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May 23, 2019

Board of Trustees
Good Samaritan Hospital
520 S. Seventh Street
Vincennes, IN 47591

We have reviewed the audit report of Good Samaritan Hospital which was opined upon by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2018 to December 31, 2018. Per the *Report of Independent Auditors*, the financial statements included in the report present fairly the financial condition of Good Samaritan Hospital, as of December 31, 2018 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Blue & Co., LLC, prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

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

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

Good Samaritan

CONSOLIDATED FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018 AND 2017

CPAs / ADVISORS

blue

GOOD SAMARITAN HOSPITAL

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Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204
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REPORT OF INDEPENDENT AUDITORS

Board of Governors
Good Samaritan Hospital
Vincennes, Indiana

We have audited the accompanying consolidated financial statements of Knox County Hospital d/b/a Good Samaritan Hospital (the Hospital), a component unit of Knox County, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2018, and the results of its operations, changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

2017 Consolidated Financial Statements

The consolidated financial statements of the Hospital as of December 31, 2017, were audited by other auditors whose report dated May 17, 2018, expressed an unmodified opinion on those consolidated financial statements.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blue & Co., LLC

Indianapolis, Indiana
May 17, 2019

REQUIRED SUPPLEMENTARY INFORMATION

This section of Good Samaritan Hospital's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the year ended December 31, 2018. This MD&A does include a discussion and analysis of the activities and results of the Hospital's blended component units, Good Samaritan Hospital Foundation, Inc. and Good Samaritan Hospital Physician Services, Inc., and should be read in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

Financial Highlights

- The Hospital's net position decreased approximately $12,011,000 or 6.5% in 2018.

- The Hospital reported an operating loss of approximately $5,992,000 for 2018, representing an increase in operating loss of $1,051,000 in comparison to the 2017 results.

- The Hospital continued its improvement of facilities and equipment in 2018 by adding approximately $7,083,000 in gross property and equipment. The Hospital disposed of capital assets with a net book value of $148,000 during 2018. These items combined with depreciation expense of $20,868,000 resulted in net capital assets decreasing $13,933,000 from the prior year.

- During 2018 and 2017, the Hospital recognized approximately $112,003,000 and $109,785,000, respectively, of gross patient service revenue related to long-term care.

Using This Annual Report

The Hospital's consolidated 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 consolidated financial statements and related notes provide information about the financial activities and the financial position of the Hospital.

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

All of the current year's revenue earned, expenses incurred and changes in net position are accounted for in the consolidated statement of revenues, expenses and changes in net position.

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

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

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

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

Table 1: Consolidated Balance Sheets

The significant change in the Hospital's assets and deferred outflows was in capital assets which decreased approximately $13,933,000 in 2018 compared to 2017. The total asset and deferred outflows decrease of $17,299,000 in 2018 was 5.1% from 2017. Current liabilities decreased by $3,395,000 mainly related to the reduction in the line of credit by $5,000,000 during 2018. Net position decreased by $12,011,000 in 2018 compared to 2017. The decrease relates to unfavorable operations and investment return.

	2018	2017	Change 2018 - 2017	2016	Change 2017 - 2016
Assets and deferred outflows					
Current assets	$ 128,397,887	$ 131,562,004	$ (3,164,117)	$ 148,254,520	$ (16,692,516)
Capital assets, net	190,787,318	204,719,836	(13,932,518)	211,154,622	(6,434,786)
Other assets and deferred outflows	735,594	938,311	(202,717)	1,257,809	(319,498)
Total assets and deferred outflows	$ 319,920,799	$ 337,220,151	$ (17,299,352)	$ 360,666,951	$ (23,446,800)
Liabilities					
Current liabilities	$ 34,401,087	$ 37,796,533	$ (3,395,446)	$ 54,067,417	$ (16,270,884)
Long-term debt, net of current portion	111,984,227	113,876,659	(1,892,432)	115,952,338	(2,075,679)
Total liabilities	146,385,314	151,673,192	(5,287,878)	170,019,755	(18,346,563)
Net position					
Unrestricted	91,801,420	91,499,349	302,071	80,781,599	10,717,750
Net investment in capital assets	76,235,425	88,581,945	(12,346,520)	91,295,233	(2,713,288)
Restricted - debt service	5,498,640	5,465,665	32,975	18,570,364	(13,104,699)
Total net position	173,535,485	185,546,959	(12,011,474)	190,647,196	(5,100,237)
Total liabilities and net position	$ 319,920,799	$ 337,220,151	$ (17,299,352)	$ 360,666,951	$ (23,446,800)

Total assets and deferred outflows in 2017 compared to 2016 decreased approximately $23,447,000. The majority of the change was in current assets which decreased $16,693,000 in 2017 from 2016 related to a reduction in restricted cash of $13,104,000. Net capital assets decreased $6,435,000 in 2017 from 2016. Current liabilities in 2017 decreased $16,271,000 mainly related to a decrease in accounts payable and accrued expenses of $12,486,000. The net position in 2017 decreased $5,100,000 based primarily on unfavorable operations. The Hospital's net position increased $199,000 in 2016.

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

The Hospital's performance in 2018 showed a negative return on equity of 6.5% compared to negative 2.7% in 2017. Total operating revenue increased approximately $1,110,000 as net patient service revenue increased $344,000 in 2018 over 2017. Expenses increased by $2,065,000 between 2017 and 2018. Salaries, wages and benefits decreased $2,043,000 in 2018. Professional fees and purchased services decreased $3,881,000 in 2018 while depreciation and other operating expenses increased $6,081,000 in 2018. Nonoperating revenues and expenses decreased by $5,860,000 due to investment loss of $883,000 in 2018 compared to investment income of $3,251,000 in 2017 combined with interest expense increasing $1,872,000 in 2018.

	2018	2017	Change 2018 - 2017	2016	Change 2017 - 2016
Operating revenues					
Net patient service revenue	$ 316,811,891	$ 316,467,720	$ 344,171	$ 309,556,897	$ 6,910,823
Federal, state, and county grant revenue	3,009,985	2,935,276	74,709	3,701,603	(766,327)
County appropriations	540,060	519,289	20,771	500,277	19,012
Other operating revenues	2,921,418	2,250,856	670,562	2,336,978	(86,122)
Total operating revenues	323,283,354	322,173,141	1,110,213	316,095,755	6,077,386
Operating expenses					
Salaries, wages and benefits	175,124,963	177,167,561	(2,042,598)	176,369,658	797,903
Professional fees and purchased services	48,313,973	52,195,437	(3,881,464)	47,435,882	4,759,555
Medical supplies and drugs	34,632,892	32,628,853	2,004,039	30,091,007	2,537,846
Depreciation	20,867,586	21,041,866	(174,280)	20,101,157	940,709
Other operating expenses	50,335,699	44,080,038	6,255,661	40,331,736	3,748,302
Total operating expenses	329,275,113	327,113,755	2,161,358	314,329,440	12,784,315
Operating income (loss)	(5,991,759)	(4,940,614)	(1,051,145)	1,766,315	(6,706,929)
Non-operating revenues and expenses					
Investment return	(882,677)	3,251,211	(4,133,888)	543,203	2,708,008
Interest expense	(5,829,400)	(3,957,329)	(1,872,071)	(2,404,391)	(1,552,938)
Other nonoperating	692,362	546,495	145,867	293,520	252,975
Total non-operating revenues (expenses)	(6,019,715)	(159,623)	(5,860,092)	(1,567,668)	1,408,045
Change in net position	(12,011,474)	(5,100,237)	(6,911,237)	198,647	(5,298,884)
Net position					
Beginning of year	185,546,959	190,647,196	(5,100,237)	190,448,549	198,647
End of year	$ 173,535,485	$ 185,546,959	$ (12,011,474)	$ 190,647,196	$ (5,100,237)

Total operating revenue increased approximately $6,077,000 as net patient service revenue increased $6,911,000 in 2017 over 2016. Expenses increased by $12,784,000 between 2016 and 2017. Salaries, wages and benefits increased by $798,000 in 2017. Professional fees and purchased services increased $4,760,000 in 2017 while medical supplies and drugs increased $2,538,000 in 2017. Additionally, other operating expenses increased by $3,748,000 in 2017. Nonoperating revenues and expenses increased by $1,408,000 due to interest expense and other nonoperating increasing $1,300,000 from 2016 while investment income increased $2,708,000 from 2016.

Consolidated Statements of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "What were the sources of cash?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

Total cash and cash equivalents increased approximately $4,458,000 in 2018. This was an increase of $21,871,000 from 2017. Operating activities generated cash of $21,132,000 during 2018 compared to $5,877,000 in 2017. Capital and related financing decreased cash and cash equivalents by $19,246,000 during 2018 compared to a decrease of $23,062,000 in 2017, mainly as the result of expenditures for property and equipment additions and cash paid for interest. Investing activities increased cash and cash equivalents by $2,572,000 in 2018 compared to decreasing cash and cash equivalents by $229,000 in 2017, due to investment activity.

	2018	2017	Change 2018 - 2017	2016	Change 2017 - 2016
Cash flows from activities					
Operating	$ 21,132,063	$ 5,876,942	$ 15,255,121	$ 20,532,743	$ (14,655,801)
Capital and related financing	(19,246,352)	(23,061,511)	3,815,159	9,962,797	(33,024,308)
Investing	2,572,168	(229,014)	2,801,182	943,683	(1,172,697)
	$ 4,457,879	$ (17,413,583)	$ 21,871,462	$ 31,439,223	$ (48,852,806)

Cash flows from operating activities in 2017 were approximately $14,656,000 less than 2016. Cash flows used in capital and related financing activities in 2017 were $33,024,000 more than 2016. Finally, cash flows used in investing activities in 2017 were $1,173,000 more than 2016. Cash and cash equivalents in total decreased $17,414,000 in 2017.

Sources of Revenue

During 2018, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 67% of gross revenues of operations in 2018.

The following is a table of major sources of gross patient revenues for 2018:

Payor	2018	2017	2016
Medicare	56%	53%	52%
Medicaid	13%	15%	15%
Other commercial	27%	28%	29%
Self pay	4%	4%	4%
	100%	100%	100%

Inpatient services represented approximately 28% of gross patient revenue for 2018 while outpatient services represented 58%. Long-term care represented 14% in 2018. The composition of the 2018 sources are comparable to 2017 and 2016.

Capital Assets

During 2018, the Hospital invested approximately $3,299,000 in capital assets net of asset disposals compared to $404,000 in 2017. Capital assets net of asset disposals added during 2016 were $11,450,000. The change in capital assets is outlined in the following table:

	2018	2017	Change 2018 - 2017	2016	Change 2017 - 2016
Land	$ 6,781,448	$ 6,912,648	$ (131,200)	$ 6,912,648	$ -0-
Land improvements	10,676,928	10,608,071	68,857	8,333,596	2,274,475
Buildings and improvements	161,900,759	161,460,880	439,879	125,429,091	36,031,789
Equipment	220,625,070	216,109,666	4,515,404	201,711,914	14,397,752
Construction in progress	865,423	2,459,629	(1,594,206)	54,759,222	(52,299,593)
Total capital assets	400,849,628	397,550,894	3,298,734	397,146,471	404,423
Less accumulated depreciation	210,062,310	192,831,058	17,231,252	185,991,849	6,839,209
Capital assets, net	$ 190,787,318	$ 204,719,836	$ (13,932,518)	$ 211,154,622	$ (6,434,786)

The Hospital continues to invest in its facilities to meet the needs of the community, and strives to replace, as well as upgrade, equipment as needed. More detailed information about the Hospital's capital assets is presented in the Notes to the Consolidated Financial Statements.

Debt

Total long-term debt (including current portion) decreased from approximately $116,138,000 to $114,552,000 in 2018. The primary reason for the decrease in long term debt was principal payments made during the year. More detailed information about the Hospital's long-term debt is presented in the Notes to the Consolidated Financial Statements.

ECONOMIC OUTLOOK

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure due to a variety of factors including, but not limited to, uncertainty regarding health care reform, changes in payor and services mix, and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. In addition, the adoption of high-deductible health plans by employers continues to occur and patients are increasingly being held responsible for more of the cost of health care. Consequently, the health care market place has been increasingly more competitive. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant factor affecting the Hospital is finding the balance in maintaining and controlling labor costs in the face of pressures on volume and pricing for its services in this increasingly competitive, retail-like environment.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide fiscal reporting to patients, county residents, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Controller at Good Samaritan Hospital, 520 South 7th Street, Vincennes, Indiana 47591.

GOOD SAMARITAN HOSPITAL

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
Current assets		
Cash and cash equivalents	$ 24,574,020	$ 27,537,069
Investments	45,520,570	40,756,331
Restricted cash	5,498,640	5,465,665
Patient accounts receivable, net of estimated allowance for uncollectible accounts of approximately $6,256,000 in 2018 and $7,826,000 in 2017	40,624,365	44,110,364
Other receivables	5,673,693	6,528,627
Supplies	2,381,281	2,359,749
Prepaid expenses	4,125,318	4,804,199
Total current assets	128,397,887	131,562,004
Capital assets, net	190,787,318	204,719,836
Other assets	364,449	495,941
Total assets	319,549,654	336,777,781
Deferred outflows	371,145	442,370
Total assets and deferred outflows	$ 319,920,799	$ 337,220,151

LIABILITIES AND NET POSITION

	2018	2017
Current liabilities		
Current portion of long-term debt	$ 2,567,666	$ 2,261,232
Line of credit	-0-	5,000,000
Accounts payable and accrued expenses	5,801,716	7,648,972
Accrued wages and related liabilities	15,110,670	13,664,688
Other current liabilities	10,744,723	9,019,277
Estimated third-party settlements	176,312	202,364
Total current liabilities	34,401,087	37,796,533
Long-term debt, net of current portion	111,984,227	113,876,659
Total liabilities	146,385,314	151,673,192
Net position		
Unrestricted	91,801,420	91,499,349
Net investment in capital assets	76,235,425	88,581,945
Restricted - debt service	5,498,640	5,465,665
Total net position	173,535,485	185,546,959
Total liabilities and net position	$ 319,920,799	$ 337,220,151

See accompanying notes to consolidated financial statements.

GOOD SAMARITAN HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Operating revenue		
Net patient service revenue	$ 316,811,891	$ 316,467,720
Federal, state, and county grant revenue	3,009,985	2,935,276
County appropriations	540,060	519,289
Other revenue	2,921,418	2,250,856
Total operating revenue	323,283,354	322,173,141
Operating expenses		
Salaries and wages	139,486,439	140,687,888
Employee benefits	35,638,524	36,479,673
Physician fees	13,169,721	8,343,045
Professional fees and purchased services	48,313,973	52,195,437
Medical supplies and drugs	34,632,892	32,628,853
Other supplies	10,361,725	10,276,023
Utilities	5,000,519	4,909,441
Depreciation	20,867,586	21,041,866
HAF and HIP program fees	9,774,644	8,393,957
Other	12,029,090	12,157,572
Total operating expenses	329,275,113	327,113,755
Operating loss	(5,991,759)	(4,940,614)
Nonoperating revenues (expenses)		
Investment return	(882,677)	3,251,211
Interest expense	(5,829,400)	(3,957,329)
Other nonoperating	692,362	546,495
Total nonoperating revenues (expenses)	(6,019,715)	(159,623)
Change in net position	(12,011,474)	(5,100,237)
Net position		
Beginning of year	185,546,959	190,647,196
End of year	$ 173,535,485	$ 185,546,959

See accompanying notes to consolidated financial statements.

GOOD SAMARITAN HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Cash received from patients and third party payors	$ 314,047,239	$ 310,511,550
Cash paid to employees for wages and benefits	(173,678,981)	(177,669,535)
Cash paid to vendors for goods and services	(122,157,613)	(129,215,929)
Other operating receipts, net	2,921,418	2,250,856
Net cash flows from operating activities	21,132,063	5,876,942
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(5,993,581)	(12,774,467)
(Gain) loss on disposal of property and equipment	(50,746)	71,209
Proceeds from disposal of property and equipment	198,220	45,507
Cash paid for interest on long-term debt	(5,902,316)	(3,933,988)
Borrowings on line of credit	-0-	5,000,000
Payments on line of credit	(5,000,000)	(7,500,000)
Principal payments on long-term debt	(2,497,929)	(3,969,772)
Net cash flows from capital and related financing activities	(19,246,352)	(23,061,511)
Cash flows from investing activities		
Investment return and other non-operating	(190,315)	3,797,706
Change in other assets, net	138,769	159,292
Purchases of investments	(3,016,012)	(44,424,142)
Proceeds from sale of investments	5,639,726	40,238,130
Net cash flows from investing activities	2,572,168	(229,014)
Net change in cash and cash equivalents	4,457,879	(17,413,583)
Cash and cash equivalents		
Beginning of year	39,417,880	56,831,463
End of year	$ 43,875,759	$ 39,417,880
Reconciliation to the balance sheets		
Cash and cash equivalents	$ 24,574,020	$ 27,537,069
Investments	13,803,099	6,415,146
Restricted cash	5,498,640	5,465,665
Total cash and cash equivalents	$ 43,875,759	$ 39,417,880

See accompanying notes to consolidated financial statements.

GOOD SAMARITAN HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Reconciliation of operating loss		
to net cash flows from operating activities		
Operating loss	$ (5,991,759)	$ (4,940,614)
Adjustment to reconcile operating loss		
to net cash flows from operating activities		
Depreciation	20,867,586	21,041,866
Provision for bad debts	22,469,507	20,239,451
Changes in operating assets and liabilities		
Patient accounts receivable	(18,983,508)	(18,332,378)
Other receivables	854,934	1,958,295
Supplies	(21,532)	(102,076)
Prepaid expenses	678,881	(298,347)
Accounts payable and accrued expenses	(1,887,422)	(13,217,375)
Accrued wages and related liabilities	1,445,982	(501,974)
Other current liabilities	1,725,446	2,953,945
Estimated third-party settlements	(26,052)	(2,923,851)
Net cash flows from operating activities	$ 21,132,063	$ 5,876,942
Supplemental cash flows information		
Property included in accounts payable	$ 40,166	$ 1,564,190
Noncash investing/financing activities		
Property acquired by capital lease	$ 1,048,795	$ 385,139

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Knox County Hospital d/b/a Good Samaritan Hospital (the Hospital) is a county owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient, outpatient, and emergency healthcare as well as long-term care. The Board of County Commissioners of Knox County appoints the Board of Governors of the Hospital and a financial benefit/burden relationship exists between Knox County (the County) and the Hospital. For these reasons, the Hospital is considered a component unit of the County.

The consolidated financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital and its component units. They do not purport to, and do not, present the financial position of the County as of December 31, 2018 and 2017, the changes in its net position or its cash flows for the years then ended.

Accounting principles generally accepted in the United States of America require the consolidated financial statements present the Hospital and its blended component units, collectively referred to as "primary government". The component units discussed in these consolidated financial statements are included in the Hospital's reporting entity because of the significance of their operational or financial relationship with the Hospital. A blended component unit, although a legally separate entity, is in substance part of the primary government unit of operations and exists solely to provide services to the Hospital.

Long-Term Care Operations

The Hospital leases the operations of multiple long-term care facilities by way of arrangements with the managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital, who is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital, who retains the authority and legal responsibility for the operation of the facilities.

The Hospital has lease agreements for the long-term care facilities, collectively referred to as the lessors, to lease the facilities managed by the managers. Concurrently, the Hospital entered into agreements with the managers to manage the leased facilities. As part of the agreements, the Hospital pays the managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through 2020. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

Basis of Consolidation

The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital.

Good Samaritan Hospital Foundation, Inc. (the Foundation) is a significant blended component unit of the Hospital. The Hospital appoints a voting majority of the Foundation's Board of Directors 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.

The activities of the Foundation may include capital improvements, educational programs, medical related research and initial capital for experimental health services related to the principal purpose of the Hospital. The Foundation also manages investments, provides equipment, grants scholarships for health careers, conducts physician recruitment and other medical programs as directed under the terms of a contract with the Hospital. Separate audited financial statements are not issued for the Foundation.

Good Samaritan Hospital Physician Services, Inc. (PSI) is a significant blended component unit of the Hospital. The Hospital is the sole corporate member and appoints PSI's Board of Directors and is able to impose its will. Although it is legally separate from the Hospital, PSI is reported as if it were a part of the Hospital because the two governing bodies are substantially the same. PSI provides pharmacy services to the surrounding communities. Separate audited financial statements are not issued for PSI.

All intercompany accounts and transactions have been eliminated.

Measurement Focus and Basis of Accounting

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

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

Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings and money market deposit accounts available for operating purposes with original maturity dates of 90 days or less. The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments consist of municipal bonds, mutual funds (including money market mutual funds), exchange traded funds, certificates of deposit, money market funds and cash. Investments are reported at fair value except for certificates of deposit which are reported at contract value. Investments are classified as current assets as the Hospital has access to the investments if needed.

Restricted Cash

Restricted cash is comprised of funds held by a trustee for the Hospital's debt service.

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. 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). Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At year-end, a cost report for hospital-based services is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party programs. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2016 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2017 through 2018 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2018 and 2017, the change in net position recognized by the Hospital in the consolidated statements of revenues, expenses and changes in net position due to the differences between original estimates and subsequent revisions for the final settlement of cost reports was not significant. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

Other Receivables

Other receivables consist of other reimbursement receivables and various other current items. These assets are classified as current as they are expected to be utilized within the next fiscal year.

Supplies

Supplies consist primarily of pharmaceutical and medical supplies. Supplies are valued at the lower of cost or net realizable value with cost being determined on the first-in, first-out method. Supplies consist of the following as of December 31, 2018 and 2017:

	2018	2017
Medical supplies and other	$ 621,141	$ 662,420
Pharmaceutical	1,760,140	1,697,329
	$ 2,381,281	$ 2,359,749

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities, which exceed capitalization thresholds and meet certain useful life requirements. Contributed capital assets are reported at their estimated fair market value at the time of their donation. Maintenance, repairs and minor renewals are expensed as incurred.

The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method.

The range of useful lives used in computing depreciation is as follows:

Description	Range of Useful Lives
Land improvements	5 - 25 years
Buildings and improvements	5 - 40 years
Equipment	3 - 20 years

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 consolidated balance sheets but are not recognized in the consolidated financial statements as expenses until the periods to which they relate. Deferred outflows of resources consist of losses on debt refunding. The Hospital expects to recognize approximately $71,000 in amortization annually through 2023 and $16,000 in 2024 related to the losses on refunding.

Compensated Absences

Hospital policies permit eligible 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. Accumulated vacation benefits are reported as a current liability of approximately $597,000 and $609,000 for 2018 and 2017, respectively, and are included within accrued wages and related liabilities in the consolidated balance sheets.

Net Position

Net position of the Hospital is classified in various components. Net position - net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position consists of 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 debt agreements. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets, or restricted net position.

Restricted Resources

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

Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Hospital's consolidated statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services which is the principal activity of the Hospital. Contributions and investment return are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, excluding interest costs.

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 maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care charges provided during 2018 and 2017 were approximately $13,318,000 and $12,987,000, respectively.

Of the Hospital's total expenses reported, an estimated $5,605,000 and $5,427,000 arose from providing services to charity patients during 2018 and 2017, respectively. The estimated costs of providing charity 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 costs to charges is calculated based on the Hospital's total expenses (including interest expense) to by gross patient service revenue.

Grants and Contributions

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

Federal, State, and County Grant Revenue

The Hospital has a contract with the State of Indiana Division of Mental Health and Addiction (the State) to provide community mental health services. The State has a performance based reimbursement system. Under this contract, the Hospital is paid a fixed quarterly amount for outcome measures and a performance based quarterly amount for process measures with a possible bonus at year-end.

Indiana state law stipulates that the counties served by Community Mental Health Centers provide the Hospital a designated amount based upon a stipulated formula. Tax receipts are designated to be remitted to the Hospital by June and December each year. The Hospital recognizes the county tax receipts as income in the period the funds are due from the counties. Accordingly, amounts are recorded as receivable or deferred revenue based upon the timing of the actual receipts.

The Hospital receives federal, state and other grants for providing services in specific program areas. Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by these programs and funds may be subject to repayment upon a determination of noncompliance made by a funding agency. These amounts are also recorded as public support. Any amounts due to the Hospital for these funds and programs are included in other receivable in the consolidated balance sheets.

The Hospital derives a significant portion of its revenue from third-party payors and federal and state funding programs. The receipt of future revenues by the Hospital is subject to among other factors, federal and state policies affecting the health care industry, economic conditions that may include an inability to control expenses in periods of inflation, increased competition, market pressures on premium rates and other conditions, which are impossible to predict.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Capitalized interest was approximately $-0- and $1,962,000 during 2018 and 2017, respectively.

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; employee health, dental, and accident benefits. Except for health and dental benefits, commercial insurance coverage is purchased for claims arising from such matters and settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital is self-insured for health and dental claims. Amounts are expensed as incurred and estimated accruals are made for incurred but not yet reported claims as of each balance sheet date.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). As a governmental entity, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

The Foundation and PSI are organized as not-for-profit corporations under Section 501(c)(3) and 509(a)(3), respectively, of the United States Internal Revenue Code. As such, the Foundation and PSI are generally exempt from income taxes. However, the Foundation and PSI are required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only. The Foundation and PSI have filed their 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).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital, Foundation, and PSI and recognize a tax liability if these organizations 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 these organizations, and has concluded that as of December 31, 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. The Foundation and PSI are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Advertising

The Hospital expenses advertising costs as they are incurred. Advertising expenses for 2018 and 2017 were approximately $916,000 and $1,001,000, respectively, and are included in other expenses within the consolidated statements of revenues, expenses and changes in net position within the consolidated financial statements.

Litigation

The Hospital is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position, results of operations and cash flows.

Reclassifications

Certain amounts from 2017 have been reclassified in order to conform to the 2018 presentation. The most significant reclassification for 2017 related to the Hospital recognizing accelerated depreciation of approximately $1,617,000 related to a building disposal. This amount was reclassified to depreciation for the comparative 2017 information. The reclassifications had no impact on total net position or change in net position for 2017, as previously reported.

Subsequent Events

The Hospital evaluates 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 May 17, 2019.

Recently Issued Accounting Standards

In June 2017, Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*, which will be effective for periods beginning after December 15, 2019. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

In June 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for periods beginning after December 15, 2019. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The Hospital is presently evaluating the impact of these standards on its future consolidated financial statements.

2. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Investments consist of cash equivalents, money market mutual funds, municipal bonds, mutual funds, and exchange traded funds.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2018 and 2017, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

	December 31, 2018				
		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Money market mutual funds	$ 698,748	$ 698,748	$ -0-	$ -0-	$ -0-
Municipal bonds	255,763	255,763	-0-	-0-	-0-
Mutual funds	25,112,679	25,112,679	-0-	-0-	-0-
Exchange traded funds	5,388,725	5,388,725	-0-	-0-	-0-
Certificates of deposit	261,556	103,698	157,858	-0-	-0-
	$ 31,717,471	$ 31,559,613	$ 157,858	$ -0-	$ -0-

	December 31, 2017				
		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Money market mutual funds	$ 1,820,031	$ 1,820,031	$ -0-	$ -0-	$ -0-
Municipal bonds	263,348	263,348	-0-	-0-	-0-
Mutual funds	27,256,231	27,256,231	-0-	-0-	-0-
Exchange traded funds	4,751,575	4,751,575	-0-	-0-	-0-
Certificates of deposit	250,000	-0-	100,000	150,000	-0-
	$ 34,341,185	$ 34,091,185	$ 100,000	$ 150,000	$ -0-

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 – 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.

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits and investments consist of the following as of December 31, 2018 and 2017:

	2018	2017
Carrying value		
Deposits	$ 43,875,759	$ 39,417,880
Investments	31,717,471	34,341,185
	$ 75,593,230	$ 73,759,065
Included in the balance sheet		
Cash and cash equivalents	$ 24,574,020	$ 27,537,069
Investments	45,520,570	40,756,331
Restricted cash	5,498,640	5,465,665
	$ 75,593,230	$ 73,759,065

Investment return for 2018 and 2017 is summarized as follows:

	2018	2017
Unrealized gains (losses)	$ (2,770,675)	$ 2,216,450
Realized gains	240,021	17,479
Interest and dividends	1,647,977	1,017,282
	$ (882,677)	$ 3,251,211

3. FAIR VALUE MEASUREMENTS

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

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

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

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 December 31, 2018 and 2017:

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

- *Municipal bonds*: Valued using pricing models maximizing the use of observable inputs for similar securities.

- *Mutual funds and exchange traded funds*: Valued at the daily closing price as reported by the fund. Mutual funds and exchange traded funds held by the Hospital are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds and exchange traded funds held by the Hospital are deemed to be actively traded.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017 are as follows:

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Money market mutual funds	$ 698,748	$ -0-	$ 698,748	$ -0-
Municipal bonds	255,763	-0-	255,763	-0-
Mutual funds				
Large blend	5,021,624	5,021,624	-0-	-0-
Large growth	1,843,014	1,843,014	-0-	-0-
Large value	2,833,950	2,833,950	-0-	-0-
Medium growth	1,193,956	1,193,956	-0-	-0-
Small value	1,043,179	1,043,179	-0-	-0-
Intermediate-term bond	10,492,146	10,492,146	-0-	-0-
Inflation-protected bond	2,684,810	2,684,810	-0-	-0-
Total mutual funds	25,112,679	25,112,679	-0-	-0-
Exchange traded funds				
Large blend	2,330,107	2,330,107	-0-	-0-
Large value	3,058,618	3,058,618	-0-	-0-
Total exchange traded funds	5,388,725	5,388,725	-0-	-0-
	31,455,915	$ 30,501,404	$ 954,511	$ -0-
Certificates of deposit	261,556			
Money market deposit accounts	13,503,099			
Cash	300,000			
	$ 45,520,570			

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Money market mutual funds	$ 1,820,031	$ -0-	$ 1,820,031	$ -0-
Municipal bonds	263,348	-0-	263,348	-0-
Mutual funds				
Large blend	6,531,635	6,531,635	-0-	-0-
Large growth	2,948,643	2,948,643	-0-	-0-
Large value	2,964,083	2,964,083	-0-	-0-
Medium growth	1,336,684	1,336,684	-0-	-0-
Small value	1,948,139	1,948,139	-0-	-0-
Intermediate-term bond	9,923,441	9,923,441	-0-	-0-
Inflation-protected bond	1,603,606	1,603,606	-0-	-0-
Total mutual funds	27,256,231	27,256,231	-0-	-0-
Exchange traded funds				
Large blend	1,375,754	1,375,754	-0-	-0-
Large value	3,375,821	3,375,821	-0-	-0-
Total exchange traded funds	4,751,575	4,751,575	-0-	-0-
	34,091,185	$ 32,007,806	$ 2,083,379	$ -0-
Certificates of deposit	250,000			
Money market deposit accounts	6,415,146			
	$ 40,756,331			

The Hospital's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no significant transfers between levels during 2018 and 2017.

Realized gains and losses included in earnings are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment return. Differences between market value and cost of investments are classified as unrealized gains or losses. Unrealized gains or losses are included in earnings for the period attributable to the change in unrealized gains relating to assets held as of December 31, 2018 and 2017 and are reported in the consolidated statements of revenues, expenses and changes in net position as a component of investment return.

The Hospital holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

4. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital as of December 31 are as follows:

	2018	2017
Patient accounts receivable		
From patients and insurance carriers	$ 43,777,886	$ 50,416,605
From Medicare	41,014,698	37,827,383
From Medicaid	13,352,209	18,225,241
	98,144,793	106,469,229
Less contractual allowances	(51,264,533)	(54,532,584)
Less allowances for uncollectible accounts	(6,255,895)	(7,826,281)
Patient accounts receivable, net	$ 40,624,365	$ 44,110,364
Accounts payable and accrued wages		
To employees (including payroll taxes)	$ 13,285,119	$ 11,910,480
To suppliers	5,801,716	7,648,972
For accrued employee health benefit claims	1,825,551	1,754,208
Total accounts payable and accrued wages	$ 20,912,386	$ 21,313,660

5. CAPITAL ASSETS

A summary of capital assets as of December 31, 2018 and 2017, follows:

	12/31/17	Additions	Retirements	Transfers	12/31/18
Land	$ 6,912,648	$ -0-	$ (131,200)	$ -0-	$ 6,781,448
Land improvements	10,608,071	41,777	-0-	27,080	10,676,928
Buildings and improvements	161,460,880	242,410	-0-	197,469	161,900,759
Equipment	216,109,666	6,798,355	(3,652,608)	1,369,657	220,625,070
Construction in progress	2,459,629	-0-	-0-	(1,594,206)	865,423
Total capital assets	397,550,894	7,082,542	(3,783,808)	-0-	400,849,628
Less accumulated depreciation					
Land improvements	(5,388,124)	(601,620)	-0-	-0-	(5,989,744)
Buildings and improvements	(60,361,722)	(5,987,835)	-0-	-0-	(66,349,557)
Equipment	(127,081,212)	(14,278,131)	3,636,334	-0-	(137,723,009)
Total accumulated depreciation	(192,831,058)	(20,867,586)	3,636,334	-0-	(210,062,310)
	$ 204,719,836	$ (13,785,044)	$ (147,474)	$ -0-	$ 190,787,318

	12/31/16	Additions	Retirements	Transfers	12/31/17
Land	$ 6,912,648	$ -0-	$ -0-	$ -0-	$ 6,912,648
Land improvements	8,333,596	-0-	(17,346)	2,291,821	10,608,071
Buildings and improvements	125,429,091	2,123,562	(7,395,032)	41,303,259	161,460,880
Equipment	201,711,914	10,606,036	(6,906,995)	10,698,711	216,109,666
Construction in progress	54,759,222	1,994,198	-0-	(54,293,791)	2,459,629
Total capital assets	397,146,471	14,723,796	(14,319,373)	-0-	397,550,894
Less accumulated depreciation:					
Land improvements	(4,831,185)	(626,251)	69,312	-0-	(5,388,124)
Buildings and improvements	(60,983,752)	(7,138,577)	7,760,607	-0-	(60,361,722)
Equipment	(120,176,912)	(13,277,038)	6,372,738	-0-	(127,081,212)
Total accumulated depreciation	(185,991,849)	(21,041,866)	14,202,657	-0-	(192,831,058)
	$ 211,154,622	$ (6,318,070)	$ (116,716)	$ -0-	$ 204,719,836

The Hospital had approximately $6,027,000 of outstanding property and equipment commitments as of December 31, 2018.

6. LINE OF CREDIT

The Hospital had a line of credit agreement with a local financial institution with a maximum amount of $5,000,000. The line of credit bore interest at the London Interbank Offered Rate plus 1.85% (2.75% at December 31, 2017). The amount outstanding as of December 31, 2017 was $5,000,000. The line matured on July 1, 2018 and was not renewed. The Hospital paid off the line of credit in 2018.

7. LONG-TERM DEBT

In 2012, the Hospital issued Indiana Economic Development Revenue and Refunding Bonds, Series 2012A in the amount of $67,185,000. The Series 2012A Bonds mature serially on a semi-annual basis on (April 1 and October 1) through April 2042 at fixed interest rates ranging from 2.5% to 5.0%.

In 2012, the Hospital issued Indiana Taxable Economic Development Revenue Bonds, Series 2012B in the amount of $16,210,000. The Series 2012B Bonds bear interest at a fixed rate of 5.9% through April 2034 with the first principal payment due in February 2029. The Series 2012B Bonds were issued as Qualified Energy Conservation Bonds, which are eligible for interest subsidy payments from the United States Treasury.

Subsidy payments to be received on the Series 2012B Bonds are as follows:

Year Ending December 31,		
2019	$	492,805
2020		492,805
2021		492,805
2022		492,805
2023		492,805
2024-2028		2,464,026
2029-2033		1,639,874
2034		106,366
	$	6,674,291

In 2016, the Hospital borrowed from the Indiana Finance Authority, the Health Facility Revenue Bonds, Series 2016A Bonds for $38,510,000. The Series 2016A Bonds mature on an annual basis through 2046 at fixed interest rates ranging from 4.0% to 5.5%. 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 consolidated balance sheets.

A summary of long-term activity for 2018 and 2017 is as follows:

	12/31/17	Additions	Payments	12/31/18	Current Portion
Indiana Economic Development					
Revenue and Refunding Bonds Series 2012A	$ 60,115,000	$ -0-	$ 1,565,000	$ 58,550,000	$ 1,625,000
Revenue Bonds Series 2012B	15,675,000	-0-	-0-	15,675,000	-0-
Indiana Finance Authority					
Health Facilities Revenue Bonds Series 2016A	36,505,000	-0-	565,000	35,940,000	590,000
Other	372,929	1,048,795	367,929	1,053,795	352,666
	112,667,929	$ 1,048,795	$ 2,497,929	111,218,795	$ 2,567,666
Unamortized bond premiums and discounts	3,469,962			3,333,098	
	$ 116,137,891			$ 114,551,893	

	12/31/16	Additions	Payments	12/31/17	Current Portion
Indiana Taxable Economic Development					
Revenue and Refunding Bonds Series 2012A	$ 61,620,000	$ -0-	$ 1,505,000	$ 60,115,000	$ 1,565,000
Revenue Bonds Series 2012B	15,675,000	-0-	-0-	15,675,000	-0-
Indiana Finance Authority					
Health Facilities Revenue Bonds Series 2016A	38,510,000	-0-	2,005,000	36,505,000	565,000
Other	447,562	385,139	459,772	372,929	131,232
	116,252,562	$ 385,139	$ 3,969,772	112,667,929	$ 2,261,232
Unamortized bond premiums and discounts	3,606,827			3,469,962	
	$ 119,859,389			$ 116,137,891	

The Series 2012A, 2012B, and 2016A Bonds are covered under a Master Trust Indenture and are secured by an interest in the net revenues, accounts receivable, and assets restricted under the bond indenture agreement of the Hospital. The Hospital is also required to meet certain financial covenants. The Hospital believes it is in compliance with all covenants as of December 31, 2018 and 2017.

Scheduled principal repayments on long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total
2019	$ 2,567,666	$ 5,807,912	$ 8,375,578
2020	2,655,017	5,710,794	8,365,811
2021	2,739,471	5,578,796	8,318,267
2022	2,566,641	5,440,493	8,007,134
2023	2,675,000	5,304,099	7,979,099
2024-2028	15,685,000	24,271,400	39,956,400
2029-2033	20,330,000	19,477,510	39,807,510
2034-2038	26,250,000	13,056,850	39,306,850
2039-2043	28,940,000	5,479,850	34,419,850
2044-2046	6,810,000	762,300	7,572,300
	$ 111,218,795	$ 90,890,004	$ 202,108,799

8. NET PATIENT SERVICE REVENUE

Patient service revenue for 2018 and 2017 consists of the following:

	2018	2017
Inpatient services	$ 223,298,269	$ 215,531,963
Outpatient services	456,915,596	463,088,090
Long-term care	112,003,425	109,785,260
Gross patient service revenue	792,217,290	788,405,313
Contractual allowances	439,617,430	438,710,648
Provision for bad debts	22,469,507	20,239,451
Charity care	13,318,462	12,987,494
Deductions from revenue	475,405,399	471,937,593
Net patient service revenue	$ 316,811,891	$ 316,467,720

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

Medicare

Payments for inpatient acute care services are made based upon the patient's diagnosis, irrespective of cost. The diagnosis upon which payment is based is subject to review by Medicare representatives. Outpatient claims are reimbursed under Ambulatory Payment Classifications, which are based on the procedures performed and are subject to review by the program. Medicare reimbursements are subject to audit by Medicare. Provisions have been made for the estimated effect of review and audits by the program.

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 and HIP program fees reported in the consolidated statements of revenues, expenses and changes in net position. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. 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) Program, 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 fees of approximately $9,775,000 and $8,394,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP program fees are included in the consolidated statements of revenues, expenses and changes in net position as operating expenses. The Medicaid rate increases under the HAF and HIP Programs are included in patient service revenue in the consolidated statements revenues, expenses and changes in net position.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient service revenue of approximately $3,819,000 and $3,638,000 during 2018 and 2017, respectively. These programs are administered by the State of Indiana, but rely on federal funding.

<u>Other</u>

Payment agreements with certain commercial insurance carriers and other payors provide for payment using prospectively determined daily rates and discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations, as well as significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

9. PENSION PLANS

The Hospital has two defined contribution pension plans, 401(a) and 403(b), as authorized by Indiana Code (IC) 16-22-3-11. These plans provide retirement, disability and death benefits to plan members and beneficiaries. The plans were established by a written agreement by the Board of Trustees. Empower Retirement, a subsidiary of Great West Life & Annuity Insurance Company, is the third party administrator as well as the custodian of these plans' assets.

The Good Samaritan Hospital Employee Pension Plan (the 401(a) plan) covers substantially all employees that were eligible prior to the date the 401(a) plan was frozen. Effective January 1, 2017, the 401(a) plan was frozen to new participants and effective January 1, 2018, no additional contributions were required to be made to the 401(a) plan. Pension expense was recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the 401(a) plan. The 401(a) plan is administered by a board appointed by the Hospital. 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 contributions rate was 7% of the first $9,999 and 10% thereafter of annual covered payroll for employees hired prior to January 1, 2002. Employees hired subsequent to January 1, 2002 received 7% of annual earnings (annual earnings exclude overtime and bonus payments). The Hospital's expense related to the 401(a) plan in 2017 was approximately $5,537,000.

The Good Samaritan Hospital Employee Retirement Savings Plan (the 403(b) plan) covers substantially all employees. During 2017, the Hospital was not required, nor did it make any contributions to the 403(b) plan. Effective January 1, 2018, the 403(b) plan was amended to provide discretionary matching contributions from the Hospital for all employees hired after January1, 2017. The Hospital's expense related to the 403(b) plan in 2018 was approximately $4,107,000.

10. EMPLOYEE HEALTH PLAN

The Hospital participates in a self-funded health plan covering substantially all employees. Covered services include medical benefits. The plan has annual reinsurance coverage starting at a specific level of $225,000 per individual with an unlimited specific lifetime maximum reimbursement per covered person and no aggregate limit. The consolidated financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately $14,526,000 and $13,381,000 for 2018 and 2017, respectively.

11. MALPRACTICE INSURANCE

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. The Indiana Medical Malpractice Act, IC 34-18 (the 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 and $12,000,000 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 and $15,000,000 in the annual aggregate. The Act also requires the Hospital to pay a surcharge to the State Patient's Compensation Fund (the 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. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, who are primarily local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third-party payors for 2018 and 2017 was as follows:

	Receivables		Revenues	
	2018	2017	2018	2017
Medicare	46%	40%	54%	52%
Medicaid	14%	19%	13%	15%
Other commercial	32%	32%	29%	29%
Self pay	8%	9%	4%	4%
	100%	100%	100%	100%

13. COMMITMENTS AND CONTINGENCIES

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

14. OPERATING LEASES

The Hospital leases certain facilities and equipment under operating leases expiring at various times through 2022. Total expense for these operating leases was approximately $12,310,000 and $12,294,000 in 2018 and 2017, respectively. The following is a schedule of future lease payments:

Year Ending December 31,	
2019	$ 10,710,000
2020	1,271,000
2021	671,000
2022	41,000
	$ 12,693,000

15. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its blended component units, the Foundation and PSI. Separate financial statements related to the individual component units may be obtained by contacting Hospital management. The following is a summary of the financial activity of the Foundation and PSI as of and for the years ended December 31, 2018 and 2017.

	2018		2017	
	Foundation	PSI	Foundation	PSI
Assets				
Cash	$ 675,696	$ -0-	$ 49,126	$ 1
Investments	3,663,123	-0-	4,614,349	-0-
Patient accounts receivable, net	-0-	2,313,576	-0-	2,676,534
Other receivables	11,626	96,036	9,220	109,360
Capital assets, net	-0-	-0-	331	-0-
Total assets	$ 4,350,445	$ 2,409,612	$ 4,673,026	$ 2,785,895
Liabilities				
Accounts payable and accrued expenses	$ 299	$ 1,464,390	$ 874	$ 37,117
Accrued wages and related liabilities	372	104,046	730	765,648
Estimated third-party settlements	-0-	6,665	-0-	-0-
Total liabilities	671	1,575,101	1,604	802,765
Net position	4,349,774	834,511	4,671,422	1,983,130
Total liabilities and net position	$ 4,350,445	$ 2,409,612	$ 4,673,026	$ 2,785,895
Operating revenues				
Net patient service revenue	$ -0-	$ 31,913,594	$ -0-	$ 31,180,061
Federal, state, and county grant revenue	-0-	6,062	-0-	-0-
Other revenue	-0-	829,550	-0-	583,699
Total operating revenues	-0-	32,749,206	-0-	31,763,760
Operating expenses				
Salaries and wages	-0-	32,868,928	-0-	34,467,828
Employee benefits	-0-	7,062,668	-0-	7,225,756
Physician fees	-0-	12,212,694	-0-	2,174,543
Professional fees and purchased services	-0-	1,967,099	-0-	6,224,612
Medical supplies and drugs	-0-	2,194,132	-0-	1,742,890
Other supplies	-0-	726,187	-0-	635,094
Utilities	-0-	191,969	-0-	181,427
Depreciation and amortization	332	-0-	2,153	1,228
Other	-0-	778,464	-0-	979,770
Total operating expenses	332	58,002,141	2,153	53,633,148
Operating loss	(332)	(25,252,935)	(2,153)	(21,869,388)
Non-operating revenues (expenses)				
Investment return	(130,611)	19,898	350,809	5,146
Other nonoperating	(380,282)	7,460	(585,438)	14,740
Intercompany transfers	189,577	24,076,958	390,370	21,094,615
Total nonoperating revenues (expenses)	(321,316)	24,104,316	155,741	21,114,501
Change in net position	(321,648)	(1,148,619)	153,588	(754,887)
Net position, beginning of year	4,671,422	1,983,130	4,517,834	2,738,017
Net position, end of year	$ 4,349,774	$ 834,511	$ 4,671,422	$ 1,983,130
Cash flows from activities				
Operating	$ 186,238	$ (27,359)	$ 388,532	$ (18,657)
Capital and related financing	(1)	-0-	1	(1,228)
Investing	440,333	27,358	(568,677)	19,886
Net change in cash	626,570	(1)	(180,144)	1
Cash, beginning of year	49,126	1	229,270	-0-
Cash, end of year	$ 675,696	$ -0-	$ 49,126	$ 1