

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Independent Auditor's Report and Financial Statements
December 31, 2017 and 2016

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
December 31, 2017 and 2016

Contents

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets.....	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11

Independent Auditor's Report

Board of Governors
Good Samaritan Hospital
Vincennes, Indiana

We have audited the accompanying financial statements of the Good Samaritan Hospital (Hospital), a component unit of Knox County, Indiana as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Good Samaritan Hospital as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Indianapolis, Indiana
May 17, 2018

Good Samaritan Hospital

A Component Unit of Knox County, Indiana

Management's Discussion and Analysis

December 31, 2017 and 2016

Introduction

This management's discussion and analysis of the financial performance of Good Samaritan Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total cash and investments decreased in 2017 by \$13,227,571 (15%). In 2016, total cash and investments increased by \$31,571,579 (57%), as the Hospital issued a series of bonds in December 2016.
- The Hospital reported an operating loss in 2017 of \$4,873,597 compared to operating income in 2016 of \$1,255,307. In 2017, while the Hospital net patient revenue increased by \$6,217,791, provider hospital assessment fee increased by \$2,375,757 or 39.5%. Additionally, the Hospital saw increases to purchased services and professional fees and supplies. In 2016, while the Hospital's net patient revenue increased by \$23,199,471, depreciation expense increased by \$2,544,503 or 14.4%. Additionally, as the Hospital continued to increase expenses such as salaries, wages and contracted services proportionately to the expansion in net patient service revenue.
- Net nonoperating revenues (expenses) increased by \$830,020 in 2017 compared to 2016, primarily attributable to increase market returns on investments. In 2016, nonoperating revenues increased (decreased) by \$1,786,645 compared to 2015 as a result of increased market returns on investments and decreased interest expense.

The total change in net position in 2017 is a decrease of \$5,100,237 compared to an increase of \$198,647 in 2016.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital, but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's total net position—the difference between assets, deferred outflows of resources and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and deferred outflows of resources and liabilities reported in the Balance Sheet. The Hospital's net position decreased by \$5,100,237 in 2017 over 2016 and net position increased by \$198,467 in 2016 over 2015, as shown in Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities and Net Position

	2017	2016	2015
Assets			
Patient accounts receivable, net	\$ 44,039,402	\$ 46,017,437	\$ 34,225,736
Other current assets	87,522,602	102,527,084	66,241,967
Capital assets, net	204,719,836	211,154,622	201,387,401
Other noncurrent assets and deferred outflows of resources	938,311	1,257,809	1,603,307
Total assets and deferred outflows of resources	<u>\$ 337,220,151</u>	<u>\$ 360,956,952</u>	<u>\$ 303,458,411</u>
Liabilities			
Long-term debt	\$ 113,876,659	\$ 115,952,338	\$ 80,313,219
Other current and long-term liabilities	37,796,533	54,357,418	32,696,643
Total liabilities	<u>151,673,192</u>	<u>170,309,756</u>	<u>113,009,862</u>
Net Position			
Net investment in capital assets	88,581,945	91,295,233	119,115,021
Restricted expendable	5,465,665	18,570,364	5,453,581
Unrestricted	91,499,349	80,781,599	65,879,947
Total net position	<u>185,546,959</u>	<u>190,647,196</u>	<u>190,448,549</u>
Total liabilities and net assets	<u>\$ 337,220,151</u>	<u>\$ 360,956,952</u>	<u>\$ 303,458,411</u>

A significant change in the Hospital's net position in 2017 is a decrease in cash and investments of \$13,227,571 (15%) as compared to an increase in 2016 of \$31,571,579 (57%). This decrease in cash and investments resulted primarily from spending on capital assets and repayment of long-term obligations. This decrease was offset by a decrease in current liabilities of \$16,560,885 from December 31, 2016 to December 31, 2017.

Net patient service revenues increased in 2017 by \$6,217,791 (2.0%) as compared to 2016, while net patient accounts receivable decreased by \$1,978,035, for a decrease of three days of revenue in accounts receivable at December 31, 2017 versus December 31, 2016.

In 2016, net patient service revenues increased by \$23,199,471 (8.3%) as compared to 2015, while net patient accounts receivable increased by \$11,791,701, for an increase of eleven days of revenue in accounts receivable at December 31, 2016 versus December 31, 2015.

Operating Results and Changes in the Hospital's Net Position

In 2017, the Hospital's net position decreased by \$5,100,237 (2.7%) compared to an increase in net position during 2016 of \$198,647 (0.1%), as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenue			
Net patient service revenue	\$ 310,211,288	\$ 303,993,497	\$ 280,794,026
Other operating revenue	12,208,123	12,094,574	13,141,044
Total operating revenue	<u>322,419,411</u>	<u>316,088,071</u>	<u>293,935,070</u>
Operating Expenses			
Salaries, wages, contract labor and employee benefits	177,033,557	176,384,829	162,721,361
Purchased services and professional fees	58,052,554	54,443,209	52,056,516
Depreciation and amortization	19,553,513	20,229,896	17,685,393
Other operating expenses	71,036,152	63,774,830	63,321,456
Total operating expenses	<u>325,675,776</u>	<u>314,832,764</u>	<u>295,784,726</u>
Operating Income (Loss) Before Accelerated Depreciation on Building Disposal			
Accelerated depreciation on building disposal	(3,256,365)	1,255,307	(1,849,656)
Total operating income (loss)	<u>(4,873,597)</u>	<u>1,255,307</u>	<u>(1,849,656)</u>
Nonoperating Revenue (Expenses)			
Investment income	3,729,517	1,021,826	257,528
Net noncapital contribution	7,993	54,213	127,350
Interest expense	(3,964,150)	(2,132,699)	(3,228,183)
Total nonoperating expense	<u>(226,640)</u>	<u>(1,056,660)</u>	<u>(2,843,305)</u>
Increase (Decrease) in Net Position	<u>\$ (5,100,237)</u>	<u>\$ 198,647</u>	<u>\$ (4,692,961)</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income (loss)—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2017, the Hospital reported operating loss compared to an operating income in 2016 and an operating loss 2015. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Knox County and the surrounding area. The Hospital implements strong cost controls to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating margin for 2017 decreased by \$6,128,904 compared to 2016. Operating income for 2016 increased by \$3,104,963 as compared to 2015. The primary components of the fluctuation in operating loss are:

- An increase in purchased services and professional fees of \$3,609,345 (6.2%) in 2017 compared to an increase of \$2,394,088 (4.4%) in 2016.
- An increase in other operating expenses of \$7,257,372 (11.4%), consisting primarily of an increase in both provider hospital assessment fee expense of \$2,375,757 (39.5%) and supplies of \$3,281,212 (8.0%) in 2017 compared to 2016.
- A decrease of depreciation and amortization expense of \$676,383 (3.3%) in 2017 compared to an increase of \$2,544,503 (14.4%) in 2016.
- These increases in expenses were offset by an increase in net patient service revenue of \$6,217,791 (2.0%) for 2017 and \$23,199,471 (8.3%) for 2016.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for medical supplies and prescription drugs are a major component of the Hospital's costs. In 2017, medical supplies and prescription drug costs totaled \$44,435,992 or 13.6% of total operating expenses. In 2016, they totaled \$41,154,780 or 13.1% of total operating expenses, an increase of \$3,281,212 (8.0%) over 2016.

The provider hospital assessment fee increased in 2017 is a result of additional fees assessed by the Indiana Medicaid Program to help fund Medicaid expansion and leverage the maximum amount to increase the Medicaid payments to hospitals under the Upper Payment Limit.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment returns, contribution and grant income along with interest expense, all of which remained relatively constant in 2017 as compared to 2016 and 2015, except investment return. The Hospital recognized an increase in its investment return in 2017 compared to 2016, resulting primarily from overall return rates in the market. Total investment return for 2017 was a return of \$3,729,517 compared to a return in 2016 of \$1,021,826. Net contribution income in 2017 was \$7,993 compared to \$54,213 in 2016.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2017 and 2016, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2017 and 2016, the Hospital had \$204,719,836 and \$211,154,622, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2017 and 2016, the Hospital purchased new capital assets costing \$14,799,024 and \$30,406,104, respectively. A significant portion of the 2017 and 2016 capital asset additions were for the master facility plan and the significant Hospital expansion completed during 2017.

Debt

At December 31, 2017 and 2016, the Hospital had \$121,137,891 and \$127,359,389, respectively, in revenue bonds, notes payable, line of credit outstanding and capital lease obligations. During 2017, the Hospital entered into an unsecured line of credit agreement to provide borrowings of \$5,000,000. These borrowings were used to fund intergovernmental transactions on nursing facility operations. During 2016, the Hospital issued health facility revenue bonds (Series 2016 Bonds) in the amount of \$38,510,000. These bonds were used to provide operating capital as the Hospital implements its EPIC software system. Additionally in 2016, the Hospital entered into an unsecured line of credit agreement to provide borrowings of \$10,000,000. These borrowings were used to fund intergovernmental transactions on nursing facility operations. The Series 2016 Bonds were rated Baa3 by Moody's Investors Service, Inc. (Moody's). This is a decrease from the A3 rating accessed by Moody's for the Series 2012 Bonds. Detailed information regarding the Hospital's long-term debt can be found in Note 10 to the financial statements.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital's CFO by telephoning (812) 885-3891.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana

Balance Sheets
December 31, 2017 and 2016

Assets and Deferred Outflows of Resources

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 36,046,101	\$ 38,261,099
Short-term investments	32,247,299	30,155,173
Restricted cash - current	5,465,665	18,570,364
Patient accounts receivable, net of allowance; 2017 - \$7,826,281 2016 - \$15,682,052	44,039,402	46,017,437
Other receivables	6,599,589	8,776,923
Supplies	2,359,749	2,257,673
Prepaid expenses and other	4,804,199	4,505,852
Total current assets	<u>131,562,004</u>	<u>148,544,521</u>
Capital Assets, net	204,719,836	211,154,622
Other Assets	495,941	627,432
Total assets	<u>336,777,781</u>	<u>360,326,575</u>
Deferred Outflows of Resources - losses on debt refunding	<u>442,370</u>	<u>630,377</u>
Total assets and deferred outflows of resources	<u>\$ 337,220,151</u>	<u>\$ 360,956,952</u>

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 2,261,232	\$ 3,907,051
Line of credit	5,000,000	7,500,000
Accounts payable	15,208,230	24,663,193
Accrued expenses	13,807,836	16,838,704
Accrued interest	1,460,512	1,050,817
Estimated amounts due to third-party payers	58,723	397,653
Total current liabilities	<u>37,796,533</u>	<u>54,357,418</u>
Long-Term Debt	<u>113,876,659</u>	<u>115,952,338</u>
Total liabilities	<u>151,673,192</u>	<u>170,309,756</u>
Net Position		
Net investment in capital assets	88,581,945	91,295,233
Restricted - debt service	5,465,665	18,570,364
Unrestricted	91,499,349	80,781,599
Total net position	<u>185,546,959</u>	<u>190,647,196</u>
Total liabilities and net position	<u>\$ 337,220,151</u>	<u>\$ 360,956,952</u>

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; 2017 - \$20,245,385; 2016 - \$19,967,903	\$ 310,211,288	\$ 303,993,497
Other	<u>12,208,123</u>	<u>12,094,574</u>
Total operating revenue	<u>322,419,411</u>	<u>316,088,071</u>
Operating Expenses		
Salaries, wages and contract labor	140,620,162	137,515,994
Employee benefits	36,413,395	38,868,835
Purchased services and professional fees	58,052,554	54,443,209
Supplies	44,439,942	41,154,780
Utilities	4,909,441	4,760,340
Other expenses	13,292,812	11,841,510
Depreciation and amortization	19,553,513	20,229,896
Provider hospital assessment fee	<u>8,393,957</u>	<u>6,018,200</u>
Total operating expenses	<u>325,675,776</u>	<u>314,832,764</u>
Operating Income (Loss) Before Accelerated Depreciation on Building Disposal		
	(3,256,365)	1,255,307
Accelerated depreciation on building disposal	<u>(1,617,232)</u>	<u>-</u>
Total operating income (loss)	<u>(4,873,597)</u>	<u>1,255,307</u>
Nonoperating Revenue (Expense)		
Investment return	3,729,517	1,021,826
Interest expense	(3,964,150)	(2,132,699)
Net noncapital contribution	<u>7,993</u>	<u>54,213</u>
Total nonoperating expense	<u>(226,640)</u>	<u>(1,056,660)</u>
Excess (Deficiency) of Revenues Over Expenses and Change in Net Position		
	(5,100,237)	198,647
Net Position, Beginning of Year	<u>190,647,196</u>	<u>190,448,549</u>
Net Position, End of Year	<u>\$ 185,546,959</u>	<u>\$ 190,647,196</u>

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	\$ 314,027,727	\$ 288,538,254
Payments to suppliers and contractors	(141,708,984)	(102,347,024)
Payments to employees	(177,312,208)	(177,753,061)
Other receipts	12,208,123	12,094,574
Net cash provided by operating activities	7,214,658	20,532,743
Noncapital Financing Activity - grants and gifts	7,993	54,213
Capital and Related Financing Activities		
Proceeds from issuance of long-term obligations	-	39,579,757
Net borrowings (repayments) on line of credit	(2,500,000)	7,500,000
Principal paid on long-term obligations	(3,969,772)	(1,892,601)
Interest paid on long-term obligations	(5,516,299)	(4,201,374)
Payment of debt issuance costs	-	(327,217)
Purchase of capital assets	(12,193,668)	(30,695,768)
Net cash provided by (used in) capital and related financing activities	(24,179,739)	9,962,797
Investing Activities		
Interest and dividends	1,495,588	863,020
Proceeds from disposition of investments	40,238,130	18,880,161
Purchase of investments	(40,096,327)	(18,799,498)
Net cash provided by investing activities	1,637,391	943,683
Increase (Decrease) in Cash and Cash Equivalents	(15,319,697)	31,493,436
Cash and Cash Equivalents, Beginning of Year	56,831,463	25,338,027
Cash and Cash Equivalents, End of Year	\$ 41,511,766	\$ 56,831,463
Reconciliation of Cash and Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 36,046,101	\$ 38,261,099
Restricted cash	5,465,665	18,570,364
Total cash and cash equivalents	\$ 41,511,766	\$ 56,831,463
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (4,873,597)	\$ 1,255,307
Depreciation and amortization	21,170,745	20,229,896
Loss on disposal of capital assets	191,944	537,727
Provision for uncollectible accounts	20,245,385	19,967,903
Changes in operating assets and liabilities		
Patient and other accounts receivable	(16,090,016)	(35,373,497)
Supplies	(102,076)	(247,031)
Prepaid expenses, other assets, and deferred outflows of resources	(244,593)	(736,003)
Estimated amounts due to third-party payers	(338,930)	(49,649)
Accounts payable and accrued expenses	(12,744,204)	14,948,090
Net cash provided by operating activities	\$ 7,214,658	\$ 20,532,743
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 385,139	\$ -
Capital asset acquisitions included in accounts payable	1,564,189	1,305,816

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

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

Nature of Operations and Reporting Entity

Good Samaritan Hospital (Hospital) is an acute care hospital located in Vincennes, Indiana. The Hospital is a component unit of Knox County, Indiana (County) and the Board of County Commissioners appoints members to the Board of Governors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Knox County area.

In accordance with GASB Statement No. 61, *The Financial Reporting Entity*, the financial statements include the financial statements of Good Samaritan Hospital Foundation and Good Samaritan Hospital Physician Services, Inc. based upon common control.

The Good Samaritan Hospital Foundation (Foundation) is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital. Separate audited financial statements are not issued for the Foundation.

Good Samaritan Hospital Physician Services, Inc. (Physician Services) is also a significant blended component unit of the Hospital. The primary government appoints a voting majority of Physician Service's board and a financial benefit/burden relationship exists between the Hospital and Physician Services. Although it is legally separate from the Hospital, Physician Services is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital. Separate audited financial statements are not issued for Physician Services.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions, principally federal and state grants, are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters 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 claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method (FIFO) or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

	Years
Land improvements	5 - 25
Buildings and leasehold improvements	5 - 40
Equipment	3 - 20
Intangible assets	3 - 10

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2017	2016
Interest costs capitalized	\$ 1,961,844	\$ 2,115,033
Interest costs charged to expense	3,964,150	2,232,387
Total interest incurred	\$ 5,925,994	\$ 4,347,420

Deferred Outflows of Resources

A deferred outflow of resources is a consumption of net position by the Hospital that is applicable to a future reporting period. Deferred outflows of resources are reported in the balance sheets but are not recognized in the financial statements as expenses until the periods to which they relate. Deferred outflows of resources of the Hospital consist of deferred losses on debt refundings (defeasance costs).

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings, and unspent borrowings to be used for capital acquisitions. Unrestricted net position is remaining assets, less remaining liabilities that do not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

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 and a provision for uncollectible accounts. 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. Foregone charges for charity care approximated \$12,990,000 for 2017 and \$10,180,000 for 2016. Estimated cost based on the Hospital's records was \$3,500,000 for 2017 and \$2,930,000 for 2016.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. In addition, the Hospital is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Physician Services is exempt from income taxes under Section 509(a)(3) of the Internal Revenue Code and a similar provision of state law. Physician Services is subject to federal income tax on any unrelated business taxable income.

Long-Term Nursing Facilities

During the past several years, the Hospital has acquired thirteen nursing home operations through the execution of a licensing agreement, management agreement and lease agreement with third parties. These facilities provide inpatient and therapy services and support the Hospital's mission to provide quality care and services to the facility's residents. The nature of the agreements provide the Hospital the rights to all operating assets, government provider numbers and real estate. In connection with these agreements, the Hospital simultaneously entered into a management agreement with a third party to execute the operations of the nursing homes. The agreements have cancellation clauses, without cause, given appropriate notice. As the Hospital is a non-state government-owned hospital, it is entitled to certain special Medicaid payments, which are reflected in the balance sheets and statements of revenues, expenses and changes in net position. These special Medicaid payments recognized in net patient service revenue during 2017 and 2016 were approximately \$6.5 and \$5.6 million, net of required intergovernmental payments.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the changes in net position.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Note 2: 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:

Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient non-acute services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Long-term care services rendered to Medicare program beneficiaries are paid under a prospectively determined payment system on a per diem basis on each resident's health at admission. Medicare reimburses for up to 100 days of skilled nursing facility care subject to certain eligibility requirements.

Medicaid:

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. The payment methodologies are similar to those prescribed by the Medicare program more fully described above.

Long-term care services rendered to Medicaid program beneficiaries are paid on a per diem basis.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when reasonably determined that the funds will be received. The Hospital recognized approximately \$3,640,000 of net patient service revenue related to this supplemental payment program for the year ended December 31, 2017 and approximately \$3,000,000 for the year ended December 31, 2016.

The Hospital participates in a state-specific provider assessment program designed to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the statements of revenues, expenses and changes in net position. The Hospital paid approximately \$8,394,000 and \$6,018,000 for 2017 and 2016, respectively, into the program, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Approximately 45% and 42% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, respectively. 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 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.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Indiana state law requires the Hospital to deposit money with any financial institution designated by the state board of finance as depositories for state deposits. The Hospital's funds exceeding the FDIC insurance amount are covered by the Public Deposit Insurance Fund (PDIF). The PDIF insures those state and local public funds that are deposited in approved financial institutions in the event of financial institution failures.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest in certain deposit accounts, mutual funds, repurchase agreements and pooled investment funds as authorized by Indiana Code 16-22-3-20.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana

Notes to Financial Statements
December 31, 2017 and 2016

At December 31, 2017 and 2016, the Hospital had the following investments and maturities:

Type	Total	2017	
		Maturities in Years	
		Less Than 1	1-5
Mutual funds	\$ 31,997,299	\$ 31,997,299	\$ -

Type	Total	2016	
		Maturities in Years	
		Less Than 1	1-5
Mutual funds	\$ 29,905,173	\$ 29,905,173	\$ -

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy provides guidance to invest approximately 65% of its investment portfolio in fixed income securities. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital's policy provides guidance to invest in fixed income investments in U.S. Government bonds, bank certificates of deposits, and U.S. Treasury bonds among other government agencies. Such investments are to be insured by the U.S. Government or covered by applicable Federal and State Insurance programs.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy provides investments are to be maintained in insured deposits.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer, however, the PDIF described above mitigates the concentration of credit risk.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana

Notes to Financial Statements
December 31, 2017 and 2016

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2017	2016
Carrying value		
Deposits	\$ 43,911,111	\$ 58,625,193
Investments	29,847,954	28,361,443
	<u>\$ 73,759,065</u>	<u>\$ 86,986,636</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 36,046,101	\$ 38,261,099
Short-term investments	32,247,299	30,155,173
Restricted cash - current	5,465,665	18,570,364
	<u>\$ 73,759,065</u>	<u>\$ 86,986,636</u>

Non-negotiable certificates of deposit totaling \$250,000 are included in deposit balances at December 31, 2017 and 2016.

Investment Return

Investment return for the years ended December 31, 2017 and 2016 consisted of:

	2017	2016
Interest and dividend income	\$ 1,495,588	\$ 863,020
Realized gains from sales of investments	17,479	1,662,177
Net increase (decrease) in fair value of investments	2,216,450	(1,503,371)
	<u>\$ 3,729,517</u>	<u>\$ 1,021,826</u>

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Note 4: Disclosures About Fair Value of Assets and Liabilities

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 table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements 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, 2017 and 2016:

Unit of Account	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investment Measured at NAV ^(A)
December 31, 2017				
Investments subject to credit and interest rate risk:				
Equity mutual funds	\$ 29,847,954	\$ 29,847,954	\$ -	\$ -
December 31, 2016				
Investments subject to credit and interest rate risk:				
Equity mutual funds	\$ 29,905,173	\$ 29,905,173	\$ -	\$ -

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Note 5: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2017 and 2016 consisted of:

	2017	2016
Medicare	\$ 13,210,832	\$ 15,996,175
Medicaid	8,968,517	11,289,561
Other third-party payers	18,099,564	20,306,158
Patients	11,586,770	14,107,595
	51,865,683	61,699,489
Less allowance for uncollectible accounts	7,826,281	15,682,052
	\$ 44,039,402	\$ 46,017,437

Note 6: Capital Assets

Capital assets activity for the years ended December 31 was:

	Beginning Balance	2017			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 6,912,648	\$ -	\$ -	\$ -	\$ 6,912,648
Land improvements	9,275,750	-	(130,808)	2,300,347	11,445,289
Buildings and leasehold improvements	126,601,969	-	(7,281,570)	41,303,259	160,623,658
Equipment	201,679,450	9,763,652	(7,551,034)	(9,410,475)	194,481,593
Intangible assets	-	917,613	-	20,109,188	21,026,801
Construction in progress	52,644,189	4,117,759	-	(54,302,319)	2,459,629
	397,114,006	14,799,024	(14,963,412)	-	396,949,618
Less accumulated depreciation					
Land improvements	5,371,023	626,251	(89,118)	(1,629)	5,906,527
Buildings and leasehold improvements	60,443,914	7,138,577	(7,739,173)	-	59,843,318
Equipment	120,144,447	11,833,480	(6,943,177)	(10,718,488)	114,316,262
Intangible assets	-	1,443,558	-	10,720,117	12,163,675
	185,959,384	21,041,866	(14,771,468)	-	192,229,782
Capital assets, net	\$ 211,154,622	\$ (6,242,842)	\$ (191,944)	\$ -	\$ 204,719,836

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

	Beginning Balance	Additions	2016		Ending Balance
			Disposals	Transfers	
Land	\$ 7,202,985	\$ 100,000	\$ -	\$ (390,337)	\$ 6,912,648
Land improvements	9,191,361	-	-	84,389	9,275,750
Buildings and leasehold improvements	122,958,810	162,153	-	3,481,006	126,601,969
Equipment	203,683,078	1,064,979	(18,955,912)	15,887,305	201,679,450
Construction in progress	42,627,580	29,078,972	-	(19,062,363)	52,644,189
	<u>385,663,814</u>	<u>30,406,104</u>	<u>(18,955,912)</u>	<u>-</u>	<u>397,114,006</u>
Less accumulated depreciation					
Land improvements	4,784,197	586,826	-	-	5,371,023
Buildings and leasehold improvements	55,987,375	4,456,539	-	-	60,443,914
Equipment	123,504,841	15,057,791	(18,418,185)	-	120,144,447
	<u>184,276,413</u>	<u>20,101,156</u>	<u>(18,418,185)</u>	<u>-</u>	<u>185,959,384</u>
Capital assets, net	<u>\$ 201,387,401</u>	<u>\$ 10,304,948</u>	<u>\$ (537,727)</u>	<u>\$ -</u>	<u>\$ 211,154,622</u>

Note 7: Operating Leases

The Hospital leases various facilities and equipment under operating leases expiring at various dates through 2022. Total rental expense in 2017 and 2016 for these operating leases was approximately \$12,294,000 and \$12,226,000, respectively.

Future minimum lease payments under operating leases as of December 31, 2017 were:

2018	\$ 10,706,965
2019	2,091,456
2020	1,270,648
2021	671,010
2022	41,371
	<u>\$ 14,781,450</u>

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Note 8: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. In addition, the Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is 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 health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 9: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$225,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. 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. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 1,775,521	\$ 1,474,588
Current year claims incurred and changes in estimates for claims incurred in prior years	20,271,997	19,541,918
Claims and expenses paid	<u>(20,293,310)</u>	<u>(19,240,985)</u>
Balance, end of year	<u>\$ 1,754,208</u>	<u>\$ 1,775,521</u>

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Note 10: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable:					
Revenue refunding					
bonds, series 2012 (a)	\$ 77,295,000	\$ -	\$ 1,505,000	\$ 75,790,000	\$ 1,565,000
Plus: Unamortized bond premium	2,537,070	-	100,148	2,436,922	-
Health facilities revenue					
bonds, series 2016 (b)	38,510,000	-	2,005,000	36,505,000	565,000
Plus: Unamortized bond premium	1,069,757	-	36,717	1,033,040	-
Capital lease obligations	447,562	385,139	459,772	372,929	131,232
	<u>\$ 119,859,389</u>	<u>\$ 385,139</u>	<u>\$ 4,106,637</u>	<u>\$ 116,137,891</u>	<u>\$ 2,261,232</u>

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable:					
Revenue refunding					
bonds, series 2012 (a)	\$ 78,750,000	\$ -	\$ 1,455,000	\$ 77,295,000	\$ 1,505,000
Plus: Unamortized bond premium	2,637,217	-	100,147	2,537,070	-
Health facilities revenue					
bonds, series 2016 (b)	-	38,510,000	-	38,510,000	2,005,000
Plus: Unamortized bond premium	-	1,069,757	-	1,069,757	-
Capital lease obligations	885,163	-	437,601	447,562	397,051
	<u>\$ 82,272,380</u>	<u>\$ 39,579,757</u>	<u>\$ 1,992,748</u>	<u>\$ 119,859,389</u>	<u>\$ 3,907,051</u>

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

- (a) The economic development revenue and refunding bonds (Bonds) were issued in the original amount of \$83,395,000 dated April 2012, which bear interest at 2.5% to 5.9%. The Bonds are payable in semi-annual installments through 2042. The Hospital is required to make annual deposits to the debt service fund held by the trustee, which are included as restricted cash in the balance sheets. The Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement. Under the master indenture, the Hospital is required to maintain a debt service coverage ratio of at least 1.25, measured annually and must have no less than 65 days of cash on hand measured semi-annually. Of the 2012 bonds issued, \$16,210,000 were issued as Qualified Energy Conservation Bonds (QECCB), which are eligible for interest subsidy payments from the United States Treasury. Subsidy payments (following 2014 sequestration, which lowered the subsidies by approximately 7.2%) to be received on these bonds are as follows:

	Year Ending December 31,	Amount to be Received
2018		\$ 492,805
2019		492,805
2020		492,805
2021		492,805
2022		492,805
2023-2027		2,464,026
2028-2032		2,026,312
2033-2034		212,733
		<u>\$ 7,167,096</u>

The debt service requirements as of December 31, 2017, are as follows:

	Year Ending December 31,	Total to be Paid	Principal	Interest
2018		\$ 5,447,690	\$ 1,565,000	\$ 3,882,690
2019		5,452,015	1,625,000	3,827,015
2020		5,450,390	1,690,000	3,760,390
2021		5,448,765	1,775,000	3,673,765
2022		5,447,765	1,865,000	3,582,765
2023-2027		27,254,950	10,880,000	16,374,950
2028-2032		27,243,748	14,095,000	13,148,748
2033-2037		26,714,478	18,185,000	8,529,478
2038-2042		27,243,750	24,110,000	3,133,750
		<u>\$ 135,703,551</u>	<u>\$ 75,790,000</u>	<u>\$ 59,913,551</u>

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

- (b) The health facilities revenue bonds (2016 series bonds) were issued in the original amount of \$38,510,000 dated December 2016, which bear interest at 4% to 5.5%. The 2016 series bonds are payable in semi-annual installments through 2046. The Hospital is required to make annual deposits to the debt service fund held by the trustee, which are included as restricted cash in the balance sheets. The Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement. Under the master indenture, the Hospital is required to maintain a debt service coverage ratio of at least 1.25, measured annually and must have no less than 65 days of cash on hand measured semi-annually.

The debt service requirements as of December 31, 2017, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	\$ 2,524,625	\$ 565,000	\$ 1,959,625
2019	2,527,025	590,000	1,937,025
2020	2,523,425	610,000	1,913,425
2021	2,527,925	645,000	1,882,925
2022	2,525,675	675,000	1,850,675
2023-2027	5,776,925	3,960,000	1,816,925
2028-2032	6,987,875	5,210,000	1,777,875
2033-2037	8,446,625	6,710,000	1,736,625
2038-2042	10,383,175	8,690,000	1,693,175
2043-2046	10,497,525	8,850,000	1,647,525
	<u>\$ 54,720,800</u>	<u>\$ 36,505,000</u>	<u>\$ 18,215,800</u>

Good Samaritan Hospital
A Component Unit of Knox County, Indiana

Notes to Financial Statements
December 31, 2017 and 2016

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The net book value of assets under capital leases at December 31, 2017 totaled \$446,649, which is net of accumulated depreciation of \$1,219,695. The net book value of assets under capital leases at December 31, 2016 totaled \$458,783, which is net of accumulated depreciation of \$1,000,322. Interest rates range from 3.75% to 4.0% on these leases. Total future lease payments are:

Year Ending December 31,

2018		\$ 131,232
2019		90,059
2020		77,537
2021		76,910
2022		25,932
	Total minimum lease payments	401,670
	Less amount representing interest	28,741
	Present value of future minimum lease payments	\$ 372,929

Line of Credit Agreements

The Hospital entered into an unsecured line of credit agreement in June 2016 providing \$10,000,000 of borrowings. Variable interest is due monthly at 1.85% over the London Interbank Offered Rates, or 2.75% at December 31, 2016. Principal and any unpaid interest were due in full on July 1, 2017, which was the maturity of the line of credit. The Hospital had \$7,500,000 outstanding under the line of credit agreement at December 31, 2016.

Effective August 1, 2017, the Hospital entered into an unsecured line of credit agreement providing \$5,000,000 of borrowings. Variable interest is due monthly at 1.85% over the London Interbank Offered Rates, or 2.75% at December 31, 2017. Upon maturity on July 1, 2018, any principal and unpaid interest are due in full. The Hospital had \$5,000,000 outstanding under the line of credit agreement at December 31, 2017.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Note 11: Condensed Combining Financial Statement Information and Blended Component Units

The financial statements include the blended component unit accounts of Physician Services and the Foundation as discussed in Note 1. The following tables include condensed combining financial statement information for the Hospital and its blended component units as of and for the years ended December 31, 2017 and 2016.

	2017			
	Hospital	Physician Services	Foundation	Total
Total current assets	\$ 124,376,967	\$ 2,785,894	\$ 4,399,143	\$ 131,562,004
Total noncurrent assets and deferred outflows of resources	205,384,264	-	273,883	205,658,147
Total assets	<u>\$ 329,761,231</u>	<u>\$ 2,785,894</u>	<u>\$ 4,673,026</u>	<u>\$ 337,220,151</u>
Total liabilities	\$ 150,868,824	\$ 802,764	\$ 1,604	\$ 151,673,192
Net position	<u>178,892,407</u>	<u>1,983,130</u>	<u>4,671,422</u>	<u>185,546,959</u>
Total liabilities and net position	<u>\$ 329,761,231</u>	<u>\$ 2,785,894</u>	<u>\$ 4,673,026</u>	<u>\$ 337,220,151</u>
Revenue	\$ 291,736,110	\$ 33,608,882	\$ 811,929	\$ 326,156,921
Expenses	(273,132,831)	(55,458,384)	(1,048,711)	(329,639,926)
Transfer from Hospital	<u>(21,484,985)</u>	<u>21,094,615</u>	<u>390,370</u>	<u>-</u>
Change in net position	(2,881,706)	(754,887)	153,588	(3,483,005)
Net position, beginning of year	<u>183,391,345</u>	<u>2,738,017</u>	<u>4,517,834</u>	<u>190,647,196</u>
Net position, end of year	<u>\$ 180,509,639</u>	<u>\$ 1,983,130</u>	<u>\$ 4,671,422</u>	<u>\$ 187,164,191</u>
Total operating activities	\$ 7,176,673	\$ -	\$ 37,985	\$ 7,214,658
Total noncapital financing activities	7,993	-	-	7,993
Total capital and related financing activities	(24,179,739)	-	-	(24,179,739)
Total investing activities	<u>1,637,391</u>	<u>-</u>	<u>-</u>	<u>1,637,391</u>
Net (decrease) increase in cash and cash equivalents	(15,357,682)	-	37,985	(15,319,697)
Cash and cash equivalents at beginning of year	<u>56,820,322</u>	<u>-</u>	<u>11,141</u>	<u>56,831,463</u>
Cash and cash equivalents at end of year	<u>\$ 41,462,640</u>	<u>\$ -</u>	<u>\$ 49,126</u>	<u>\$ 41,511,766</u>

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

	2016			Total
	Hospital	Physician Services	Foundation	
Total current assets	\$ 140,688,348	\$ 3,611,392	\$ 4,244,781	\$ 148,544,521
Total noncurrent assets and deferred outflows of resources	212,137,986	-	274,445	212,412,431
Total assets	\$ 352,826,334	\$ 3,611,392	\$ 4,519,226	\$ 360,956,952
Total liabilities	\$ 169,434,989	\$ 873,375	\$ 1,392	\$ 170,309,756
Net position	183,391,345	2,738,017	4,517,834	190,647,196
Total liabilities and net position	\$ 352,826,334	\$ 3,611,392	\$ 4,519,226	\$ 360,956,952
Revenue	\$ 283,022,352	\$ 33,656,101	\$ 485,657	\$ 317,164,110
Expenses	(264,732,846)	(51,777,331)	(455,286)	(316,965,463)
Transfer from Hospital	(18,111,032)	17,959,589	151,443	-
Change in net position	178,474	(161,641)	181,814	198,647
Net position, beginning of year	183,212,871	2,899,658	4,336,020	190,448,549
Net position, end of year	\$ 183,391,345	\$ 2,738,017	\$ 4,517,834	\$ 190,647,196
Total operating activities	\$ 20,314,614	\$ -	\$ 218,129	\$ 20,532,743
Total noncapital financing activities	54,213	-	-	54,213
Total capital and related financing activities	9,962,797	-	-	9,962,797
Total investing activities	943,683	-	-	943,683
Net increase in cash and cash equivalents	31,275,307	-	218,129	31,493,436
Cash and cash equivalents at beginning of year	25,326,886	-	11,141	25,338,027
Cash and cash equivalents at end of year	\$ 56,602,193	\$ -	\$ 229,270	\$ 56,831,463

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Note 12: Pension Plan

The Hospital contributes to a 401(a) defined-contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's Board of Governors. The current contributions rate is 7% of the first \$9,999 and 10% thereafter of annual covered payroll for employees hired prior to January 1, 2002. Employees hired January 1, 2002 or later will receive 7% of annual earnings (annual earnings exclude overtime and bonus payments). Employer contributions to the plan in 2017 and 2016 was \$6,269,252 and \$6,332,193, respectively. Effective January 1, 2017, this plan was frozen to new participants and effective January 1, 2018, no additional contributions will be made to the plan.

The Hospital also operates a 403(b) defined-contribution pension plan covering substantially all employees. During 2017 and 2016, the Hospital was not required, nor did they make any contributions to this plan. Effective January 1, 2018, this plan was amended to include a discretionary matching contributions from the Hospital for all employees hired after January 1, 2017.

Note 13: Contingencies and Commitments

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) or by commercial insurance; 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. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. The Hospital currently has certain cases outstanding and management believes that the financial statements will not be materially affected, in the event of an adverse outcome. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Commitments

In March 2015, the Hospital entered into an agreement with Deaconess Hospital, Inc. to implement a new Hospital-wide information system. Terms of the agreement provide for annual maintenance costs to approximate \$1,461,000 to \$1,693,000 annually for the seven-year term.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2017 and 2016

Note 14: Future Change in Accounting Principle

In fiscal year 2020, the Hospital will implement GASB Statement No. 87, *Leases*. The statement provides a new framework for accounting for leases under the principal that leases are financings and lessees should recognize an intangible asset and a corresponding liability while the lessor will recognize a lease receivable and related deferred inflow of resources. The Hospital has not determined the impact of the new standard on their financial statements, however, it could have a material future impact.