

Gibson General

H O S P I T A L

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2019

CPAs / ADVISORS



GIBSON GENERAL HOSPITAL, INC.

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Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of Gibson General Hospital, Inc. (Hospital), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 2 in the financial statements, effective October 1, 2018, the Hospital adopted Financial Accounting Standards Board Accounting Standard Update No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information identified in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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 consolidated 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 February 21, 2020 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 21, 2020

GIBSON GENERAL HOSPITAL, INC.

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2019 AND 2018

ASSETS	2019	2018
Current assets		
Cash and cash equivalents	\$ 5,674,290	\$ 4,830,412
Investments	1,399,990	1,393,566
Patient accounts receivable, net of allowance for uncollectible accounts of \$1,951,000 in 2019 and \$1,332,000 in 2018	3,643,535	3,143,623
Other receivables	21,599	576,507
Supplies	689,106	711,314
Prepaid expenses	709,001	262,355
Total current assets	12,137,521	10,917,777
Assets whose use is limited		
Pledged as collateral	406,982	346,558
Property and equipment, net		
	12,543,193	9,949,332
Beneficial interest in net assets of Community Foundation Alliance		
	63,234	63,687
Other assets		
	-0-	15,390
Total assets	\$ 25,150,930	\$ 21,292,744
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,252,578	\$ 593,918
Accrued expenses	1,595,982	1,586,898
Estimated third-party settlements	1,101,893	511,000
Deferred revenue	473,844	708,077
Current portion of long-term debt	176,874	171,015
Current portion of capital leases	516,880	-0-
Total current liabilities	5,118,051	3,570,908
Long-term liabilities		
Long-term debt, less current portion	6,910,046	7,075,296
Capital leases, less current portion	2,490,921	-0-
Total long-term liabilities	9,400,967	7,075,296
Total liabilities	14,519,018	10,646,204
Net assets		
Without donor restrictions	10,556,795	10,557,090
With donor restrictions	75,117	89,450
Total net assets	10,631,912	10,646,540
Total liabilities and net assets	\$ 25,150,930	\$ 21,292,744

See accompanying notes to consolidated financial statements.

GIBSON GENERAL HOSPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Revenues, gains and other support		
Net patient service revenue	\$ 33,750,770	\$ 29,420,189
Less provision for bad debts	2,874,185	1,911,869
Net patient service revenue net of provision for bad debts	30,876,585	27,508,320
Management services revenue	1,293,401	2,227,112
Rental revenue	242,716	519,182
Other revenue	229,348	385,928
Total revenues, gains and other support	32,642,050	30,640,542
Expenses		
Salaries and wages	13,943,942	13,842,755
Employee benefits	3,659,455	3,781,130
Physician fees	2,124,287	2,066,221
Supplies and drugs	3,484,335	3,115,370
Dues and subscriptions	410,463	486,274
Purchased services	3,960,844	3,258,008
Rent and leases	501,739	460,893
Repairs and maintenance	1,037,886	1,066,707
Utilities	727,690	665,252
Insurance	350,138	340,348
Depreciation	1,128,154	1,304,781
Interest	266,159	318,122
HAF and HIP programs	1,045,352	981,811
Other	519,901	487,503
Total expenses	33,160,345	32,175,175
Operating loss	(518,295)	(1,534,633)
Nonoperating revenues		
Contributions	376,754	354,821
Investment return	119,006	34,680
Net assets released from restriction	22,240	5,722
Total nonoperating revenues	518,000	395,223
Excess revenues over expenses	(295)	(1,139,410)
Change in net assets without donor restrictions	(295)	(1,139,410)
Net assets with donor restrictions		
Change in beneficial interest in net assets of Community Foundation	(453)	3,995
Contributions	8,360	6,478
Net assets released from restriction	(22,240)	(5,722)
Change in net assets with donor restrictions	(14,333)	4,751
Change in net assets	(14,628)	(1,134,659)
Net assets		
Beginning of year	10,646,540	11,781,199
End of year	\$ 10,631,912	\$ 10,646,540

See accompanying notes to consolidated financial statements.

GIBSON GENERAL HOSPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Operating activities		
Change in net assets	\$ (14,628)	\$ (1,134,659)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,128,154	1,304,781
Amortization of debt issue costs	29,805	29,805
Provision for bad debts	2,874,185	1,911,869
Unrealized gain on investments	(3,763)	(883)
Change in beneficial interest in net assets of Community Foundation Alliance	453	(3,995)
Change in operating assets and liabilities		
Patient accounts receivable	(3,374,097)	(1,769,600)
Other receivables	554,908	78,166
Supplies	22,208	72,057
Prepaid expenses	(446,646)	(13,991)
Other assets	15,390	3,040
Accounts payable	658,660	(40,725)
Accrued expenses	9,084	34,333
Estimated third-party settlements	590,893	(222,664)
Deferred revenue	(234,233)	(217,464)
Net cash flows from operating activities	1,810,373	30,070
Investing activities		
Change in assets whose use is limited	(60,424)	653,442
Purchases of investments	(2,661)	(1,216,984)
Additions to property and equipment	(671,515)	(965,465)
Net cash flows from investing activities	(734,600)	(1,529,007)
Financing activities		
Proceeds from issuance of long-term debt	-0-	7,610,000
Principal payments on long-term debt	(171,847)	(7,360,138)
Principal payments on capital leases	(42,699)	-0-
Payments for bond issuance costs	(17,349)	(139,653)
Net cash flows from financing activities	(231,895)	110,209
Net change in cash and cash equivalents	843,878	(1,388,728)
Cash and cash equivalents		
Beginning of year	4,830,412	6,219,140
End of year	\$ 5,674,290	\$ 4,830,412
Noncash investing, capital and related financing activities		
Property and equipment included in accounts payable	\$ 88,988	\$ -0-
Property and equipment acquired through capital leases	\$ 3,050,500	\$ -0-
Supplemental disclosure of cash flows information		
Cash paid for interest	\$ 236,354	\$ 288,317

See accompanying notes to consolidated financial statements.

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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 2019 and 2018 was approximately \$1,293,000 and \$2,227,000, 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 \$173,000 in 2019 and \$450,000 in 2018, and is included in rental revenue within the accompanying consolidated financial statements.

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

The Hospital has a net receivable related to this arrangement as of September 30, 2019 and 2018 approximating \$-0- and \$303,000, 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 \$22,000 and \$274,000 as of September 30, 2019 and 2018.

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. Effective July 1, 2019, the Hospital terminated the agreement and closed the skilled nursing facility.

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 net assets without donor restrictions. Other investment income is reflected in the consolidated statements of operations and

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

changes in net assets as without donor restrictions or with donor restrictions 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 2019, the Hospital's allowance for uncollectible accounts increased approximately \$619,000 from approximately \$1,332,000 to \$1,951,000. The increase was the result of an increase in self-pay concentration as well as the aging of accounts. The Hospital did not change its charity care or financial assistance policies during 2019 or 2018.

As of September 30, 2019, the allowance for uncollectible accounts of approximately \$1,951,000 was comprised of approximately \$1,741,000 reserved for self-pay balances and \$210,000 reserved for third-party payor balances. 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.

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Other Receivables

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

Supplies

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

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

Beneficial Interest in Net Assets of Community Foundation Alliance

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

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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, 2019, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through September 30, 2017.

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 2019 and 2018, 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 12 for further details.

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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.

Basis of Presentation and Net Assets

The accompanying consolidated financial statements have been prepared on the accrual basis, and have been prepared with a focus on the entity as a whole. Net assets, support, revenues, gains, and losses are classified based on the existence or absence of donor restrictions. Accordingly, the net assets of the Hospital are classified and reported as follows:

Net assets without donor restrictions: Net assets that are currently available for operating purposes under the direction of the board or designated by the board for specific use.

Net assets with donor restrictions: Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations or specific purposes.

A summary of net assets with donor restrictions as of September 30, 2019 and 2018 follows:

	2019	2018
Purchase of equipment and emergency department expansion	\$ -0-	\$ 8,397
Childhood obesity	5,856	5,856
Beneficial interest in Community Foundation Alliance	63,234	63,687
Other	6,027	11,510
	<u>\$ 75,117</u>	<u>\$ 89,450</u>

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 2019 and 2018, measured at established rates, was approximately \$536,000 and \$422,000, 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.

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Of the Hospital's total expenses reported, an estimated \$294,000 and \$251,000 arose from providing services to charity patients during 2019 and 2018, 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 2019.

Contributions

Gifts of long-lived assets such as land, buildings, or equipment are reported as without donor restriction 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 2019 and 2018, there were no gifts of long-lived assets with donor restrictions.

Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, excess revenues over expenses. Changes in net assets without donor restrictions 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, 2019 and 2018.

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, 2019 and 2018, 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.

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The Hospital and Foundation filed their federal and state income tax returns for periods through September 30, 2018. Pain Management has filed its federal and state income tax returns for periods through December 31, 2018. 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 \$216,000 and \$233,000 in 2019 and 2018, respectively.

Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the current year presentation. There was no impact to the 2018 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 21, 2020.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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, 2022, 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 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.

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

2. CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 2018, the Hospital adopted FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in the financial statements and notes about its liquidity, financial performance and cash flows. The Hospital has adjusted the presentation of its 2019 financial statements herein and retrospectively restated the prior year financial statements. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 14), and disclosures related to the functional allocation of expenses (Note 15).

The impact of the adoption of ASU No. 2016-14 on the Hospital's net assets are as follows:

	<u>Previously Reported 9/30/2018</u>	<u>Adjustments</u>	<u>Currently Reported 9/30/2018</u>
Consolidated balance sheet			
Net assets			
Unrestricted	\$ 10,557,090	\$ (10,557,090)	\$ -0-
Temporarily restricted	25,763	(25,763)	-0-
Permanently restricted	63,687	(63,687)	-0-
Without donor restrictions	-0-	10,557,090	10,557,090
With donor restrictions	-0-	89,450	89,450
Total net assets	<u>\$ 10,646,540</u>	<u>\$ -0-</u>	<u>\$ 10,646,540</u>
Consolidated statements of operations and changes in net assets			
Change in unrestricted net assets	\$ (1,139,410)	\$ 1,139,410	\$ -0-
Change in temporarily restricted net assets	756	(756)	-0-
Change in permanently restricted net assets	3,995	(3,995)	-0-
Change in net assets without donor restrictions	-0-	(1,139,410)	(1,139,410)
Change in net assets with donor restrictions	-0-	4,751	4,751
Total change in net assets	<u>\$ (1,134,659)</u>	<u>\$ -0-</u>	<u>\$ (1,134,659)</u>

There was no significant impact to the statement of cash flows as a result of adopting this ASU.

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

3. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Investments consist of the following as of September 30:

	2019	2018
Certificates of deposit	\$ 179,244	\$ 176,580
Exchange traded funds	1,220,746	1,216,986
	<u>\$ 1,399,990</u>	<u>\$ 1,393,566</u>

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

	2019	2018
Cash and cash equivalents	<u>\$ 406,982</u>	<u>\$ 346,558</u>

The following is a reconciliation of investment return for 2019 and 2018:

	2019	2018
Interest and dividends	\$ 114,790	\$ 37,792
Unrealized gains	3,763	883
	<u>\$ 118,553</u>	<u>\$ 38,675</u>

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

	2019	2018
Net assets without donor restrictions	\$ 119,006	\$ 34,680
Net assets with donor restrictions	(453)	3,995
	<u>\$ 118,553</u>	<u>\$ 38,675</u>

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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, 2019 and 2018:

- *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.

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

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, 2019 and 2018:

	September 30, 2019			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Exchange traded funds - ultrashort bond	\$ 1,220,746	\$ 1,220,746	\$ -0-	\$ -0-
Beneficial interest in net assets at Community Foundation Alliance	\$ 63,234	\$ -0-	\$ -0-	\$ 63,234
	September 30, 2018			
	Total	Level 1	Level 2	Level 3
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

The following is a reconciliation of activity for 2019 and 2018 for assets measured at fair value based upon significant unobservable (Level 3) inputs:

	2019	2018
Beneficial interest in net assets		
at Community Foundation Alliance, beginning of year	\$ 63,687	\$ 59,692
Change in value of beneficial interest	(453)	3,995
Beneficial interest in net assets		
at Community Foundation Alliance, end of year	\$ 63,234	\$ 63,687

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2019 and 2018.

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

4. PROPERTY AND EQUIPMENT

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

	2019	2018
Land and improvements	\$ 680,034	\$ 680,034
Buildings and improvements	19,707,979	19,707,979
Equipment	17,239,989	13,629,414
	<u>37,628,002</u>	<u>34,017,427</u>
Less accumulated depreciation	25,205,795	24,077,641
	<u>12,422,207</u>	<u>9,939,786</u>
Construction in progress	120,986	9,546
	<u>\$ 12,543,193</u>	<u>\$ 9,949,332</u>

The Hospital had commitments at September 30, 2019 that approximated \$5,000,000 primarily related to software and equipment upgrades.

5. LONG-TERM DEBT AND CAPITAL LEASES

Long-Term Debt

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

	2019	2018
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.	\$ 6,376,767	\$ 6,512,104
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.	888,636	924,390
	<u>7,265,403</u>	<u>7,436,494</u>
Less unamortized debt issuance costs	178,483	190,183
Less current portion	176,874	171,015
	<u>\$ 6,910,046</u>	<u>\$ 7,075,296</u>

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

On December 14, 2017, all of the Hospital's debt 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 \$12,543,000 as of September 30, 2019. The USDA loan contains various financial covenants and the Hospital was in compliance with those covenants as of September 30, 2019.

Annual maturities of long-term debt for the years succeeding September 30, 2019 are as follows:

Year Ending September 30,	
2020	\$ 176,874
2021	182,934
2022	189,202
2023	195,687
2024	202,395
Thereafter	6,318,311
	<u>\$ 7,265,403</u>

Subsequent to September 30, 2019, the Hospital entered into a loan agreement with Deaconess Hospital for approximately \$4,300,000 for the purchase of equipment. The principal payments on this loan will range from approximately \$350,000 to \$520,000 through 2029.

Capital Leases

The Hospital leases certain equipment under capital leases expiring at various times through fiscal year 2026. The assets and liabilities under capital leases are initially recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Amortization of assets held under capital leases is included in depreciation expense and approximated \$60,000 and \$-0- for the years ended September 30, 2019 and 2018. The capital lease obligations carry imputed interest rates and are collateralized by the leased equipment.

Following is a summary of property held under capital leases:

	2019	2018
Equipment	\$ 3,050,500	\$ -0-
Less: accumulated depreciation	59,774	-0-
	<u>\$ 2,990,726</u>	<u>\$ -0-</u>

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Minimum future lease payments under capital leases for the years succeeding September 30, 2019 are as follows:

Year Ending September 30,	
2020	\$ 567,031
2021	567,031
2022	567,031
2023	567,031
2024	536,262
Thereafter	379,127
	<u>3,183,513</u>
Less amount representing interest	175,712
	<u>3,007,801</u>
Less current portion	516,880
Long-term capital lease obligations	<u>\$ 2,490,921</u>

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.

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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 2019 and 2018, the Hospital recognized HAF and HIP Program expenses of approximately \$1,045,000 and \$982,000, 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 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
Gross patient service revenue		
Inpatient	\$ 6,875,584	\$ 3,921,986
Outpatient	53,590,667	50,333,920
Total gross patient service revenue	60,466,251	54,255,906
Deductions from revenue		
Contractual adjustments	26,179,701	24,413,278
Provisions for bad debts	2,874,185	1,911,869
Charity care	535,780	422,439
	<u>29,589,666</u>	<u>26,747,586</u>
Net patient service revenue	<u>\$ 30,876,585</u>	<u>\$ 27,508,320</u>

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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	
	2019	2018	2019	2018
Medicare	26%	27%	49%	48%
Medicaid	11%	9%	16%	19%
Blue Cross	8%	7%	15%	13%
Other third-party payors	21%	25%	17%	16%
Self pay	34%	32%	3%	4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

8. OPERATING LEASES

The Hospital leases space and equipment under several non-cancelable operating leases that expire in various years through 2024.

Future minimum lease payments are as follows:

Year ending September 30,	
2020	\$ 439,480
2021	423,363
2022	368,354
2023	368,354
2024	333,454
	<u>\$ 1,933,005</u>

Rental expense related to all operating leases for the years ended September 30, 2019 and 2018 was approximately \$499,000 and \$459,000, respectively.

9. RETIREMENT PLAN

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, 2019 and 2018, the amount of retirement expense was approximately \$177,000 and \$178,000, respectively.

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

10. 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 requires 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.

11. 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 attachment point is approximately \$2,600,000. The aggregate reimbursement maximum under the policy as of September 30, 2019 was \$1,000,000 per year. Total expense for 2019 and 2018 totaled approximately \$2,473,000 and \$2,598,000, 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 \$279,000 and \$213,000 as of September 30, 2019 and 2018, respectively. The liability is included in accrued expenses in the accompanying consolidated balance sheets.

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

12. 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.

13. 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.

14. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Hospital's financial assets and liquidity resources available within one year of the consolidated balance sheet date for general expenditure are as follows:

Financial assets	
Cash and cash equivalents	\$ 5,674,290
Investments	1,399,990
Net patient accounts receivable	3,643,535
Other receivables	21,599
Total financial assets	<u>\$ 10,739,414</u>

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated balance sheet date. Receivables are subject to implied time restrictions, but are expected to be collected within one year. As a part of the Hospital's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Hospital periodically invests excess cash in investments. The Hospital does not intend to spend from the invested funds, though these amounts could be made available, if necessary.

15. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing program and supporting services have been summarized on a natural basis in the consolidated statements of operations and changes in net assets and have been summarized on a functional basis below. Certain costs have been allocated among health care services, general and administrative, and fundraising categories based on actual direct expenditures incurred by departments and cost allocations based upon time spent by the Hospital's personnel, which primarily include salaries and wages, employee benefits, and supplies and drugs. Other expenses require additional allocation on a reasonable basis that is consistently applied. Other expenses that are allocated include dues and subscriptions, purchased services, rent and leases, repairs and maintenance, utilities, insurance, depreciation, interest and other, which are allocated based on the ratio of direct salaries and wages charged to the category to total direct salaries and wages. Although the methods used were appropriate, alternative methods may provide different results.

Expenses related to providing program and supporting services for 2019 and 2018 are summarized below:

	2019		
	Healthcare Services	General and Administrative	Total
Expenses			
Salaries and wages	\$ 11,555,574	\$ 2,388,368	\$ 13,943,942
Employee benefits	2,340,369	1,319,086	3,659,455
Physician fees	2,124,287	-0-	2,124,287
Supplies and drugs	3,327,725	156,610	3,484,335
Dues and subscriptions	271,960	138,503	410,463
Purchased services	1,921,036	2,039,808	3,960,844
Rent and leases	472,567	29,172	501,739
Repairs and maintenance	518,082	519,804	1,037,886
Utilities	115,393	612,297	727,690
Insurance	46,543	303,595	350,138
Depreciation	847,221	280,933	1,128,154
Interest	199,880	66,279	266,159
HAF and HIP programs	1,045,352	-0-	1,045,352
Other	182,902	336,999	519,901
	\$ 24,968,891	\$ 8,191,454	\$ 33,160,345

GIBSON GENERAL HOSPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

	2018		
	Healthcare Services	General and Administrative	Total
Expenses			
Salaries and wages	\$ 11,477,002	\$ 2,365,753	\$ 13,842,755
Employee benefits	2,645,337	1,135,793	3,781,130
Physician fees	2,066,221	-0-	2,066,221
Supplies and drugs	2,921,917	193,453	3,115,370
Dues and subscriptions	326,908	159,366	486,274
Purchased services	1,497,038	1,760,970	3,258,008
Rent and leases	446,693	14,200	460,893
Repairs and maintenance	556,859	509,848	1,066,707
Utilities	68,845	596,407	665,252
Insurance	53,991	286,357	340,348
Depreciation	986,845	317,936	1,304,781
Interest	240,605	77,517	318,122
HAF and HIP programs	981,811	-0-	981,811
Other	141,222	346,281	487,503
	<u>\$ 24,411,294</u>	<u>\$ 7,763,881</u>	<u>\$ 32,175,175</u>

SUPPLEMENTARY INFORMATION

GIBSON GENERAL HOSPITAL, INC.

CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2019

	Gibson General Hospital, Inc. and GGH Holding Company, LLC	Gibson General Health Foundation, Inc.	Eliminations	Consolidated Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 5,522,399	\$ 151,891	\$ -0-	\$ 5,674,290
Investments	1,220,746	179,244	-0-	1,399,990
Patient accounts receivable, net	3,643,535	-0-	-0-	3,643,535
Other receivables	21,713	(20)	(94)	21,599
Supplies	689,106	-0-	-0-	689,106
Prepaid expenses	703,024	5,977	-0-	709,001
Total current assets	11,800,523	337,092	(94)	12,137,521
Assets whose use is limited				
Pledged as collateral	406,982	-0-	-0-	406,982
Property and equipment, net				
	12,543,193	-0-	-0-	12,543,193
Beneficial interest in net assets of Community Foundation Alliance				
	51,325	11,909	-0-	63,234
Total assets	<u>\$ 24,802,023</u>	<u>\$ 349,001</u>	<u>\$ (94)</u>	<u>\$ 25,150,930</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 1,252,578	\$ 94	\$ (94)	\$ 1,252,578
Accrued expenses	1,595,982	-0-	-0-	1,595,982
Estimated third-party settlements	1,101,893	-0-	-0-	1,101,893
Deferred revenue	473,844	-0-	-0-	473,844
Current portion of long-term debt	176,874	-0-	-0-	176,874
Current portion of capital leases	516,880	-0-	-0-	516,880
Total current liabilities	5,118,051	94	(94)	5,118,051
Long-term liabilities				
Long-term debt, less current portion	6,910,046	-0-	-0-	6,910,046
Capital leases, less current portion	2,490,921	-0-	-0-	2,490,921
Total long-term liabilities	9,400,967	-0-	-0-	9,400,967
Total liabilities	14,519,018	94	(94)	14,519,018
Net assets				
Without donor restrictions	10,231,680	325,115	-0-	10,556,795
With donor restrictions	51,325	23,792	-0-	75,117
Total net assets	10,283,005	348,907	-0-	10,631,912
Total liabilities and net assets	<u>\$ 24,802,023</u>	<u>\$ 349,001</u>	<u>\$ (94)</u>	<u>\$ 25,150,930</u>

See report of independent auditors on pages 1 and 2.

GIBSON GENERAL HOSPITAL, INC.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2019

	Gibson General			Consolidated Total
	Hospital, Inc. and GGH Holding Company, LLC	Gibson General Health Foundation, Inc.	Eliminations	
Revenues, gains and other support				
Net patient service revenue	\$ 33,750,770	\$ -0-	\$ -0-	\$ 33,750,770
Less provision for bad debts	2,874,185	-0-	-0-	2,874,185
Net patient service revenue				
net of provision for bad debts	30,876,585	-0-	-0-	30,876,585
Management services revenue	1,293,401	-0-	-0-	1,293,401
Rental revenue	242,716	-0-	-0-	242,716
Other revenue	229,348	-0-	-0-	229,348
Total revenues, gains and other support	32,642,050	-0-	-0-	32,642,050
Expenses				
Salaries and wages	13,943,942	-0-	-0-	13,943,942
Employee benefits	3,659,455	-0-	-0-	3,659,455
Physician fees	2,124,287	-0-	-0-	2,124,287
Supplies and drugs	3,483,432	903	-0-	3,484,335
Dues and subscriptions	410,441	22	-0-	410,463
Purchased services	3,960,844	-0-	-0-	3,960,844
Rent and leases	498,700	3,039	-0-	501,739
Repairs and maintenance	1,037,886	-0-	-0-	1,037,886
Utilities	727,682	8	-0-	727,690
Insurance	350,138	-0-	-0-	350,138
Depreciation	1,128,154	-0-	-0-	1,128,154
Interest	266,159	-0-	-0-	266,159
HAF and HIP programs	1,045,352	-0-	-0-	1,045,352
Other	478,629	162,931	(121,659)	519,901
Total expenses	33,115,101	166,903	(121,659)	33,160,345
Operating loss	(473,051)	(166,903)	121,659	(518,295)
Nonoperating revenues				
Contributions	392,083	106,330	(121,659)	376,754
Investment return	115,935	3,071	-0-	119,006
Net assets released from restriction	-0-	22,240	-0-	22,240
Total nonoperating revenues	508,018	131,641	(121,659)	518,000
Change in net assets without donor restrictions	34,967	(35,262)	-0-	(295)
Net assets with donor restrictions				
Change in beneficial interest in net assets of Community Foundation	(382)	(71)	-0-	(453)
Contributions	-0-	8,360	-0-	8,360
Net assets released from restriction	-0-	(22,240)	-0-	(22,240)
Change in net assets with donor restrictions	(382)	(13,951)	-0-	(14,333)
Change in net assets	34,585	(49,213)	-0-	(14,628)
Net assets				
Beginning of year	10,248,420	398,120	-0-	10,646,540
End of year	\$ 10,283,005	\$ 348,907	\$ -0-	\$ 10,631,912

See report of independent auditors on pages 1 and 2.



Blue & Co., LLC / 500 N. Meridian Street, Suite 200 / Indianapolis, IN 46204
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

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, 2019, 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 21, 2020.

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.

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

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 21, 2020