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Gibson General Hospital, Inc. and Affiliate

Report to the Board of Directors, Finance Committee and Management

February 20, 2015

Results of the 2014 combined financial statement audit, selected ratios, internal control matters and other required communications

BKD LLP
CPAs & Advisors

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Board of Directors, Finance Committee and Management
Gibson General Hospital, Inc. and Affiliate
Princeton, Indiana

Dear Board of Directors, Finance Committee and Management:

We have completed our audit of the combined financial statements of Gibson General Hospital, Inc. and Affiliate (Hospital), as of and for the year ended September 30, 2014. This report includes communication required under auditing standards generally accepted in the United States of America, as well as other matters.

Our audit plan represented an approach responsive to the assessment of risk of material misstatement in financial reporting for the Hospital. Specifically, auditing standards require us to:

- Express an opinion on the September 30, 2014 combined financial statements of the Hospital
- Issue communications required under auditing standards generally accepted in the United States of America to assist those charged with governance in overseeing management's financial reporting and disclosure process

This report also presents an overview of areas of audit emphasis, as well as selected combined financial statement indicators for the current year and several historical years.

This communication is intended solely for the information and use of management, the board of directors and others within the Hospital, and is not intended to be, and should not be, used by anyone other than these specified parties.

_______________, 2015

Opinion & Reconciliation of Change in Net Assets

Unmodified, or "Clean," Opinion Issued on Combined Financial Statements

We have issued an unmodified opinion as to whether the combined financial statements of Gibson General Hospital, Inc. and Affiliate (Hospital), as of and for the year ended September 30, 2014, are fairly presented, in all material respects. As a result of our audit, we proposed adjustments that management determined were necessary to prevent the combined financial statements from being materially misstated. A summary of adjustments impacting the change in net assets is presented below:

Change in net assets, as internally reported	$ (503,112)
Adjustments	
Inclusion of Foundation	50,118
Audit adjustments:	
Adjust third party settlement reserves for Hospital Assessment Fees	(395,615)
Record nursing home transaction	47,477
Change in net assets, per audited financial statements	$ (801,132)

We also proposed an adjustment to record several invoices found in accounts payable testing that were not accrued at year end. This adjustment was determined by management to be immaterial, both individually and in the aggregate, to the combined financial statements as a whole.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets	23,580,756	3,500	23,584,256	0.01%
Total Liabilities	(12,576,196)	(27,500)	(12,603,696)	0.22%
Net Assets	(11,004,560)	24,000	(10,980,560)	-0.22%
Revenues	(31,573,341)	-	(31,573,341)	0.00%
Expenses	32,377,733	4,000	32,381,733	0.01%
Change in Net Assets	804,392	4,000	808,392	0.50%

Required Communications

Generally accepted auditing standards require the auditor to provide to those charged with governance, additional information regarding the scope and results of the audit that may assist you in overseeing management's financial reporting and disclosure process. Below, we summarize these required communications.

Auditor's Responsibilities Under Auditing Standards Generally Accepted in the United States of America (GAAS)

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this communication or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the combined financial statements does not relieve management, or those charged with governance, of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Area	Comments
Significant Accounting Policies Significant accounting policies are described in *Note 1* of the combined financial statements.	• No matters are reportable.
Alternative Accounting Treatments We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies listed in the adjacent comments section.	• No matters are reportable.

Area	Comments
Management Judgments & Accounting Estimates Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. Areas involving significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates are listed in the adjacent comments section.	• Allowance for uncollectible accounts and estimated contractual allowances. • Accrual for incurred but not reported employee health insurance expense. • Valuation of investments held. • Estimated amounts due to third-party payers. • Transactions associated with long-term care operations and Perry County Hospital.
Financial Statement Disclosures The areas listed in the adjacent comments section involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures.	• Medical hospital assessment fee program. • Long-term debt, including compliance with required financial covenants. • Long-term care operating lease and management agreement
Audit Adjustments During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the combined financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.	• Audit adjustments both recorded and passed were presented on page two above.
Auditor's Judgments About the Quality of the Hospital's Accounting Policies During the course of the audit, we made observations regarding the Hospital's application of accounting principles listed in the adjacent comments section.	• No matters are reportable.

Area	Comments
Disagreements With Management Certain matters listed in the adjacent comments section involved disagreements, which if not satisfactorily resolved, would have caused a modified auditor's opinion on the combined financial statements.	• There were no disagreements with management.
Significant Issues Discussed With Management During the Audit Process During the audit process, issues were discussed or were the subject of correspondence with management and are listed in the adjacent comments section.	• Estimate for third-party settlements. • Recording and recognition transactions related to long-term care operating lease and management agreement.
Difficulties Encountered in Performing the Audit Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on matters listed in the adjacent comments section.	• There were no difficulties in performing the audit, and we received excellent cooperation from Hospital staff.

Other Material Written Communications

Other material written communications between management and us related to the audit include:

- Management representation letter *(Tab 2)*

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements of Gibson General Hospital, Inc. and Affiliate, as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

Material Weakness—A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's combined financial statements will not be prevented or detected and corrected on a timely basis.

Significant Deficiency—A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Deficiency—A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the Hospital's combined financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

We observed the following matters that we consider to be a deficiency or significant deficiencies.

Significant Deficiencies

Nursing Home Lease Transaction

The Hospital entered into a lease transaction where the inpatient skilled nursing unit was leased to a separate hospital partner (SNF Partner). As part of the agreement, the Hospital was retained to manage the operations of the unit and is reimbursed through a management fee agreement. The nature of these agreements requires new classes of transactions to be recorded in the Hospital's combined financial statements.

For example, the Hospital will no longer record net patient service revenue associated with these inpatient skilled nursing services, however, you will record lease revenue and management fee revenue. Management did not timely identify the change in nature of these transactions, which resulted in adjustments recorded during the audit process.

It is also noteworthy that management is required to prepare interim financial statements for the SNF Partner as required under the agreement. We recommend that a separate ledger be established so the operations of this unit can be segregated from that of the Hospital and monthly financial statements can be prepared and that timely adjustments to the Hospital's combined financial statements be recorded on a periodic basis.

Third-Party Cost Report Reserves

Medicare and Medicaid cost reports are a material component of a critical access hospital's revenue source and are required to be filed with the state and federal government on an annual basis. As cost reports can be the basis for material transactions in the combined financial statements, periodic reviews of amounts due to, or from, the respective governmental entities should be considered. These filings are complex and regulatory interpretations can change from period to period; the interpretation changes can be material to the reimbursement allowed to the Hospital.

During the Hospital's fiscal period, management determined that certain positions pertaining to the Indiana Hospital Assessment Fee (HAF) should not be included in the Hospital's cost report. Although an interim cost report was prepared, it was not until after the close of the Hospital's fiscal period. The results of the interim cost report, including a change in the regulatory interpretation of the HAF resulted in a material adjustment recorded during the audit process.

We recommend management evaluate the third party with increased frequency, including a thorough analysis before the end of the fiscal period.

Deficiency

Timely Completion of Reconciliations

Reconciliations of routine balance sheets were not timely prepared or reviewed throughout the year and prior year audit entries were not properly recorded in the Hospital's combined financial statements. Timely and accurate reconciliations are an integral component of an entity's internal control structure; some of the lack of reconciliations resulted in passed audit adjustments, which were disclosed earlier in this correspondence. It is our understanding that certain accounting staff department turnover occurred during the period, which lead to resource constraints with the associated account reconciliations.

We recommend the Hospital consider its accounting department staffing to ensure timely reconciliations are prepared and reviewed.

Other Matters

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the combined financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the combined financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Compliance With Internal Revenue Code §501(r) Regulations

The IRS issued final regulations providing guidance on requirements for charitable hospital organizations added by the Patient Protection and Affordable Care Act. These regulations took effect December 29, 2014; charitable hospitals will be required to comply with the final regulations for all tax years beginning after December 29, 2015, in order to maintain 501(c)(3) status.

The final regulations contain numerous changes and updates to IRS requirements compared to regulations previously issued in proposed form regarding:

- Community health needs assessments (CHNA)
- Financial assistance and emergency care policies
- Limitation on charges for emergency and other medically necessary care
- Billing and collections policies

Hospital organizations should consider conducting a "gap analysis" to determine what changes need to be made to the aforementioned policies to comply with the final regulations. By identifying existing gaps, the hospital can develop plans to modify existing policies and processes to comply with these regulations. Changes to a hospital facility's policies and procedures will take significant time and resources.

In addition, an authorized body, i.e., the board of directors, board of trustees or equivalent controlling body or a committee thereof, of the hospital facility must adopt or approve the hospital's financial assistance policy, billing and collections policy and emergency medical care policy in order to comply with these regulations. Therefore, hospital board members should gain an understanding of these requirements.

Finally, hospital facilities should monitor the due date for their next CHNA. Hospital facilities must conduct a CHNA by the end of the third taxable year following the previous CHNA. The IRS expects that in conducting CHNAs, hospital facilities will build upon previously conducted CHNAs.

The final §501(r) regulations require evaluation of the impact of any actions taken since the hospital facility finished conducting its immediately preceding CHNA to be documented in the hospital's CHNA report. As such, it will be increasingly important to monitor and track community benefit activities addressing community health needs.

Electronic Medical Record Incentive Program Audit Risk

The Centers for Medicare and Medicaid Services (CMS) has significantly increased the activity related to audits on Medicare and dually eligible (Medicare and Medicaid) providers who are participating in the Electronic Health Record (EHR) Incentive Programs. This audit activity falls into three categories: payment audits, compliance audits and Medicaid audits. Each of these audits focuses on a different portion of the Incentive Program and requires different documentation information. Below is a recap of the three audit categories and the specific key elements associated with each.

- Payment audits - The requested documentation related to the payment audits will require different and more detailed documentation than the normal Medicare Administrative Contractors (MAC) cost report audit requests. Due to the nature of the EHR audit documentation requests and the significance of the audit, we recommend all EHR payment audits be handled separately from other cost report reviews.

- Compliance audits - These audits are receiving the most publicity and tend to have the most risk associated with them. Based on early compliance audit experience, it appears failure on just one point under the compliance audit could result in a recoupment of the entire program year payment amount, possibly including both Medicare and Medicaid EHR payments. Preparing for these compliance audits is an important and significant process in documenting the Hospital's compliance with the meaningful use requirements.

- Medicaid audits - In addition to the Medicare EHR audits, there are also audits of the Medicaid EHR incentive program. It is very important to pay close attention to any audit changes that may be proposed even if they initially appear to only be statistical in nature. There can be far-reaching and adverse long-term effects from these audits. Failure to supply adequate documentation for these audits not only puts the Medicaid EHR incentive payment for the year under audit at risk, it can also put future and prior program payments at risk.

We recommend all EHR eligible hospitals have a "Meaningful Use Documentation Analysis" done to evaluate their preparedness in the case of an audit. The Medicare contracted compliance auditor is a CPA firm, and as CPAs their documentation expectations are anticipated to be different than most information technology professionals. With this in mind, it may be useful to have your CPA also review your documentation.

Potential Changes to the Method of Accounting for Leases Under U.S. Generally Accepted Accounting Principles (U.S. GAAP)

FASB and IASB (the Boards) began redeliberations in 2014 on significant issues related to the revised lease exposure draft issued in May 2013. The proposed standard requires all leases, other than short-term leases, to be recognized on the balance sheet. In their redeliberations on the May 2013 exposure draft, the Boards have taken divergent approaches. FASB is proposing requiring that lessees classify leases as one of two types. Most existing capital/finance leases would be accounted for as Type A leases with amortization of the right-of-use (ROU) asset recognized separately from interest on the lease liability. Most existing operating leases would be accounted for as Type B leases, with a single total for lease expense recognized on a straight-line basis. Both Type A and Type B leases would result in the lessee recognizing a ROU asset and a lease liability.

When adopted, this new approach will require more monitoring and recordkeeping. Companies should evaluate the potential impacts on the financial statements, particularly with regard to financial ratios, results and related matters. These changes may have unexpected impacts on debt covenants or other contracts with lenders, vendors, employees, regulators, etc., that may require revision to maintain the original intent.

FASB has not yet established an expected effective date for the final standard, but it will likely be no sooner than three years after issuance. The final standard would be required to be applied to all leases outstanding as of the beginning of the earliest comparative period presented with the option of applying a full retrospective or modified retrospective approach.

As a reminder, until a final standard is issued, any positions contained within the exposure draft are still susceptible to change.

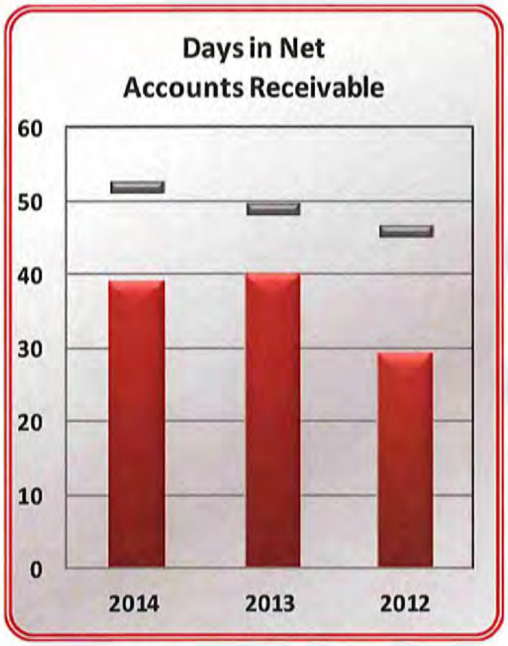
This communication is intended solely for the information and use of management, the audit committee and the board of directors and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

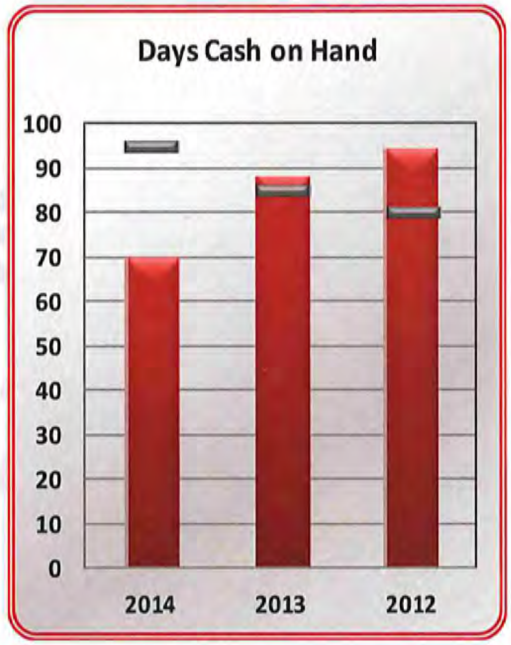
DATE

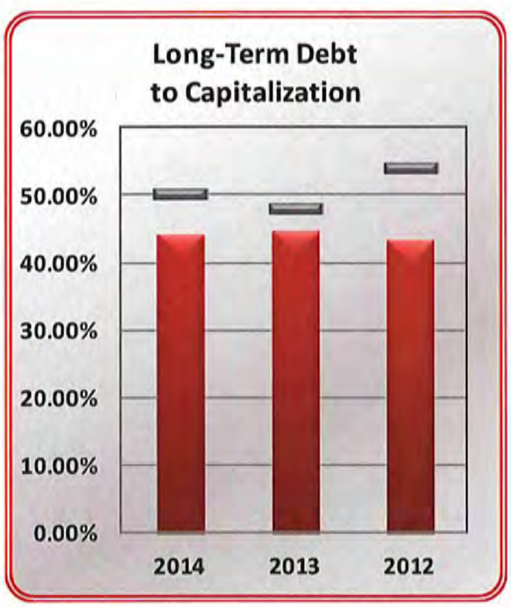
Condensed Combined Balance Sheets

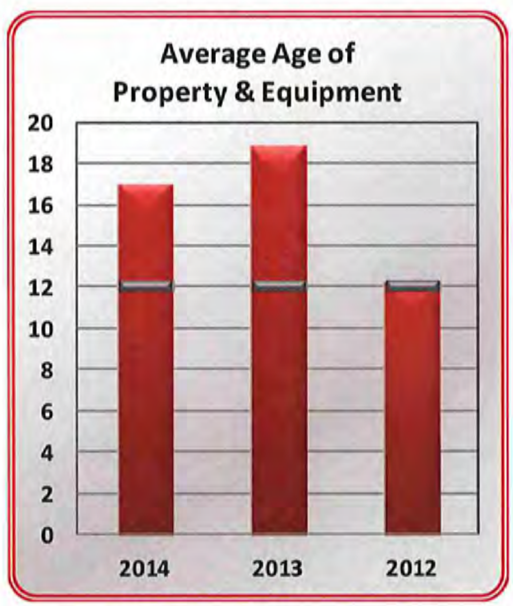
	2014	2013	2012
ASSETS			
Current Assets			
Cash	$ 1,374,002	$ 2,697,045	$ 3,369,613
Patient accounts receivable, net	3,252,311	3,263,137	3,570,559
Other current assets	1,545,904	1,494,034	1,253,664
Total current assets	6,172,217	7,454,216	8,193,836
Property and Equipment, Net	12,681,685	12,802,315	11,232,312
Other Assets	4,726,854	4,833,482	4,501,121
Total assets	$ 23,580,756	$ 25,090,013	$ 23,927,269
LIABILITIES AND NET ASSETS			
Current Liabilities	$ 3,808,134	$ 3,576,806	$ 3,250,306
Long-Term Debt	8,768,062	9,707,515	9,010,063
Net Assets	11,004,560	11,805,692	11,666,900
Total liabilities and net assets	$ 23,580,756	$ 25,090,013	$ 23,927,269

Selected Combined Balance Sheet Ratios







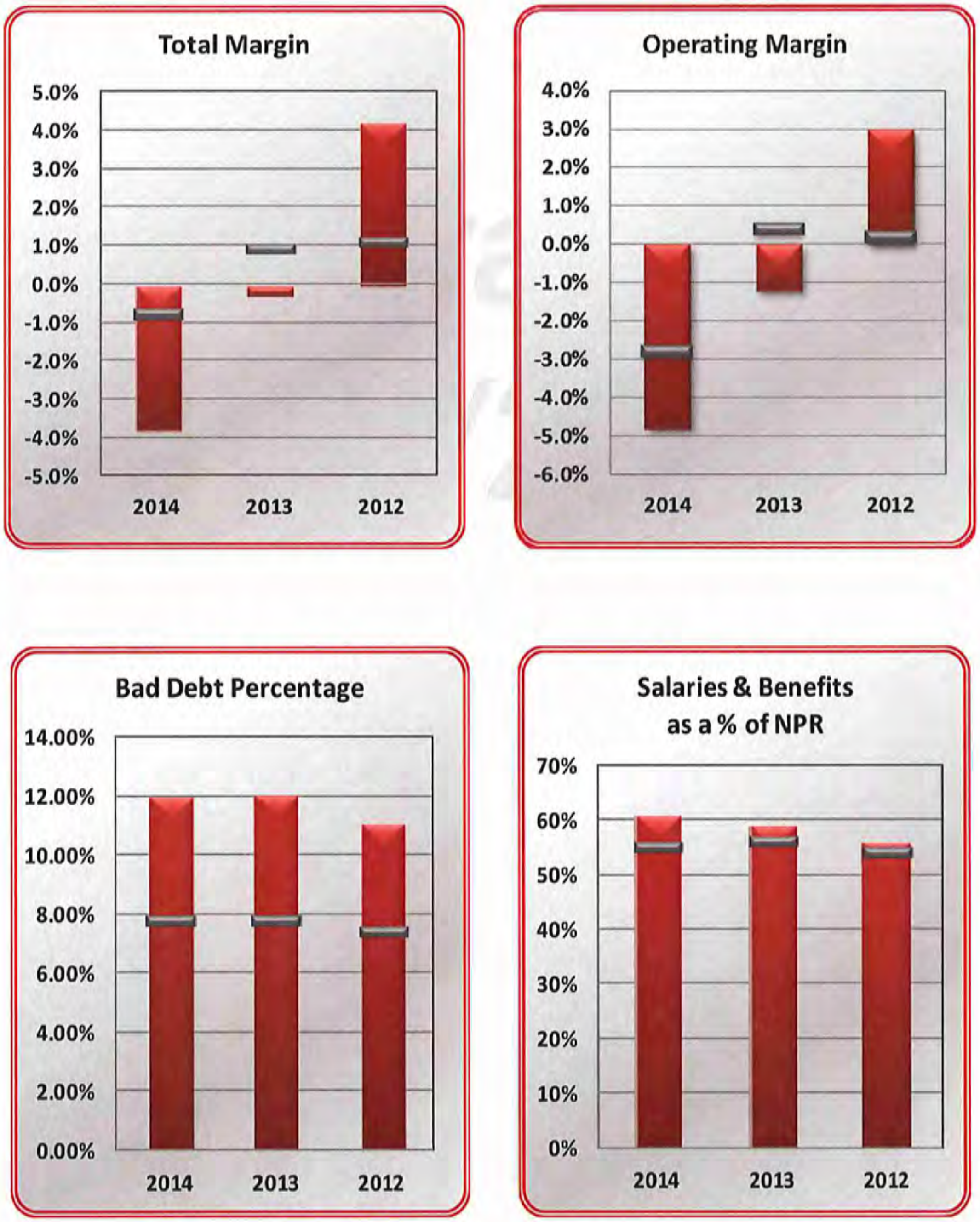


Gray lines represent industry benchmark for similar size hospitals, as reported in Standard & Poor's U.S. Not-For-Profit Health Care Stand-Alone Ratios, dated August 13, 2014.

Condensed Combined Statements of Operations & Changes in Net Assets

	2014	2013	2012
Unrestricted Revenues, Gains and Other Support			
Net patient service revenue, less provision for uncollectible accounts	$ 30,079,901	$ 30,693,033	$ 31,690,920
Other	811,746	651,188	631,352
Total unrestricted revenues, gains and other support	30,891,647	31,344,221	32,322,272
Expenses and Losses			
Salaries, wages and benefits	18,414,360	18,185,040	17,771,609
Purchased services	4,915,320	4,905,212	4,771,408
Supplies and other	7,551,379	7,265,859	6,978,089
Interest, depreciation and amortization	1,496,674	1,369,365	1,838,302
Total expenses and losses	32,377,733	31,725,476	31,359,408
Operating Income (Loss)	(1,486,086)	(381,255)	962,864
Other Income	303,932	293,953	422,615
Excess (Deficiency) of Revenues Over Expenses	(1,182,154)	(87,302)	1,385,479
Other Change in Net Assets	381,022	226,094	292,983
Change in Net Assets	(801,132)	138,792	1,678,462
Net Assets, Beginning of Year	11,805,692	11,666,900	9,988,438
Net Assets, End of Year	$ 11,004,560	$ 11,805,692	$ 11,666,900

Selected Combined Statements of Operations Ratios



Gray lines represent industry benchmark for similar size hospitals, as reported in Standard & Poor's U.S. Not-For-Profit Health Care Stand-Alone Ratios, dated August 13, 2014. Bad Debt Percentage benchmark is from 2012 Median Ratios for Nonprofit Hospitals and Healthcare Systems.

Gibson General Hospital, Inc. and Affiliate

Auditor's Report and Combined Financial Statements

September 30, 2014 and 2013

Gibson General Hospital, Inc. and Affiliate
September 30, 2014 and 2013

Contents

Independent Auditor's Report

Board of Directors
Gibson General Hospital, Inc. and Affiliate
Princeton, Indiana

We have audited the accompanying combined financial statements of Gibson General Hospital, Inc. and Affiliate, which comprise the combined balance sheets as of September 30, 2014 and 2013, and the related combined statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Gibson General Hospital, Inc. and Affiliate as of September 30, 2014 and 2013, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic combined financial statements as a whole. The report to the board of directors summarizing the 2014 audit results is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic combined financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Indianapolis, Indiana
____________, 2015

Gibson General Hospital, Inc. and Affiliate

Combined Balance Sheets
September 30, 2014 and 2013

Assets

	2014	2013
Current Assets		
Cash and cash equivalents	$ 1,374,002	$ 2,697,045
Patient accounts receivable, net of allowance; 2014 - $2,800,000; 2013 - $2,900,000	3,252,311	3,263,137
Other receivables	342,944	537,531
Supplies	667,977	709,189
Prepaid expenses and other	459,983	247,314
Total current assets	6,097,217	7,454,216
Property and Equipment, net	12,681,685	12,802,315
Other Assets		
Assets limited as to use - internally designated	4,622,532	4,728,837
Beneficial interest in assets at Community Foundation Alliance	63,490	59,959
Deferred financing costs	40,832	44,686
	4,726,854	4,833,482
Total assets	$ 23,505,756	$ 25,090,013

Liabilities and Net Assets

	2014	2013
Current Liabilities		
Current maturities of long-term debt	$ 925,527	$ 901,132
Accounts payable	741,280	769,140
Accrued expenses	1,327,320	1,253,506
Estimated amount due to third-party payers	499,928	310,173
Accrued self-insurance liabilities	239,079	342,855
Total current liabilities	3,733,134	3,576,806
Long-Term Debt	8,768,062	9,707,515
Total liabilities	12,501,196	13,284,321
Net Assets		
Unrestricted	10,883,264	11,687,656
Temporarily restricted	57,806	58,077
Permanently restricted	63,490	59,959
Total net assets	11,004,560	11,805,692
Total liabilities and net assets	$ 23,505,756	$ 25,090,013

Gibson General Hospital, Inc. and Affiliate

Combined Statements of Operations
Years Ended September 30, 2014 and 2013

	2014	2013
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	$ 33,796,414	$ 34,479,178
Provision for uncollectible accounts	(3,716,513)	(3,786,145)
Net patient service revenue less provision for uncollectible accounts	30,079,901	30,693,033
Other	811,746	651,188
Total unrestricted revenues, gains and other support	30,891,647	31,344,221
Expenses and Losses		
Salaries and wages	14,697,133	14,595,986
Employee benefits	3,717,227	3,589,054
Contracted services	2,614,134	2,668,638
Supplies	2,760,879	2,743,914
Physician fees	2,154,279	2,090,665
Insurance	478,272	428,134
Lease expense	476,532	432,316
Utilities	665,375	646,487
Other	715,547	753,253
Depreciation and amortization	1,229,725	1,047,439
Professional fees	146,907	145,909
Interest	266,949	321,926
Maintenance and repair	901,219	863,482
Advertising	261,511	273,469
Recruiting	76,215	89,344
Collection	128,455	139,017
Minor equipment	71,672	131,266
Provider hospital assessment fee	1,015,702	765,177
Total expenses and losses	32,377,733	31,725,476
Operating Loss	(1,486,086)	(381,255)
Other Income		
Contributions received	108,872	99,721
Investment return	189,242	162,141
Assets released from restriction	5,818	32,091
Total other income	303,932	293,953
Deficiency of Revenues Over Expenses	(1,182,154)	(87,302)
Investment return - change in unrealized gains and losses on other than trading securities	377,762	251,544
Increase (Decrease) in Unrestricted Net Assets	$ (804,392)	$ 164,242

Gibson General Hospital, Inc. and Affiliate

Combined Statements of Changes in Net Assets
Years Ended September 30, 2014 and 2013

	2014	2013
Increase (Decrease) in Unrestricted Net Assets	$ (804,392)	$ 164,242
Temporarily Restricted Net Assets		
Contributions	5,547	-
Assets released from restriction	(5,818)	(32,091)
Net change in temporarily restricted net assets	(271)	(32,091)
Permanently Restricted Net Assets - change in beneficial interest in assets at Community Foundation Alliance	3,531	6,641
Change in Net Assets	(801,132)	138,792
Net Assets, Beginning of Year	11,805,692	11,666,900
Net Assets, End of Year	$ 11,004,560	$ 11,805,692

Gibson General Hospital, Inc. and Affiliate

Combined Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Operating Activities		
Change in net assets	$ (801,132)	$ 138,792
Items not (providing) requiring cash		
Depreciation and amortization	1,229,725	1,047,439
Net unrealized gain on investments	(377,762)	(251,544)
Change in beneficial interest in assets at Community Foundation Alliance	(3,531)	(6,641)
Provision for uncollectible accounts	3,716,513	3,786,145
Changes in		
Patient accounts receivable, net	(3,705,687)	(3,478,723)
Estimated amounts due to third-party payers	189,755	188,447
Accounts payable and accrued expenses	(57,822)	(51,948)
Other assets	26,984	(236,516)
Net cash provided by operating activities	217,043	1,135,451
Investing Activities		
Purchase of property and equipment	(1,109,095)	(1,137,507)
Purchase of investments	(348,799)	(2,532,681)
Proceeds from sale of investments	832,866	2,454,651
Net cash used in investing activities	(625,028)	(1,215,537)
Financing Activities		
Principal payments on long-term debt	(915,058)	(788,547)
Proceeds from issuance of long-term debt	-	196,065
Net cash used in financing activities	(915,058)	(592,482)
Decrease in Cash and Cash Equivalents	(1,323,043)	(672,568)
Cash and Cash Equivalents, Beginning of Year	2,697,045	3,369,613
Cash and Cash Equivalents, End of Year	$ 1,374,002	$ 2,697,045
Supplemental Cash Flows Information		
Interest paid	$ 266,949	$ 321,926
Property and equipment acquired with long-term debt	-	1,479,935

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements
September 30, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Gibson General Hospital, Inc. (Hospital) primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Gibson County, Indiana. It also operates a home health agency in the same geographic area. The Hospital is affiliated with the Gibson General Health Foundation, Inc. (Foundation) 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.

Use of Estimates

The preparation of 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Combination

The accompanying combined financial statements include the financial statements of Gibson General Hospital, Inc. and its affiliate, Gibson General Health Foundation, Inc. Material intercompany transactions and balances have been eliminated.

Cash and Cash Equivalents

The Hospital and the Foundation consider all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2014 and 2013, cash equivalents consisted primarily of sweep accounts and money market accounts.

At September 30, 2014, the Hospital's cash accounts exceeded federally insured limits by approximately $1,075,000.

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 and employee health benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported and claims incurred but not yet reported.

Assets Limited as to Use and Investment Return

Assets limited as to use include assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. The Hospital accounts for its investments as nontrading securities; therefore, changes in fair value are recorded as other changes in net assets.

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return primarily includes interest and other investment income and realized and unrealized gains and losses on investments carried at fair value. Investment return 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 return is reflected in the combined statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides a contractual allowance, an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (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 uncollectible accounts 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 or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts for self-pay patients was approximately 77% and 80% of self-pay accounts receivable at September 30, 2014 and 2013, respectively. This slight decrease was the result of improvement experienced in the collection of amounts from self-pay patients in fiscal year 2014 and 2013.

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out method or market.

Property and Equipment

Property and equipment are stated at cost and are depreciated on a straight-line basis over the estimated useful life of each asset.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of a long-lived asset whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value, and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended September 30, 2014 and 2013.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are amortized on a straight-line basis over the term of the respective debt.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital and the Foundation have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital and the Foundation in perpetuity.

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. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital's direct and indirect costs for services furnished under its charity care policy aggregated approximately $462,000 and $495,000 in 2014 and 2013, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges, which were approximately $1,096,620 and $1,115,365 in 2014 and 2013, respectively.

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Beneficial Interest in 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 (Interest) 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.

Income Taxes

The Hospital and the Foundation have been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Hospital and the Foundation are subject to federal income tax on any unrelated business taxable income. The Hospital's and Foundation's tax years still subject to examination by taxing authorities are years subsequent to 2011.

Deficiency of Revenues Over Expenses

The combined statements of operations include deficiency of revenues over expenses. Changes in unrestricted net assets, which are excluded from deficiency of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets.

Self-Insurance

The Hospital has elected to self-insure certain costs related to employee health programs. Costs resulting from noninsured losses are charged to income when incurred. The Hospital has purchased insurance that limits its exposure for individual claims in excess of $75,000 and its aggregate exposure to $1,000,000. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. The accrued health claims liability was approximately $239,000 and $343,000 at September 30, 2014 and 2013, respectively. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2014, the Hospital physicians completed the first-year requirements under the Medicaid program and have recorded revenue of approximately $58,800. In 2013, the Hospital completed the second-year requirements under the Medicaid program and has recorded revenue of approximately $161,200. In addition, the Hospital completed the first-year requirements under the Medicare program and has recorded revenue of approximately $50,000 during 2013. These amounts are included in other operating revenue in the combined statements of operations.

Reclassifications

Certain reclassifications have been made to the 2013 combined financial statements to conform to the 2014 combined financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the combined financial statements were available to be issued.

Note 2: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the combined statements of operations as a component of 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 designated by Medicare as a critical access hospital (CAH). Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge for inpatient services and per occasion for outpatient services.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital received approximately $1,600,000 and $950,000 during 2014 and 2013, respectively, due to the enactment of a state specific provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the combined statements of operations for 2014 and 2013. The Hospital paid approximately $1,016,000 and $765,000 into this Medicaid program for 2014 and 2013, which is recorded as an operating expense in the combined statements of operations. This program is scheduled to sunset on June 30, 2017. There is no assurance this program will continue to be implemented in the future.

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.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended September 30, 2014 and 2013, was approximately:

	2014	2013
Medicare	$ 11,522,738	$ 11,685,827
Medicaid	3,091,072	2,595,599
Other third-party payers	15,330,928	16,339,605
Patients	3,851,676	3,858,147
	$ 33,796,414	34,479,178

There were no material removals of previously estimated reserves in 2014 or 2013.

Note 3: Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at September 30, 2014 and 2013 is:

	2014	2013
Medicare	19%	22%
Medicaid	4%	2%
Other third-party payers	51%	52%
Patients	26%	24%
	100%	100%

Note 4: Assets Limited as to Use and Investment Return

Assets limited as to use at September 30, include:

	2014	2013
Assets limited as to use		
Cash equivalents	$ 9,339	$ 54,598
Equities	1,668,972	1,688,348
Equity mutual funds	1,409,710	1,466,348
Municipal bonds	751,159	747,307
Bond mutual funds	783,352	772,236
	$ 4,622,532	$ 4,728,837

Total investment return is comprised of the following:

	2014	2013
Interest and dividends	$ 189,242	$ 162,141
Unrealized gain on other than trading securities	377,762	251,544
Unrealized gain on beneficial interest in assets at Community Foundation Alliance	3,531	6,641
Total investment return	$ 570,535	$ 420,326

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

	2014	2013
Unrestricted net assets - investment income		
Investment income	$ 189,242	$ 162,141
Unrealized gain on other than trading securities	377,762	251,544
Permanently restricted net assets	3,531	6,641
	$ 570,535	$ 420,326

Beneficial Interest in Assets at Community Foundation Alliance

The Hospital and the Foundation transferred assets to the Community Foundation Alliance (Foundation 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 Foundation Alliance; however, the Foundation 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.

Note 5: Property and Equipment

The Hospital's property and equipment consist of the following:

	2014	2013
Land and land improvements	$ 679,512	$ 660,012
Building and improvements	19,332,051	19,083,961
Furniture, fixtures and medical equipment	13,532,478	12,688,012
Construction in progress	179,435	182,397
Total cost	33,723,476	32,614,382
Less accumulated depreciation and amortization	(21,041,791)	(19,812,067)
	$ 12,681,685	$ 12,802,315

Note 6: Long-Term Debt and Line of Credit

	2014	2013
2005 Revenue bonds (A)	$ 5,027,957	$ 5,443,176
2007 Revenue bonds (B)	1,361,680	1,507,184
2008 Revenue bonds (C)	1,821,106	1,970,255
Note payable (D)	37,567	85,629
Note payable (E)	1,024,304	1,077,854
Note payable (F)	83,774	106,134
Note payable (G)	337,201	418,415
	9,693,589	10,608,647
Less current maturities	(925,527)	(901,132)
	$ 8,768,062	$ 9,707,515

(A) The 2005 Revenue bonds (2005 Bonds) consist of City of Princeton Revenue Bonds in the original amount of $7,100,000 dated June 2005, which bear a variable interest rate based on LIBOR. The interest rate is adjusted every five years, and the interest rate at September 30, 2014 and 2013 was 2.32%. The 2005 Bonds are payable in monthly installments of $24,556 through June 2025, and are secured by substantially all assets of the Hospital. The Hospital drew down $3,200,000 to retire previously issued Series 2000 bonds and $700,000 to finance certain capital improvements in fiscal year 2005. The Hospital also drew down approximately $87,000 and $733,000 during fiscal year 2010 and 2009, respectively, for renovations to the emergency department.

(B) The 2007 Revenue bonds (2007 Bonds) consist of City of Princeton Revenue Bonds in the original amount of $2,096,000 dated October 2007, which bear a variable interest rate based on LIBOR. The interest rate is adjusted every five years, and the rate at September 30, 2014 and 2013 was 1.42%. The 2007 Bonds are payable in monthly installments of $13,819 beginning November 2013 through July 2023, and are secured by substantially all assets of the Hospital. The Hospital utilized these funds for an energy conservation project. The indenture agreement for the 2005 Bonds and the 2007 Bonds requires the Hospital to comply with certain restrictive covenants including maintaining a historical debt-service coverage ratio of at least 1.5 to 1.

(C) The 2008 Revenue bonds (2008 Bonds) consist of City of Princeton Revenue Bonds in the original amount of $2,500,000 dated December 2008, which bear a variable interest rate based on LIBOR. The interest rate is adjusted every five years, and the rate at September 30, 2014 and 2013 was 3.53%. The 2008 Bonds are payable in monthly installments of $17,971 through November 2024, and are secured by substantially all assets of the Hospital. The Hospital utilized these funds for renovations to the emergency department. In addition to the restrictive covenants on the 2005 Bonds and the 2007 Bonds, the indenture agreement for the 2008 Bonds also requires the Hospital to maintain an average cash flow coverage ratio of at least 1.5 to 1.

(D) Due in July 2015, payable $4,647 monthly, including interest at 4.95%; secured by commercial real estate second mortgage.

(E) Promissory note in an initial amount of $1,125,000 to finance the purchase of the surgery center building. Note requires payments through December 2027 of $8,210 monthly, including interest at 3.75%, which will be adjusted after five years. The lease is secured by the building purchased.

(F) Promissory note in the initial amount of $126,000 to finance the purchase of the surgery center equipment. Note requires payments through December 2017, of $2,244 monthly, including interest at 2.60%. The lease is secured by the equipment purchased.

(G) Promissory note in the initial amount of $425,000 to finance the purchase radiology equipment. Note requires payments through August 2018 of $7,603 monthly, including interest at 2.78%. This note also requires the Hospital to maintain an average cash flow coverage ratio of at least 1.5 to 1, along with a compensating balance of not less than $1 million in a noninterest-bearing account.

During 2014, the Hospital did not maintain an average cash flow coverage ratio of at least 1.5 to 1 as required by agreements noted above. In February 2015, the lenders agreed to waive this covenant violation for a period of ____________.

Aggregate annual maturities of long-term debt at September 30, 2014 are:

	Long-Term Debt
2015	$ 925,527
2016	912,170
2017	935,544
2018	928,242
2019	863,099
Thereafter	5,129,007
	$ 9,693,589

Note 7: Professional Liability Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is also fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents occurring during the year by estimating the probable ultimate costs of the incidents.

Estimated accrued reserves for professional liability claims were $75,000 at September 30, 2014 and 2013, and are included in accrued expenses in the accompanying combined balance sheets. Professional liability reserve estimates represent the estimated ultimate cost of all reported and unreported losses incurred through the respective combined balance sheet dates. The reserve for unpaid losses and loss expenses are estimated using individual case-basis valuations. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The time period required to resolve these claims can vary depending upon whether the claim is settled or litigated. The estimation of the timing of payments beyond a year can vary significantly. Although considerable variability is inherent in professional liability reserve estimates, we believe the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible that this estimate could change materially in the near term.

The Hospital's professional liability risks, in excess of certain per claim and aggregate deductible amounts, are insured through the policies described above. The amounts receivable under these insurance contracts included $75,000 included in prepaid expenses and other at September 30, 2014 and 2013.

Note 8: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purpose or periods:

	2014	2013
Purchase of equipment and emergency department expansion	$ 3,216	$ 4,002
Other programs	54,590	54,075
Total	$ 57,806	$ 58,077

Permanently restricted net assets are restricted to:

	2014	2013
Investments to be held in perpetuity, the income of which is unrestricted	$ 63,490	$ 59,959

Note 9: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2014	2013
Health care services	$ 27,174,884	$ 26,557,020
General and administrative	5,202,849	5,168,456
	$ 32,377,733	$ 31,725,476

Note 10: Operating Leases

Noncancellable operating leases for primary care outpatient offices expire in various years through 2040. These leases generally require the Hospital to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at September 30, 2014 were:

2015	$ 196,075
2016	172,427
2017	95,813
2018	71,603
2019	7,500
Thereafter	157,500
Future minimum lease payments	$ 700,918

Rental expense for all operating leases was $476,532 and $432,316 for 2014 and 2013, respectively.

Note 11: Long-Term Care Operating Lease and Management Agreement

The Hospital has entered into an agreement effective June 1, 2014 to lease its skilled nursing facility and equipment to another hospital partner. Along with the lease agreement, the Hospital also entered into a management agreement where it continues to operate the facility. The agreements expire May 30, 2016 and include optional two year extensions. The management agreement includes an optional termination clause by either party if material changes in circumstances, as defined in the agreement, occur. The lease agreement also includes optional termination clauses by either party with written 90 day notice.

The lease agreement calls for monthly base rent of $37,500 during the initial term of the agreement. The parties agree to negotiate rental increases during any optional extended terms with automatic annual one percent increases in the event that rent is not re-negotiated. Rental income recorded in 2013 totaled $150,000 and is included in other operating revenue. Future minimum rentals are $450,000 and $300,000 for fiscal years 2015 and 2016, respectively.

The management agreement includes a base management fee, subordinate management fee and incentive management fee. These amounts are based on net patient service revenue of the facility. Subordinate and incentive management fees are to be paid only if sufficient working capital exists. The agreements also call for quality, royalty and capital improvement fees to be paid to the Hospital. Management and other fees received in 2014 approximated $193,000 and are included in other operating revenue.

Note 12: Pension Plan

The Hospital has a defined-contribution pension plan covering substantially all employees. The Hospital matches employee contributions at 50% of employee contributions up to 4% of employee eligible compensation. Pension expense was $235,640 and $166,801 for 2014 and 2013, respectively.

Note 13: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying combined balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014 and 2013:

		2014 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets limited as to use				
Cash equivalents	$ 9,339	$ 9,339	$ -	$ -
Equities	1,668,972	1,668,972	-	-
Equity mutual funds	1,409,710	1,409,710	-	-
Municipal bonds	751,159	-	751,159	-
Bond mutual funds	783,352	783,352	-	-
	$ 4,622,532	$ 3,871,373	$ 751,159	$ -

		2013 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets limited as to use				
Cash equivalents	$ 54,598	$ 54,598	-	-
Equities	1,688,348	1,688,348	-	-
Equity mutual funds	1,466,348	1,466,348	-	-
Municipal bonds	747,307	-	747,307	-
Bond mutual funds	772,236	772,236	-	-
	$ 4,728,837	$ 3,981,530	$ 747,307	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying combined balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2014.

Cash Equivalents

The Hospital's cash equivalents consist of money market funds that have quoted market prices available in an active market and are classified within Level 1 of the hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Hospital currently does not have any Level 3 securities.

Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Professional Liability Claims

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in Notes 1 and 7.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's insurance program (discussed elsewhere in these notes); for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 15: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs will be substantially decreased. Each state's participation in an expanded Medicaid program is optional and the state of Indiana has currently indicated it will not participate in the Medicaid expansion program.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

Supplementary Information

Gibson General Hospital, Inc. and Affiliate

Combining Schedule - Balance Sheet Information
September 30, 2014

Assets

	Gibson General Hospital, Inc.	Gibson General Health Foundation, Inc.	Total
Current Assets			
Cash and cash equivalents	$ 997,121	$ 376,881	$ 1,374,002
Patient accounts receivable, net of allowance of $2,800,000	3,252,311	-	3,252,311
Other receivables	337,281	5,663	342,944
Supplies	667,977	-	667,977
Prepaid expenses and other	459,983	-	459,983
Total current assets	5,714,673	382,544	6,097,217
Property and Equipment, net	12,681,685	-	12,681,685
Other Assets			
Assets limited as to use - internally designated	4,622,532	-	4,622,532
Beneficial interest in assets at Community Foundation Alliance	51,931	11,559	63,490
Deferred financing costs	40,832	-	40,832
	4,715,295	11,559	4,726,854
Total assets	$ 23,111,653	$ 394,103	$ 23,505,756

Liabilities and Net Assets

	Gibson General Hospital, Inc.	Gibson General Health Foundation, Inc.	Total
Current Liabilities			
Current maturities of long-term debt	$ 925,527	$ -	$ 925,527
Accounts payable	741,040	240	741,280
Accrued expenses	1,327,320	-	1,327,320
Estimated amounts due to third-party payers	499,928	-	499,928
Accrued self-insurance liabilities	239,079	-	239,079
Total current liabilities	3,732,894	240	3,733,134
Long-Term Debt	8,768,062	-	8,768,062
Total liabilities	12,500,956	240	12,501,196
Net Assets			
Unrestricted	10,558,766	324,498	10,883,264
Temporarily restricted	-	57,806	57,806
Permanently restricted	51,931	11,559	63,490
Total net assets	10,610,697	393,863	11,004,560
Total liabilities and net assets	$ 23,111,653	$ 394,103	$ 23,505,756

Gibson General Hospital, Inc. and Affiliate

Combining Schedule - Statement of Operations and Changes in Net Assets Information
Year Ended September 30, 2014

	Gibson General Hospital, Inc.	Gibson General Health Foundation, Inc.	Total	Eliminations	Total
Unrestricted Revenues, Gains and Other Support					
Patient service revenue (net of contractual discounts and allowances)	$ 33,796,414	$ -	$ 33,796,414	$ -	$ 33,796,414
Provision for uncollectible accounts	(3,716,513)	-	(3,716,513)	-	(3,716,513)
Net patient service revenue less provision for uncollectible accounts	30,079,901	-	30,079,901	-	30,079,901
Other	811,746	-	811,746	-	811,746
Total unrestricted revenues, gains and other support	30,891,647	-	30,891,647	-	30,891,647
Expenses and Losses					
Salaries and wages	14,653,749	43,384	14,697,133	-	14,697,133
Employee benefits	3,713,980	3,247	3,717,227	-	3,717,227
Contracted services	2,603,107	11,027	2,614,134	-	2,614,134
Supplies	2,748,687	12,192	2,760,879	-	2,760,879
Physician fees	2,154,279	-	2,154,279	-	2,154,279
Insurance	477,675	597	478,272	-	478,272
Lease expense	474,467	2,065	476,532	-	476,532
Utilities	665,358	17	665,375	-	665,375
Other	702,886	12,661	715,547	-	715,547
Depreciation and amortization	1,229,725	-	1,229,725	-	1,229,725
Professional fees	146,907	-	146,907	-	146,907
Interest	266,949	-	266,949	-	266,949
Maintenance and repair	901,219	-	901,219	-	901,219
Advertising	261,511	-	261,511	-	261,511
Recruiting	76,215	-	76,215	-	76,215
Collection	128,455	-	128,455	-	128,455
Minor equipment	71,118	554	71,672	-	71,672
Provider hospital assessment fee	1,015,702	-	1,015,702	-	1,015,702
Total expenses and losses	32,291,989	85,744	32,377,733	-	32,377,733
Operating Loss	(1,400,342)	(85,744)	(1,486,086)	-	(1,486,086)
Other Income (Expense)					
Contributions received	25,549	131,199	156,748	(47,876)	108,872
Investment income	188,924	318	189,242	-	189,242
Assets released from restriction	-	5,818	5,818	-	5,818
Contributions to affiliate	(46,674)	(1,202)	(47,876)	47,876	-
Total other income	167,799	136,133	303,932	-	303,932
Excess (Deficiency) of Revenues Over Expenses	(1,232,543)	50,389	(1,182,154)	-	(1,182,154)
Investment income - change in unrealized gains and losses on other than trading securities	377,762	-	377,762	-	377,762
Increase (Decrease) in Unrestricted Net Assets	(854,781)	50,389	(804,392)	-	(804,392)
Temporarily Restricted Net Assets					
Contributions	-	5,547	5,547	-	5,547
Assets released from restriction	-	(5,818)	(5,818)	-	(5,818)
Net change in temporarily restricted net assets	-	(271)	(271)	-	(271)
Permanently Restricted Net Assets - change in beneficial interest in assets at Community Foundation Alliance	3,531	-	3,531	-	3,531
Change in Net Assets	(851,250)	50,118	(801,132)	-	(801,132)
Net Assets, Beginning of Year	11,461,947	343,745	11,805,692	-	11,805,692
Net Assets, End of Year	$ 10,610,697	$ 393,863	$ 11,004,560	$ -	$ 11,004,560

__________ __, ____

BKD, LLP
Certified Public Accountants
201 N. Illinois Street, Suite 700
Indianapolis, IN 46204

We are providing this letter in connection with your audits of our combined financial statements as of and for the years ended September 30, 2014 and 2013. We confirm that we are responsible for the fair presentation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated September 15, 2014, for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for 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.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. We have reviewed and approved a draft of the combined financial statements and related notes referred to above, which you prepared in connection with your audit of our combined financial statements. We acknowledge that we are responsible for the fair presentation of the combined financial statements and related notes.

5. We have provided you with:

   (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the combined financial statements such as records, documentation and other matters.

   (b) Additional information that you have requested from us for the purpose of the audit.

   (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   (d) All minutes of directors' meetings held through the date of this letter.

   (e) All significant contracts and grants.

   (f) All peer review organizations, fiscal intermediary and third-party payer reports and information.

6. All transactions have been recorded in the accounting records and are reflected in the combined financial statements.

7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by the Hospital's procedures with respect to:

   1. Misappropriation of assets.

   2. Misrepresented or misstated assets or liabilities.

8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the combined financial statements taken as a whole.

9. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the combined financial statements.

   (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the combined financial statements.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital received in communications from employees, customers, regulators, suppliers or others.

11. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; principal owners, management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the organization may deal if the organization can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the organization.

12. Except as reflected in the combined financial statements, there are no:

    (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

    (b) Material transactions omitted or improperly recorded in the financial records.

    (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

    (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the combined financial statements.

    (e) Agreements to purchase assets previously sold.

    (f) Restrictions on cash balances or compensating balance agreements.

    (g) Guarantees, whether written or oral, under which the Hospital is contingently liable.

13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the combined financial statements.

14. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the combined financial statements.

The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

15. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the Hospital's participation in the Medicare or other governmental health care programs.

16. Adequate provisions and allowances have been accrued for any material losses from:

    (a) Uncollectible receivables.

    (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.

    (c) Reducing obsolete or excess inventories to estimated net realizable value.

    (d) Purchase commitments in excess of normal requirements or above prevailing market prices.

17. Except as disclosed in the combined financial statements, the Hospital has:

    (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

    (b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the combined financial statements.

18. With respect to the Hospital's possible exposure to past or future medical malpractice assertions:

    (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.

    (b) All known incidents have been reported to the appropriate medical malpractice insurer and are appropriately considered in our malpractice liability accrual.

    (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.

    (d) Management does not expect any claims to exceed malpractice insurance limits.

(e) We believe our accruals for malpractice claims are sufficient for all known and probable potential claims.

19. With respect to any nonattest services you have provided us during the year, including preparation of the combined financial statements:

(a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

(b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

(c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

(d) We have evaluated the adequacy of the services performed and any findings that resulted.

20. We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45.

21. We are an organization exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the combined financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.

22. We further acknowledge the Hospital's exemption under Section 501(c) is subject to additional operating requirements under Section 501(r). As such, we made publicly available a community health needs assessment performed in accordance with IRS requirements, and the Hospital's Board of Directors subsequently approved an implementation strategy to address needs identified in the assessment. The Hospital is also in compliance with certain requirements dealing with financial assistance, billing and collection practices and limitations on charges for uninsured patients that meet our financial assistance requirements.

23. The combined financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events <u>could</u> occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

24. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the combined financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

25. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

26. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.

27. With regard to cost reports filed with Medicare, Medicaid or other third parties:

    (a) All required reports have been properly filed.

    (b) Management is responsible for the accuracy and propriety of those reports.

    (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.

    (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.

    (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.

    (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.

28. With regard to supplementary information:

    (a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.

    (b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.

(c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.

(d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.

(e) If the supplementary information is not presented with the audited combined financial statements, we acknowledge we will make the audited combined financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.

Emmett C. Schuster, President and Chief Executive Officer	Ron Harrington, VP and Chief Financial Officer

Gibson General Hospital, Inc. and Affiliate

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ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	6,097,217	3,500	6,100,717	0.06%
Non-Current Assets	17,408,539	0	17,408,539	0.00%
Current Liabilities	(3,733,134)	(27,500)	(3,760,634)	0.74%
Non-Current Liabilities	(8,768,062)	0	(8,768,062)	0.00%
Current Ratio	1.63		1.62	-0.67%
Total Assets	23,505,756	3,500	23,509,256	0.01%
Total Liabilities	(12,501,196)	(27,500)	(12,528,696)	0.22%
Net Assets	(11,004,560)	24,000	(10,980,560)	-0.22%
Revenues & Income	(31,573,341)	0	(31,573,341)	0.00%
Total Expenses	32,377,733	4,000	32,381,733	0.01%
Net Loss	804,392	4,000	808,392	0.50%

Client: Gibson General Hospital, Inc. and Affiliate
Period Ending: September 30, 2014

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

DRAFT

Description	Location or Business Unit	Financial Line Item	Factual (F), Judgmental (J), or Projected (P)	Assets Current DR (CR)	Assets Non-Current DR (CR)	Liabilities Current DR (CR)	Liabilities Non-Current DR (CR)	(X) Non Tax	Revenues & Income DR (CR)	Total Expenses DR (CR)	Net Assets DR (CR)	Net Effect on Following Year Net Loss DR (CR)	Net Effect on Following Year Net Assets DR (CR)
To accrue invoices found during the SURL	Hospital		F	3,500	0	(27,500)	0		0	24,000	0	(24,000)	24,000
		Utilities Expense								20,000		(20,000)	20,000
		Physician Service Expense								4,000		(4,000)	4,000
		Pharmaceuticals Supplies		3,500									
		Accounts Payable				(27,500)							
PY - Accrue for invoices found during the SURL	Hospital		F	0	0	0	0		0	(20,000)	20,000	0	0
		Utilities Expense								(20,000)			
		Net Assets									20,000		
				0	0	0	0		0	0	0	0	0
				0	0	0	0		0	0	0	0	0
				0	0	0	0		0	0	0	0	0
				0	0	0	0		0	0	0	0	0
		Taxable passed adjustments		[redacted]					0	4,000	20,000	(24,000)	24,000
		Times (1 - effective tax rate of 00%)							100%	100%	100%		
		Taxable passed adjustments net of tax impact				0			0	4,000	20,000		
		Nontaxable passed adjustments		3,500	0	(27,500)	0		0	0	0		
		Total passed adjustments, net of tax impact (if an		3,500	0	(27,500)	0		0	4,000	20,000		

Impact on Net Loss	**4,000**
Impact on Net Assets	**24,000**