\$ 51,300	\$ 921,886
Total liabilities	\$ 10,607,228	\$ 328,480	\$ (43,951)	\$ 10,891,757
Joint venture equity - Pain Management	\$ 328,480	\$ (328,480)	\$ -0-	\$ -0-
Total net assets	\$ 10,308,230	\$ (328,480)	\$ -0-	\$ 9,979,750
Consolidated statement of cash flows				
Change in joint venture equity	\$ 328,480	\$ (328,480)	\$ -0-	\$ -0-
Change in accounts payable	\$ (289,501)	\$ 328,480	\$ 51,300	\$ 90,279

Also, during 2017, management determined that interest expense was incorrectly reported in the 2016 consolidated statement of operations and changes in net assets in addition to a mathematical error in calculating the excess (deficit) revenues over expenses. Accordingly, the 2016 consolidated statement of operations and changes in net assets has been restated to correct these errors. There was no impact to the 2016 consolidated change in net assets as a result of these corrections. Additionally, certain amounts in the 2016 consolidated statement of operations and changes in net assets have been reclassified to conform to the current year presentation. There was no impact to the 2016 consolidated change in net assets as a result of these reclassifications.

The following table summarizes the significant changes related to these errors and reclassification:

	September 30, 2016			
	Originally reported	Restatement	Reclassification	Restated
Consolidated statement of operations and changes in net assets				
Interest	\$ 464,251	\$ (219,961)	\$ -0-	\$ 244,290
Operating loss	\$ (968,630)	\$ 219,961	\$ 12,252	\$ (736,417)
Excess (deficit) revenues over expenses	\$ (425,959)	\$ 219,961	\$ 3,853	\$ (202,145)

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### 3. CHANGE IN ACCOUNTING PRINCIPLE

During 2016, the Hospital adopted Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements – Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU No. 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the consolidated financial statements are available to be issued. When conditions or events that raise substantial doubt exist, additional disclosures will be required to enable financial statement users to understand those conditions or events, management's evaluation of them and management's plans that either alleviated substantial doubt or are intended to mitigate the conditions or events that raise substantial doubt. The adoption of ASU No. 2014-15 did not have a material effect on the accompanying consolidated financial statements.

### 4. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Investments consist of the following as of September 30:

	2017	2016
Certificates of deposit	<u>\$ 175,699</u>	<u>\$ 175,000</u>

Assets whose use is limited consist of the following as of September 30:

	2017	2016
Certificates of deposit	<u>\$ 1,000,000</u>	<u>\$ 1,003,961</u>

The following is a reconciliation of investment return for 2017 and 2016:

	2017	2016
Interest and dividends	\$ 15,829	\$ 122,783
Realized gains	-0-	214,022
Unrealized gains	-0-	1,081
	<u>\$ 15,829</u>	<u>\$ 337,886</u>

Total investment income is reflected in the consolidated statements of operations and changes in net assets as follows:

	2017	2016
Unrestricted net assets	13,556	343,957
Permanently restricted net assets	2,273	(6,071)
	<u>\$ 15,829</u>	<u>\$ 337,886</u>

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# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

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

- *Beneficial interest in net assets at Community Foundation Alliance:* Valued at fair value as reported by the trustee, which represents the Hospital's pro rata interest in the net assets of the Community Foundation Alliance, substantially all of which are valued on a mark-to-market basis.

## GIBSON GENERAL HOSPITAL

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

The following table 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:

	September 30, 2017			
	Total	Level 1	Level 2	Level 3
Beneficial interest in net assets at Community Foundation Alliance	\$ 59,692	\$ -0-	\$ -0-	\$ 59,692
	September 30, 2016			
	Total	Level 1	Level 2	Level 3
Beneficial interest in net assets at Community Foundation Alliance	\$ 57,419	\$ -0-	\$ -0-	\$ 57,419

The following is a reconciliation of activity for 2017 and 2016 for assets measured at fair value based upon significant unobservable (Level 3) inputs:

	2017	2016
Beneficial interest in net assets at Community Foundation Alliance, beginning of year	\$ 57,419	\$ 63,490
Change in value of beneficial interest	2,273	(6,071)
Beneficial interest in net assets at Community Foundation Alliance, end of year	\$ 59,692	\$ 57,419

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2017 and 2016.

#### 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of September 30:

	2017	2016
Land and improvements	\$ 684,802	\$ 684,802
Buildings and improvements	19,903,822	19,903,819
Equipment	14,371,559	14,241,503
	34,960,183	34,830,124
Less accumulated depreciation	24,777,482	23,507,731
	10,182,701	11,322,393
Construction in progress	105,947	-0-
	\$ 10,288,648	\$ 11,322,393

The estimated cost to complete outstanding construction projects was approximately \$22,000 as of September 30, 2017.

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

### 7. ACCOUNTING FOR NON-CONTROLLING INTEREST

The following depicts the change in the consolidated unrestricted net assets attributable to the controlling financial interest of the Hospital and the non-controlling interest as of September 30, 2017 and 2016:

	Controlling interest	Non-controlling interest	Total
Unrestricted net assets			
September 30, 2015	\$ 10,184,560	\$ -0-	\$ 10,184,560
Excess revenues over expenses	(314,052)	111,907	(202,145)
Other	(160,956)	49,049	(111,907)
Unrealized gain on investments	1,081	-0-	1,081
Change in unrestricted net assets	<u>(473,927)</u>	<u>160,956</u>	<u>(312,971)</u>
September 30, 2016	9,710,633	160,956	9,871,589
Excess revenues over expenses	1,909,740	35,277	1,945,017
Other	64,327	(112,439)	(48,112)
Distributions	-0-	(71,994)	(71,994)
Change in unrestricted net assets	<u>1,974,067</u>	<u>(149,156)</u>	<u>1,824,911</u>
September 30, 2017	<u>\$ 11,684,700</u>	<u>\$ 11,800</u>	<u>\$ 11,696,500</u>

### 8. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

#### Medicare

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital has elected Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

#### Medicaid and Hospital Assessment Fee Program

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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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 payments for Indiana hospitals. The Medicaid enhanced payments relate to both fee for service and managed care claims. During 2017 and 2016, the Hospital recognized HAF Program expense of approximately \$625,000 and \$446,000, respectively, which resulted in increased Medicaid reimbursement. The HAF Program expense is included in other expenses and the associated increase in Medicaid reimbursement is included in net patient service revenue on the consolidated statements of operations and changes in net assets.

### Other Payment Arrangements

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

A summary of net patient service revenue, contractual adjustments, and patient service revenue forgone for patient assistance, at standard charges, for 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue		
Inpatient	\$ 5,112,212	\$ 6,458,918
Outpatient	51,603,335	49,847,401
Total gross patient service revenue	<u>56,715,547</u>	<u>56,306,319</u>
Deductions from revenue		
Contractual adjustments	26,072,960	26,076,715
Provisions for bad debts	2,504,411	2,889,598
Charity care	997,774	755,923
	<u>29,575,145</u>	<u>29,722,236</u>
Net patient service revenue	<u>\$ 27,140,402</u>	<u>\$ 26,584,083</u>

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### 9. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are area residents and are insured under third-party payer agreements. The mix of receivables and revenue from patients and third-party payers at September 30 was:

	Receivables		Revenues	
	2017	2016	2017	2016
Medicare	30%	24%	46%	42%
Medicaid	14%	9%	20%	20%
Blue Cross	7%	7%	13%	14%
Other third-party payors	18%	19%	16%	18%
Self pay	31%	41%	5%	6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

## GIBSON GENERAL HOSPITAL

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

#### 10. LONG-TERM DEBT

The following is the summary of long-term debt as of September 30:

	2017	2016
City of Princeton, Indiana Economic Development Revenue Bonds (Series 2005 Bonds)	\$ 3,779,661	\$ 4,158,759
City of Princeton, Indiana Economic Development Revenue Bonds (Series 2007 Bonds)	931,912	1,060,038
City of Princeton, Indiana Economic Development Revenue Bonds (Series 2008 Bonds)	1,349,423	1,495,297
Promissory note with a financial institution to purchase the surgery center building. Interest is fixed at 3.75% and the note expires in December 2027. Principal and interest payments are made monthly and the note is collateralized by property and equipment with a net book value of approximately \$1,300,000 and \$1,337,000 as of September 30, 2017 and 2016.	837,692	903,086
Promissory note with a financial institution for remodeling costs at the Hospital. Interest is fixed at 4.25% and the note expires in December 2020. Principal and interest payments are made monthly and the note is collateralized by property and equipment with a net book value of approximately \$521,000 and \$559,000 as of September 30, 2017 and 2016.	198,467	255,521
Promissory note with a financial institution to purchase radiology equipment. Interest is fixed at 2.78% and the note expires in August 2018. Principal and interest payments are made monthly and the note is collateralized by property and equipment with a net book value of approximately \$190,000 and \$336,000 as of September 30, 2017 and 2016.	89,479	168,651
Promissory note with a financial institution to purchase equipment for the surgery center. Interest was fixed at 2.6%. The note was paid off during 2017.	-0-	33,148
	7,186,634	8,074,500
Less unamortized debt issuance costs	80,337	76,223
Less current portion	124,283	7,998,277
	\$ 6,982,014	\$ -0-



## GIBSON GENERAL HOSPITAL

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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The bonds discussed in the following paragraphs relates to agreements in which the City of Princeton, Indiana is the Issuer, the Hospital is the Borrower and Old National Bank (Bank) is the Original Purchaser. These bonds were part of a private placement with the Bank.

The City of Princeton, Indiana Economic Development Revenue Bonds, Series 2005 (2005 Bonds) were issued in the original amount of \$7,100,000 dated June 2005. The bonds bear a variable interest rate based on LIBOR and is adjusted every five years. The interest rates at September 30, 2017 and 2016 were 4.00% and 4.00%, respectively. Principal and interest payments are made on the 1st day of each month. The bonds are secured by substantially all of the assets of the Hospital and are set to expire in June 2025. Under these terms, the Hospital has agreed to certain covenants, including maintaining a historical debt-service coverage ratio of at least 1.5 to 1. As of September 30, 2016, the Hospital did not meet its debt service coverage covenant. See "Forbearance Agreement" paragraph as follows. The Hospital was in compliance with the 2005 Bonds debt covenants as of September 30, 2017. Subsequent to September 30, 2017, this loan was refinanced with the United States Department of Agriculture (USDA) and bank financed refinancing project, as noted below.

The City of Princeton, Indiana Economic Development Revenue Bonds, Series 2007 (2007 Bonds) were issued in the original amount of \$2,096,000 dated October 2007 and were utilized by the Hospital for an energy conservation project. The bonds bear a variable interest rate based on LIBOR and is adjusted every five years. The interest rates at September 30, 2017 and 2016 were 4.00% and 4.00%, respectively. Principal and interest payments are made on the 1st day of each month. The bonds are secured by substantially all of the assets of the Hospital and are set to expire in June 2023. Under these terms, the Hospital has agreed to certain covenants, including maintaining a historical debt-service coverage ratio of at least 1.5 to 1. As of September 30, 2016, the Hospital did not meet its debt service coverage covenant. See "Forbearance Agreement" paragraph as follows. The Hospital was in compliance with the 2007 Bonds debt covenants as of September 30, 2017. Subsequent to September 30, 2017, this loan was refinanced with the USDA and bank financed refinancing project, as noted below.

The City of Princeton, Indiana Economic Development Revenue Bonds, Series 2008 (2008 Bonds) were issued in the original amount of \$2,500,000 dated December 2008 and were utilized by the Hospital for renovations to the emergency department. The bonds bear a variable interest rate based on LIBOR and is adjusted every five years. The interest rates at September 30, 2017 and 2016 were 4.00% and 4.00%, respectively. Principal and interest payments are made on the 1st day of each month. The bonds are secured by substantially all of the assets of the Hospital and are set to expire in November 2024. Under these terms, the Hospital has agreed to certain covenants, including maintaining a historical debt-service coverage ratio of at least 1.5 to 1. As of September 30, 2016, the Hospital did not meet its debt service coverage covenant. See "Forbearance Agreement" paragraph as follows. The Hospital was in compliance with the 2008 Bonds debt covenants as of September 30, 2017. Subsequent to September 30, 2017, this loan was refinanced with the USDA and bank financed refinancing project, as noted below.

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### Waiver of Loan Covenant Violation and Amendment

During 2014 and 2015, the original purchaser (Bank) of the Series 2005, 2007 and 2008 Bonds and the Hospital agreed to a waiver of certain debt covenant violations that waived default in exchange for the Hospital pledging as collateral \$1 million of its assets whose use is limited (see Note 4). During 2016, the Hospital was in violation of its debt service coverage covenant, and entered into a forbearance agreement related to the 2016 debt covenant violation, as noted below.

### Forbearance Agreement

On March 21, 2016, the Bank and the Hospital agreed to a Forbearance Agreement (the Agreement) which outlines the terms and conditions under which the Bank will forbear from exercising its rights and remedies related to the default caused by the Hospital not meeting its debt-service coverage covenants related to the bond issues. The original forbearance period was for the period beginning March 21, 2016 to the earlier of October 1, 2016 or the date of the occurrence of any new events of default as defined in the Agreement. During 2016 and 2017, the Agreement was extended so that, on or before December 31, 2016 (subsequently amended to December 2017), the Hospital shall deliver to the Bank a binding loan commitment from the USDA (or an alternative lender acceptable to the Bank) evidencing a binding commitment to loan funds to the Hospital sufficient to pay the outstanding debt related to the bond issues on or before December 2017. Since the Hospital did not enter into new loan agreements with the USDA and First Financial Bank until subsequent to September 30, 2017, the debt related to the Agreement is shown in current maturities within the 2016 consolidated balance sheet.

On December 14, 2017, all of the Hospital's debt was refinanced by a \$6,611,000 loan from the USDA and \$1,000,000 loan from First Financial Bank. The USDA loan has a fixed interest rate of 3.25% and a term of 30 years and the First Financial Bank loan has a fixed interest rate of 3.81% for the first 5 years, after which will be adjusted based on the weekly 5 year average of the US Treasury constant maturity rate plus 2.0%. The total term of the First Financial Bank loan is 20 years.

As previously mentioned, the Hospital was in compliance with the debt covenants as of September 30, 2017.

Annual maturities of long-term debt for the years succeeding September 30, 2017 are as follows:

Year Ending September 30,		
2018	\$	124,283
2019		170,669
2020		176,514
2021		182,561
2022		188,815
Thereafter		6,768,158
	\$	<u>7,611,000</u>

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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The schedule above utilizes the principal that will be owed related to the USDA and First Financial Bank loans that were used to refinance all of the Hospital's long-term debt subsequent to September 30, 2017.

### 11. LINE OF CREDIT

The Hospital had a line of credit arrangement with a financial institution in the amount of \$1,000,000 that was renewed in October 2015 for a one-year term. During 2016, the line was paid off by using investments and thus was not renewed and expired. As such, there were no balances outstanding on the line of credit as of September 30, 2017 and 2016.

### 12. OPERATING LEASES

The Hospital leases space and equipment under several non-cancelable operating leases that expire in various years through 2021.

Future minimum lease payments are as follows:

Year ending September 30,	
2018	\$ 395,260
2019	375,405
2020	375,405
2021	359,288
	<u>\$ 1,505,358</u>

Rental expense related to all operating leases was approximately \$405,000 and \$441,000, respectively.

### 13. RETIREMENT PLANS

The Hospital has a defined contribution pension plan, which covers all eligible employees. Under the terms of the plan, covered employees may contribute a percentage of gross pay, with matching contributions by the Hospital at 50% of employee contributions up to 4% of employee eligible compensation. For the years ended September 30, 2017 and 2016, the amount of retirement expense was approximately \$178,000 and \$172,000, respectively.

### 14. MEDICAL MALPRACTICE

The Hospital participates in the State of Indiana Patient Compensation Fund (the Fund) and are covered under the Indiana Medical Malpractice Act (the Act). The Act provides for a maximum recovery of \$1,250,000 per occurrence (\$5,000,000 or \$7,500,000 annual aggregate based on hospital bed size), \$250,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the Fund.

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# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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Effective July 1, 2017, the maximum recovery under the Act was increased to \$1,650,000 per occurrence (\$8,000,000 or \$12,000,000 annual aggregate based on hospital bed size) with the healthcare provider responsible for the first \$400,000. The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. 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 reasonably possible that this estimate could change materially in the near term.

### **15. SELF-INSURED EMPLOYEE HEALTH CLAIMS**

The Hospital's employee health care insurance is provided through a combination of self-insurance and purchased re-insurance coverage from a commercial carrier. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. The specific annual attachment point for an individual is \$75,000 with an unlimited lifetime policy. The aggregate benefit maximum under the policy as of September 30, 2017 was \$1,000,000 per year. Total expense for 2017 and 2016 totaled approximately \$1,927,000 and \$2,991,000, respectively.

The liability for employee health claims represents management's estimate of all incurred and reported claims plus estimated incurred but not reported claims based on the Hospital's reporting system. The carrying amount of the liability was approximately \$154,000 and \$342,000 as of September 30, 2017 and 2016, respectively. The liability is included in accrued expenses in the accompanying consolidated balance sheets.

### **16. CONTRIBUTION AND MANAGEMENT SERVICES AGREEMENT**

During December 2016, the Hospital entered into Contribution and Management Services agreements with Deaconess Hospital, Inc. (Deaconess). In exchange for a \$1,050,000 contribution from Deaconess, the Hospital's articles and bylaws were amended so that Deaconess could appoint three of the Hospital's sixteen voting Trustees. The Management Services agreement is for an initial term of five years. Unless terminated by either party, the initial term will automatically renew for additional five-year terms. The Hospital will recognize contribution revenue of \$210,000 annually of the initial contribution as nonoperating revenue within the consolidated statements of operations and changes in net assets. Also, the Hospital will pay a base management fee of \$120,000 per year in addition to fees for technical support, training, and physician recruitment, to be paid by the Hospital to Deaconess in exchange for various management services.

# GIBSON GENERAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2017 AND 2016

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### 17. COMMITMENTS AND CONTINGENCIES

The U.S. Department of Justice, the Internal Revenue Service, and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Hospital is subject to these regulatory efforts. Management believes that any liability resulting from these matters will not have a material impact on the financial position, results of operations or cash flows of the Hospital.

The Hospital is involved in various legal actions in the normal course of its operations. Management believes that any liability resulting from these matters will not have a material impact on the financial position, results of operations or cash flows of the Hospital.

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; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice.

### 18. FUNCTIONAL EXPENSES

The Hospital, located in Princeton, Indiana, is a not-for-profit acute care hospital providing inpatient, outpatient, and other ancillary services to the residents of Ripley and surrounding counties. Expenses related to providing these services for 2017 and 2016 are as follows:

	2017	2016
Health care services	\$ 24,169,368	\$ 26,172,630
General and administrative	4,501,332	5,164,410
	<u>\$ 28,670,700</u>	<u>\$ 31,337,040</u>

Certain costs have been allocated among health care services and general and administrative categories based on the actual direct expenditures and cost allocations based upon time spent by the Hospital's personnel. Although the methods used were appropriate, alternative methods may provide different results.

**SUPPLEMENTARY INFORMATION**

# GIBSON GENERAL HOSPITAL

## CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2017

	Gibson General Hospital, Inc.	Gibson General Health Foundation, Inc.	Consolidated Total
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 5,964,189	\$ 254,951	\$ 6,219,140
Investments	-0-	175,699	175,699
Patient accounts receivable, net	3,285,892	-0-	3,285,892
Other receivables	656,240	3,492	659,732
Supplies	783,371	-0-	783,371
Prepaid expenses	248,364	-0-	248,364
Total current assets	<u>10,938,056</u>	<u>434,142</u>	<u>11,372,198</u>
<b>Assets whose use is limited</b>			
Pledged as collateral	1,000,000	-0-	1,000,000
<b>Property and equipment, net</b>	10,288,648	-0-	10,288,648
<b>Beneficial interest in net assets of Community Foundation Alliance</b>	49,214	10,478	59,692
<b>Other assets</b>	18,430	-0-	18,430
Total assets	<u>\$ 22,294,348</u>	<u>\$ 444,620</u>	<u>\$ 22,738,968</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 634,643	\$ 5,059	\$ 639,702
Accrued expenses	1,552,565	-0-	1,552,565
Estimated third-party settlements	733,664	-0-	733,664
Deferred revenue	925,541	-0-	925,541
Current portion of long-term debt	124,283	-0-	124,283
Total current liabilities	<u>3,970,696</u>	<u>5,059</u>	<u>3,975,755</u>
<b>Long-term debt, less current portion</b>	6,982,014	-0-	6,982,014
Total liabilities	<u>10,952,710</u>	<u>5,059</u>	<u>10,957,769</u>
<b>Net assets</b>			
Unrestricted - controlling interest	11,280,624	404,076	11,684,700
Non-controlling interest	11,800	-0-	11,800
Total unrestricted net assets	<u>11,292,424</u>	<u>404,076</u>	<u>11,696,500</u>
Temporarily restricted	-0-	25,007	25,007
Permanently restricted	49,214	10,478	59,692
Total net assets	<u>11,341,638</u>	<u>439,561</u>	<u>11,781,199</u>
Total liabilities and net assets	<u>\$ 22,294,348</u>	<u>\$ 444,620</u>	<u>\$ 22,738,968</u>

See report of independent auditors on pages 1 and 2.

# GIBSON GENERAL HOSPITAL

## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2017

	Hospital	Pain Management	Foundation	Consolidated Total
<b>Unrestricted revenues, gains and other support</b>				
Net patient service revenue	\$ 29,293,531	\$ 351,282	\$ -0-	\$ 29,644,813
Less provision for bad debts	2,490,291	14,120	-0-	2,504,411
Net patient service revenue net of provision for bad debts	26,803,240	337,162	-0-	27,140,402
Management services revenue	2,156,713	-0-	-0-	2,156,713
Rental revenue	509,192	-0-	-0-	509,192
Other revenue	411,899	-0-	-0-	411,899
Total unrestricted revenues, gains and other support	29,881,044	337,162	-0-	30,218,206
<b>Expenses</b>				
Salaries and wages	13,148,154	130,336	-0-	13,278,490
Employee benefits	3,019,690	45,833	-0-	3,065,523
Physician fees	1,151,964	-0-	-0-	1,151,964
Supplies and drugs	2,782,370	17,545	1,871	2,801,786
Dues and subscriptions	332,653	-0-	22	332,675
Purchased services	3,100,110	56,855	-0-	3,156,965
Rent and leases	391,392	11,013	2,138	404,543
Repairs and maintenance	869,357	258	-0-	869,615
Utilities	634,042	-0-	4	634,046
Insurance	400,544	75	-0-	400,619
Depreciation	1,269,751	-0-	-0-	1,269,751
Interest	295,898	-0-	-0-	295,898
Hospital assessment fee	625,118	-0-	-0-	625,118
Other	337,329	3,253	43,125	383,707
Total expenses	28,358,372	265,168	47,160	28,670,700
Operating income (loss)	1,522,672	71,994	(47,160)	1,547,506
<b>Nonoperating revenues</b>				
Contributions	223,700	-0-	128,426	352,126
Investment return	12,673	-0-	883	13,556
Net assets released from restriction	-0-	-0-	31,829	31,829
Total nonoperating revenues	236,373	-0-	161,138	397,511
Excess revenues over expenses	1,759,045	71,994	113,978	1,945,017
<b>Other changes in unrestricted net assets</b>				
Other	(48,112)	-0-	-0-	(48,112)
Distributions related to PMG joint venture	-0-	(71,994)	-0-	(71,994)
Change in unrestricted net assets	1,710,933	-0-	113,978	1,824,911
<b>Temporarily restricted net assets</b>				
Contributions	-0-	-0-	6,094	6,094
Net assets released from restriction	-0-	-0-	(31,829)	(31,829)
Change in temporarily restricted net assets	-0-	-0-	(25,735)	(25,735)
<b>Permanently restricted net assets</b>				
Change in beneficial interest in net assets of Community Foundation	2,273	-0-	-0-	2,273
Change in net assets	1,713,206	-0-	88,243	1,801,449
<b>Net assets</b>				
Beginning of year	9,628,432	-0-	351,318	9,979,750
End of year	\$ 11,341,638	\$ -0-	\$ 439,561	\$ 11,781,199

See report of independent auditors on pages 1 and 2.