Gibson General
HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2018

CPAs / ADVISORS

blue

GIBSON GENERAL HOSPITAL, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Gibson General Hospital, Inc.
Princeton, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Gibson General Hospital, Inc. (Hospital), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Board of Trustees
Gibson General Hospital, Inc.
Princeton, Indiana

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2018 and 2017, and the results of its operations, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial information as listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual entities, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated DATE on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
February 27, 2019

GIBSON GENERAL HOSPITAL, INC.

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2018 AND 2017

ASSETS

	2018	2017
Current assets		
Cash and cash equivalents	$ 4,830,412	$ 6,219,140
Investments	1,393,566	175,699
Patient accounts receivable, net of allowance for uncollectible accounts of $1,332,000 in 2018 and $2,002,000 in 2017	3,143,623	3,285,892
Other receivables	576,507	654,673
Supplies	711,314	783,371
Prepaid expenses	262,355	248,364
Total current assets	10,917,777	11,367,139
Assets whose use is limited		
Pledged as collateral	346,558	1,000,000
Property and equipment, net	9,949,332	10,288,648
Beneficial interest in net assets of Community Foundation Alliance	63,687	59,692
Other assets	15,390	18,430
Total assets	$ 21,292,744	$ 22,733,909

LIABILITIES AND NET ASSETS

	2018	2017
Current liabilities		
Accounts payable	$ 593,918	$ 634,643
Accrued expenses	1,586,898	1,552,565
Estimated third-party settlements	511,000	733,664
Deferred revenue	708,077	925,541
Current portion of long-term debt	171,015	124,283
Total current liabilities	3,570,908	3,970,696
Long-term debt, less current portion	7,075,296	6,982,014
Total liabilities	10,646,204	10,952,710
Net assets		
Unrestricted		
Controlling interest	10,557,090	11,684,700
Non-controlling interest	-0-	11,800
Total unrestricted net assets	10,557,090	11,696,500
Temporarily restricted	25,763	25,007
Permanently restricted	63,687	59,692
Total net assets	10,646,540	11,781,199
Total liabilities and net assets	$ 21,292,744	$ 22,733,909

See accompanying notes to consolidated financial statements.

GIBSON GENERAL HOSPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Unrestricted revenues, gains and other support		
Net patient service revenue	$ 29,420,189	$ 29,644,813
Less provision for bad debts	1,911,869	2,504,411
Net patient service revenue net of provision for bad debts	27,508,320	27,140,402
Management services revenue	2,227,112	2,380,515
Rental revenue	519,182	509,192
Other revenue	385,928	411,899
Total unrestricted revenues, gains and other support	30,640,542	30,442,008
Expenses		
Salaries and wages	13,835,780	13,278,490
Employee benefits	3,785,200	3,065,523
Physician fees	2,066,221	1,151,964
Supplies and drugs	3,115,370	2,801,786
Dues and subscriptions	486,274	556,477
Purchased services	3,258,008	3,156,965
Rent and leases	463,798	404,543
Repairs and maintenance	1,066,707	869,615
Utilities	665,252	634,046
Insurance	340,348	400,619
Depreciation	1,304,781	1,269,751
Interest	318,122	295,898
HAF and HIP programs	981,811	625,118
Other	487,503	381,407
Total expenses	32,175,175	28,892,202
Operating income (loss)	(1,534,633)	1,549,806
Nonoperating revenues		
Contributions	354,821	349,826
Investment return	34,680	13,556
Net assets released from restriction	5,722	31,829
Total nonoperating revenues	395,223	395,211
Excess revenues over expenses	(1,139,410)	1,945,017
Other changes in unrestricted net assets		
Other	-0-	(48,112)
Distributions related to PMG joint venture	-0-	(71,994)
Change in unrestricted net assets	(1,139,410)	1,824,911
Temporarily restricted net assets		
Contributions	6,478	6,094
Net assets released from restriction	(5,722)	(31,829)
Change in temporarily restricted net assets	756	(25,735)
Permanently restricted net assets		
Change in beneficial interest in net assets of Community Foundation	3,995	2,273
Change in net assets	(1,134,659)	1,801,449
Net assets		
Beginning of year	11,781,199	9,979,750
End of year	$ 10,646,540	$ 11,781,199

See accompanying notes to consolidated financial statements.

GIBSON GENERAL HOSPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Operating activities		
Change in net assets	$ (1,134,659)	$ 1,801,449
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,304,781	1,269,751
Amortization of debt issue costs	29,805	3,853
Provision for bad debts	1,911,869	2,504,411
Unrealized gain on investments	(883)	-0-
Distributions	-0-	71,994
Change in beneficial interest in net assets of Community Foundation Alliance	(3,995)	(2,273)
Change in operating assets and liabilities		
Patient accounts receivable	(1,769,600)	(2,767,104)
Other receivables	78,166	168,943
Supplies	72,057	(26,791)
Prepaid expenses	(13,991)	76,248
Other assets	3,040	(18,430)
Accounts payable	(40,725)	(46,624)
Accrued expenses	34,333	(98,179)
Estimated third-party settlements	(222,664)	482,111
Deferred revenue	(217,464)	856,244
Net cash flows from operating activities	30,070	4,275,603
Investing activities		
Change in assets whose use is limited	653,442	3,961
Purchases of investments	(1,216,984)	(699)
Additions to property and equipment	(965,465)	(236,006)
Net cash flows from investing activities	(1,529,007)	(232,744)
Financing activities		
Proceeds from issuance of long-term debt	7,610,000	-0-
Principal payments on long-term debt	(7,360,138)	(887,865)
Payments for bond issuance costs	(139,653)	(7,968)
Distributions related to PMG joint venture	-0-	(304,398)
Net cash flows from financing activities	110,209	(1,200,231)
Net change in cash and cash equivalents	(1,388,728)	2,842,628
Cash and cash equivalents		
Beginning of year	6,219,140	3,376,512
End of year	$ 4,830,412	$ 6,219,140
Supplemental disclosure of cash flows information		
Cash paid for interest	$ 288,317	$ 292,045

See accompanying notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

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

Organization

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

Gibson General Health Foundation, Inc. (Foundation) is affiliated with the Hospital through individuals holding common memberships of their respective governing bodies and through the dedication of fundraising efforts by the Foundation for the benefit of the Hospital. During 2016, GGH Holding Company, LLC (Holding Company) was formed to acquire real estate and borrow funds for exclusive use by the Hospital. The Hospital is the sole member of the Holding Company. The Holding Company is a disregarded entity and its operations are treated as a department of the Hospital. Pain Management, LLC (Pain Management) is a joint venture in which the Hospital held a controlling interest. The consolidated financial statements included a non-controlling interest related to Pain Management. Pain Management was dissolved during 2017 and all amounts were liquidated in fiscal year 2018. These entities are collectively referred to as the Hospital.

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

From the revenues generated, Perry County pays the Hospital for the provision of management services in accordance with the management agreement including compensation for the associated operating expenses incurred as well certain defined management fees. The management fees consist of a base fee, a subordinated management fee, and if applicable, an incentive management fee and incentive quality management fee. The total management services revenue earned by the Hospital for 2018 and 2017 was approximately $2,227,000 and $2,381,000, respectively, and is included in the accompanying consolidated financial statements.

Also from the revenues generated, Perry County pays the Hospital for the usage of facilities and intangible assets in accordance with the lease and intangible property license agreements, which approximated $450,000 in both 2018 and 2017, and is included in rental revenue within the accompanying consolidated financial statements.

The Hospital has a net receivable related to this arrangement as of September 30, 2018 and 2017 approximating $303,000 and $371,000, respectively, which is included in other receivables within the accompanying consolidated financial statements. This receivable primarily consists of working capital accounts between the Hospital and Perry County. Other unrelated amounts included in other receivables approximated $274,000 and $284,000 as of September 30, 2018 and 2017.

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

Principles of Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

The Hospital considers highly liquid investments available for operating purposes with an original maturity of 90 days or less to be cash and cash equivalents for the purposes of the consolidated statements of cash flows. The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Investments and Investment Return

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

Patient Accounts Receivable and Net Patient Service Revenue

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

Allowance for Uncollectible Accounts

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

During 2018, the Hospital's allowance for uncollectible accounts decreased approximately $670,000 from approximately $2,002,000 to $1,332,000, primarily related to a decrease in the gross accounts receivable balance and an improvement of the overall aging of the Hospital's accounts receivable. The Hospital's self-pay related write-offs decreased by approximately $100,000 to $2,580,000 in 2018 from $2,680,000 in 2017. The change was the result of trends related to shifts in payor mix due to health care reform and an increase in insurance coverage for patients who were previously uninsured or underinsured. The Hospital did not change its charity care or financial assistance policies during 2018 or 2017.

As of September 30, 2018, the allowance for uncollectible accounts of approximately $1,332,000 was comprised of approximately $1,236,000 reserved for self-pay balances and $96,000 reserved for third-party payor balances. As of September 30, 2017, the allowance for uncollectible accounts of approximately $2,002,000 was comprised of approximately $1,800,000 reserved for self-pay balances and $202,000 reserved for third-party payor balances.

Other Receivables

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

Supplies

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

Assets Limited as to Use

Assets limited as to use include assets pledged as collateral related to assets restricted in relation to certain debt agreements.

Property, Equipment, and Provision for Depreciation

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

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

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

Beneficial Interest in Net Assets of Community Foundation Alliance

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

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

Accrued Expenses

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

Estimated Third-Party Settlements

Estimated third-party settlements for the Medicare and Medicaid programs reflect the differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year, and any differences owed to or by the Hospital after such reports have been audited. As of September 30, 2018, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through September 30, 2016.

Changes to any previous year's estimated settlement are reflected in the period the intermediary finalizes its audit of cost reports, or when additional information becomes available. During 2018 and 2017, differences between original estimates and subsequent revisions for the final settlement of cost reports were immaterial to the consolidated financial statements as a whole.

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

Deferred Revenue

Deferred revenue relates primarily to amounts received as part of the Contribution and Management Services agreements with Deaconess Hospital. See Note 13 for further details.

Deferred Financing Costs

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

Temporarily and Permanently Restricted Net Assets

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

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

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

A summary of temporarily restricted net assets as of September 30, 2018 and 2017 follows:

	2018	2017
Purchase of equipment and emergency department expansion	$ 8,397	$ 7,002
Childhood obesity	5,856	7,056
Other	11,510	10,949
	$ 25,763	$ 25,007

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

The Hospital's patient assistance policy reflects the current economic conditions and other factors unique to the Hospital's customer base. Patient assistance provided during 2018 and 2017, measured at established rates, was approximately $331,000 and $998,000, respectively. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The Hospital receives reimbursements from certain governmental payors to assist in the funding of patient assistance.

Of the Hospital's total expenses reported, an estimated $196,000 and $508,000 arose from providing services to charity patients during 2018 and 2017, respectively. The estimated costs of providing patient assistance services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses to gross patient service revenue. There were no significant changes in the Hospital's patient assistance policy during 2018.

Contributions

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. During 2018 and 2017, there were no gifts of long-lived assets with restrictions.

Performance Indicator

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

Federal and State Income Taxes

The Hospital and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code. As such, the Hospital and Foundation are generally exempt from income taxes. However, both are required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only. Pain Management was organized as a limited liability company, whereby net taxable income is taxed directly to the members and not Pain Management. Accordingly, no current or deferred provision for income taxes has been made for the years ended September 30, 2018 and 2017.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and Foundation and recognize a tax liability if they have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities.

Management has analyzed the tax positions taken by the Hospital, Foundation and Pain Management, and has concluded that as of September 30, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. These entities are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Hospital and Foundation filed their federal and state income tax returns for periods through September 30, 2017. Pain Management has filed its federal and state income tax returns for periods through December 31, 2017. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Advertising Costs

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expenses were approximately $233,000 and $157,000 in 2018 and 2017, respectively.

Reclassifications

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the current year presentation. There was no impact to the 2017 consolidated change in net assets as a result of these reclassifications.

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are available to be issued which is February 27, 2019.

Going Concern Evaluation

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

Recently Issued Accounting Standards

On May 28, 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606),* which deferred the effective date for all entities by one year. These new standards, which the Hospital is not required to adopt until its year ending September 30, 2020, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

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

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

On November 17, 2016, the FASB issued ASU No. 2016-18, *Statement of Cash (Topic 230) – Restricted Cash*. This new standard intends to eliminate diversity in practice by requiring the statement of cash flows to present the change in the total cash and cash equivalents, which will include restricted cash and cash equivalents. The Hospital will be required to adopt this new standard in the year ending September 30, 2020.

On June 21, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. Finally, ASU 2018-08 amends the "simultaneous release accounting policy" to allow an NFP entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. The Hospital will be required to adopt this new standard in the year ending September 30, 2020.

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

2. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Investments consist of the following as of September 30:

	2018	2017
Certificates of deposit	$ 176,580	$ 175,699
Exchange traded funds	1,216,986	-0-
	$ 1,393,566	$ 175,699

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

	2018	2017
Cash and cash equivalents	$ 346,558	$ 1,000,000

The following is a reconciliation of investment return for 2018 and 2017:

	2018	2017
Interest and dividends	$ 37,792	$ 15,829
Unrealized gains	883	-0-
	$ 38,675	$ 15,829

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

	2018	2017
Unrestricted net assets	$ 34,680	$ 13,556
Permanently restricted net assets	3,995	2,273
	$ 38,675	$ 15,829

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

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

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of September 30, 2018 and 2017:

- *Exchange traded funds*: Valued at the daily closing price as reported by the fund on an active market on which the exchange traded funds are traded. Exchange traded funds are generally valued at their net asset value (NAV), although shares may trade at a premium or discount to the NAV depending on the liquidity of the underlying securities, market volatility, and other factors.

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

The following table sets forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 and 2017:

	September 30, 2018			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Exchange traded funds - ultrashort bond	$ 1,216,986	$ 1,216,986	$ -0-	$ -0-
Beneficial interest in net assets at Community Foundation Alliance	$ 63,687	$ -0-	$ -0-	$ 63,687

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

The following is a reconciliation of activity for 2018 and 2017 for assets measured at fair value based upon significant unobservable (Level 3) inputs:

	2018	2017
Beneficial interest in net assets at Community Foundation Alliance, beginning of year	$ 59,692	$ 57,419
Change in value of beneficial interest	3,995	2,273
Beneficial interest in net assets at Community Foundation Alliance, end of year	$ 63,687	$ 59,692

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2018 and 2017.

4. PROPERTY AND EQUIPMENT

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

	2018	2017
Land and improvements	$ 680,034	$ 684,802
Buildings and improvements	19,707,979	19,903,822
Equipment	13,629,414	14,371,559
	34,017,427	34,960,183
Less accumulated depreciation	24,077,641	24,777,482
	9,939,786	10,182,701
Construction in progress	9,546	105,947
	$ 9,949,332	$ 10,288,648

The estimated cost to complete outstanding construction projects was approximately $10,000 as of September 30, 2018 which will be incurred during 2019.

5. ACCOUNTING FOR NON-CONTROLLING INTEREST

The following depicts the change in the consolidated unrestricted net assets attributable to the controlling financial interest of the Hospital and the non-controlling interest as of September 30, 2018 and 2017:

	Controlling interest	Non-controlling interest	Total
Unrestricted net assets			
September 30, 2016	$ 9,710,633	$ 160,956	$ 9,871,589
Excess revenues over expenses	1,909,740	35,277	1,945,017
Other	64,327	(112,439)	(48,112)
Distributions	-0-	(71,994)	(71,994)
Change in unrestricted net assets	1,974,067	(149,156)	1,824,911
September 30, 2017	11,684,700	11,800	11,696,500
Excess revenues over expenses	(1,139,410)	-0-	(1,139,410)
Other	11,800	(11,800)	-0-
Change in unrestricted net assets	(1,127,610)	(11,800)	(1,139,410)
September 30, 2018	$ 10,557,090	$ -0-	$ 10,557,090

6. NET PATIENT SERVICE REVENUE

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

Medicare

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

Medicaid and Hospital Assessment Fee and Healthy Indiana Plan Programs

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and for Medicaid outpatient services on a predetermined fee schedule. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments.

The Hospital participates in the State of Indiana’s Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the consolidated statements of operations and changes in net assets. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Beginning July 1, 2017, hospitals also started funding the Healthy Indiana Plan (HIP), the State’s Medicaid expansion program.

The payments related to the HIP program mirror the Medicaid payments under the HAF program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2018 and 2017, the Hospital recognized HAF and HIP Program expenses of approximately $982,000 and $625,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in the consolidated statements of operations and changes in net assets in other expenses. The Medicaid rate increases under the HAF Program and the HIP payments are included in patient service revenue in the consolidated statements of operations and changes in net assets.

Other Payment Arrangements

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

A summary of net patient service revenue, contractual adjustments, and patient service revenue forgone for patient assistance, at standard charges, for 2018 and 2017 follows:

	2018	2017
Gross patient service revenue		
Inpatient	$ 3,921,986	$ 5,112,212
Outpatient	50,333,920	51,603,335
Total gross patient service revenue	54,255,906	56,715,547
Deductions from revenue		
Contractual adjustments	24,504,981	26,072,960
Provisions for bad debts	1,911,869	2,504,411
Charity care	330,736	997,774
	26,747,586	29,575,145
Net patient service revenue	$ 27,508,320	$ 27,140,402

7. CONCENTRATIONS OF CREDIT RISK

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

	Receivables		Revenues	
	2018	2017	2018	2017
Medicare	27%	30%	48%	46%
Medicaid	9%	14%	19%	20%
Blue Cross	7%	7%	13%	13%
Other third-party payors	25%	18%	16%	16%
Self pay	32%	31%	4%	5%
	100%	100%	100%	100%

8. LONG-TERM DEBT

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

	2018	2017
City of Princeton, Indiana Economic Development Revenue Bonds (Series 2005 Bonds). The bonds were refinanced in 2018.	$ -0-	$ 3,779,661
City of Princeton, Indiana Economic Development Revenue Bonds (Series 2007 Bonds). The bonds were refinanced in 2018.	-0-	931,912
City of Princeton, Indiana Economic Development Revenue Bonds (Series 2008 Bonds). The bonds were refinanced in 2018.	-0-	1,349,423
Promissory note with a financial institution to purchase the surgery center building. The note was refinanced in 2018.	-0-	837,692
Promissory note with a financial institution for remodeling costs at the Hospital. The note was refinanced in 2018.	-0-	198,467
Promissory note with a financial institution to purchase radiology equipment. The note was refinanced in 2018.	-0-	89,479
United States Department of Agriculture (USDA) Direct Loan, dated December 14, 2017, fixed interest of 3.25%, payable in monthly principal and interest installments of approximately $29,000 through December 14, 2047.	6,512,104	-0-
Fixed bank loan guaranteed by the USDA, dated December 14, 2017, fixed interest of 3.81%, payable in monthly principal and interest installments of approximately $6,000 through December 14, 2037.	924,390	-0-
	7,436,494	7,186,634
Less unamortized debt issuance costs	190,183	80,337
Less current portion	171,015	124,283
	$ 7,075,296	$ 6,982,014

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

The City of Princeton, Indiana Economic Development Revenue Bonds, Series 2005 (2005 Bonds) were issued in the original amount of $7,100,000 dated June 2005. The bonds bear a variable interest rate based on LIBOR and is adjusted every five years. The interest rate at September 30, 2017 was 4.00%. This loan was refinanced with the USDA and bank financed refinancing project in 2018, as noted below.

The City of Princeton, Indiana Economic Development Revenue Bonds, Series 2007 (2007 Bonds) were issued in the original amount of $2,096,000 dated October 2007 and were utilized by the Hospital for an energy conservation project. The bonds bear a variable interest rate based on LIBOR and is adjusted every five years. The interest rates at September 30, 2017 was 4.00%. This loan was refinanced with the USDA and bank financed refinancing project in 2018, as noted below.

The City of Princeton, Indiana Economic Development Revenue Bonds, Series 2008 (2008 Bonds) were issued in the original amount of $2,500,000 dated December 2008 and were utilized by the Hospital for renovations to the emergency department. The bonds bear a variable interest rate based on LIBOR and is adjusted every five years. The interest rates at September 30, 2017 was 4.00%. This loan was refinanced with the USDA and bank financed refinancing project in 2018, as noted below.

The Hospital also maintained various promissory notes with financial institutions. These promissory notes were also refinanced during 2018.

On December 14, 2017, all of the Hospital's debt mentioned above was refinanced, through the Holding Company, by a $6,611,000 loan from the USDA and $1,000,000 loan from First Financial Bank. The USDA loan has a fixed interest rate of 3.25% and a term of 30 years and the First Financial Bank loan has a fixed interest rate of 3.81% for the first 5 years, after which will be adjusted based on the weekly 5 year average of the US Treasury constant maturity rate plus 2.0%. The total term of the First Financial Bank loan is 20 years. The USDA loan and the bank loan secured by the USDA are secured by substantially all property and equipment with a net book value of approximately $9,949,000 as of September 30, 2018. The USDA loan contains various financial covenants and the Hospital was in compliance with those covenants as of September 30, 2018.

Annual maturities of long-term debt for the years succeeding September 30, 2018 are as follows:

Year Ending September 30,		
2019	$	171,015
2020		176,874
2021		182,934
2022		189,202
2023		195,687
Thereafter		6,520,782
	$	7,436,494

9. OPERATING LEASES

The Hospital leases space and equipment under several non-cancelable operating leases that expire in various years through 2023.

Future minimum lease payments are as follows:

Year ending September 30,		
2019	$	485,063
2020		445,102
2021		413,448
2022		253,040
2023		139,792
	$	1,736,445

Rental expense related to all operating leases for the years ended September 30, 2018 and 2017 was approximately $462,000 and $402,000, respectively.

10. RETIREMENT PLANS

The Hospital has a defined contribution pension plan, which covers all eligible employees. Under the terms of the plan, covered employees may contribute a percentage of gross pay, with matching contributions by the Hospital at 50% of employee contributions up to 4% of employee eligible compensation. For the years ended September 30, 2018 and 2017, the amount of retirement expense was approximately $175,000 and $178,000, respectively.

11. MEDICAL MALPRACTICE

The Hospital purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

The Indiana Medical Malpractice Act, IC 34-18 (Act) provides a maximum recovery of $1,650,000 for an occurrence of malpractice until June 30, 2019, and $1,800,000 thereafter. The Act requires the Hospital to maintain medical malpractice liability insurance in the amount of at least $400,000 per occurrence ($8,000,000 in the annual aggregate) until June 30, 2019. Starting July 1, 2019, the Act will require the Hospital to maintain medical malpractice liability insurance in the amount of at least $500,000 per occurrence ($10,000,000 in the annual aggregate).

The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

12. SELF-INSURED EMPLOYEE HEALTH CLAIMS

The Hospital's employee health care insurance is provided through a combination of self-insurance and purchased re-insurance coverage from a commercial carrier. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. The specific annual attachment point for an individual is $75,000 with an unlimited lifetime policy. The aggregate benefit maximum under the policy as of September 30, 2018 was $1,000,000 per year. Total expense for 2018 and 2017 totaled approximately $2,598,000 and $1,927,000, respectively.

The liability for employee health claims represents management's estimate of all incurred and reported claims plus estimated incurred but not reported claims based on the Hospital's reporting system. The carrying amount of the liability was approximately $213,000 and $154,000 as of September 30, 2018 and 2017, respectively. The liability is included in accrued expenses in the accompanying consolidated balance sheets.

13. CONTRIBUTION AND MANAGEMENT SERVICES AGREEMENT

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

14. COMMITMENTS AND CONTINGENCIES

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

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

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice.

15. FUNCTIONAL EXPENSES

The Hospital, located in Princeton, Indiana, is a not-for-profit acute care hospital providing inpatient, outpatient, and other ancillary services to the residents of Ripley and surrounding counties. Expenses related to providing these services for 2018 and 2017 are as follows:

	2018	2017
Health care services	$ 24,416,694	$ 22,314,808
General and administrative	7,726,025	6,537,920
Fundraising	32,456	39,474
	$ 32,175,175	$ 28,892,202

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

SUPPLEMENTARY INFORMATION

GIBSON GENERAL HOSPITAL, INC.

CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2018

ASSETS	Gibson General Hospital, Inc. and GGH Holding Company, LLC	Gibson General Health Foundation, Inc.	Eliminations	Consolidated Total
Current assets				
Cash and cash equivalents	$ 4,616,767	$ 213,645	$ -0-	$ 4,830,412
Investments	1,216,986	176,580	-0-	1,393,566
Patient accounts receivable, net	3,143,623	-0-	-0-	3,143,623
Other receivables	581,567	968	(6,028)	576,507
Supplies	711,314	-0-	-0-	711,314
Prepaid expenses	261,380	975	-0-	262,355
Total current assets	10,531,637	392,168	(6,028)	10,917,777
Assets whose use is limited				
Pledged as collateral	346,558	-0-	-0-	346,558
Property and equipment, net	9,949,332	-0-	-0-	9,949,332
Beneficial interest in net assets of Community Foundation Alliance	51,707	11,980	-0-	63,687
Other assets	15,390	-0-	-0-	15,390
Total assets	$ 20,894,624	$ 404,148	$ (6,028)	$ 21,292,744
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$ 593,918	$ 6,028	$ (6,028)	$ 593,918
Accrued expenses	1,586,898	-0-	-0-	1,586,898
Estimated third-party settlements	511,000	-0-	-0-	511,000
Deferred revenue	708,077	-0-	-0-	708,077
Current portion of long-term debt	171,015	-0-	-0-	171,015
Total current liabilities	3,570,908	6,028	(6,028)	3,570,908
Long-term debt, less current portion	7,075,296	-0-	-0-	7,075,296
Total liabilities	10,646,204	6,028	(6,028)	10,646,204
Net assets				
Unrestricted - controlling interest	10,196,713	360,377	-0-	10,557,090
Temporarily restricted	-0-	25,763	-0-	25,763
Permanently restricted	51,707	11,980	-0-	63,687
Total net assets	10,248,420	398,120	-0-	10,646,540
Total liabilities and net assets	$ 20,894,624	$ 404,148	$ (6,028)	$ 21,292,744

GIBSON GENERAL HOSPITAL, INC.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2018

	Gibson General Hospital, Inc. and GGH Holding Company, LLC	Gibson General Health Foundation, Inc.	Eliminations	Consolidated Total
Unrestricted revenues, gains and other support				
Net patient service revenue	$ 29,420,189	$ -0-	$ -0-	$ 29,420,189
Less provision for bad debts	1,911,869	-0-	-0-	1,911,869
Net patient service revenue net of provision for bad debts	27,508,320	-0-	-0-	27,508,320
Management services revenue	2,227,112	-0-	-0-	2,227,112
Rental revenue	519,182	-0-	-0-	519,182
Other revenue	385,928	-0-	-0-	385,928
Total unrestricted revenues, gains and other support	30,640,542	-0-	-0-	30,640,542
Expenses				
Salaries and wages	13,835,780	-0-	-0-	13,835,780
Employee benefits	3,785,200	-0-	-0-	3,785,200
Physician fees	2,066,221	-0-	-0-	2,066,221
Supplies and drugs	3,113,753	1,617	-0-	3,115,370
Dues and subscriptions	486,274	-0-	-0-	486,274
Purchased services	3,258,008	-0-	-0-	3,258,008
Rent and leases	461,712	2,086	-0-	463,798
Repairs and maintenance	1,066,707	-0-	-0-	1,066,707
Utilities	665,245	7	-0-	665,252
Insurance	340,348	-0-	-0-	340,348
Depreciation	1,304,781	-0-	-0-	1,304,781
Interest	318,122	-0-	-0-	318,122
HAF and HIP programs	981,811	-0-	-0-	981,811
Other	442,936	173,878	(129,311)	487,503
Total expenses	32,126,898	177,588	(129,311)	32,175,175
Operating income (loss)	(1,486,356)	(177,588)	129,311	(1,534,633)
Nonoperating revenues				
Contributions	357,554	126,578	(129,311)	354,821
Investment return	33,091	1,589	-0-	34,680
Net assets released from restriction	-0-	5,722	-0-	5,722
Total nonoperating revenues	390,645	133,889	(129,311)	395,223
Change in unrestricted net assets	(1,095,711)	(43,699)	-0-	(1,139,410)
Temporarily restricted net assets				
Contributions	-0-	6,478	-0-	6,478
Net assets released from restriction	-0-	(5,722)	-0-	(5,722)
Change in temporarily restricted net assets	-0-	756	-0-	756
Permanently restricted net assets				
Change in beneficial interest in net assets of Community Foundation	2,493	1,502	-0-	3,995
Change in net assets	(1,093,218)	(41,441)	-0-	(1,134,659)
Net assets				
Beginning of year	11,341,638	439,561	-0-	11,781,199
End of year	$ 10,248,420	$ 398,120	$ -0-	$ 10,646,540

GIBSON GENERAL HOSPITAL, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2018

Grantor/ Pass-through Grantor(s)/ Program Title	Grant ID #	CFDA Number	Federal Expenditures
Major program			
United States Department of Agriculture (USDA)			
Community Facilities Loans and Grants	N/A	10.766	$ 6,611,000
Non-major program			
Department of Health and Human Services			
Pass through the Indiana State Department of Health			
Small Rural Hospital Improvement Program Grant	Unknown	93.301	9,000
Total federal expenditures			$ 6,620,000

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Hospital under programs of the federal government for the year ended September 30, 2018. The information in this schedule is presented in accordance with requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Because the schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Hospital.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Hospital has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – OTHER

The balance of the USDA loan and loans guaranteed by the USDA approximated $7,436,000 as of September 30, 2018.

There were no federal awards passed through to subrecipients during 2018.

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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Gibson General Hospital, Inc.
Princeton, Indiana

Report on the Consolidated Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Gibson General Hospital, Inc. (Hospital) which comprise the consolidated balance sheet as of September 30, 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 Hospital's internal control.

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 on a timely basis. 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 financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
February 27, 2019

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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Gibson General Hospital, Inc.
Princeton, Indiana

Report on Compliance for Each Major Federal Program

We have audited Gibson General Hospital, Inc. (Hospital) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended September 30, 2018. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

Board of Trustees
Gibson General Hospital, Inc.
Princeton, Indiana

Opinion on Each Major Federal Program

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Report on Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
February 27, 2019

GIBSON GENERAL HOSPITAL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018

Summary of Auditor's Results

Consolidated Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	___yes	x none reported
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___yes	x none reported
Noncompliance material to financial statements noted?	___yes	x none reported

Federal Awards

Internal controls over major programs:		
Material weakness(es) identified?	___yes	x none reported
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___yes	x none noted
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported as defined by Uniform Guidance [2 CFR 200.516(a)]?	___yes	x no

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
10.766	United States Department of Agriculture Community facilities loans and grants

Dollar threshold used to distinguish between type A and B programs:	$750,000	
Auditee qualified as low-risk auditee?	___yes	x no

Section II – Findings related to financial statements reported in accordance with *Government Auditing Standards:*

No matters reported

Section III – Findings and questioned costs relating to Federal awards:

No matters reported

Section IV – Summary schedule of prior audit findings:

No matters reported