

**Gibson General Hospital, Inc. and Affiliate
Combined Financial Statements**

*Years Ended September 30, 2015 and 2014
with Report of Independent Auditors*

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of Gibson General Hospital, Inc. and Affiliate (the Hospital) which comprise the combined balance sheet as of September 30, 2015, and the related combined statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Gibson General Hospital, Inc. and Affiliate as of September 30, 2015, and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Trustees
Gibson General Hospital, Inc. and Affiliate
Report of Independent Auditors, continued

Other Matters

Prior Period Financial Statements

The combined financial statements of the Hospital, as of and for the year ended September 30, 2014, were audited by other auditors whose report dated June 24, 2015 expressed an unmodified opinion on those statements.

Supplementary Information

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

Emphasis of Matter

As described in Note 9, on March 21, 2016, the original purchaser (Old National Bank i.e. "the Bank") of the Series 2005, 2007 and 2008 Bonds and the Hospital agreed to a Forbearance Agreement (the Agreement) which outlines the terms and conditions under which the Bank will forbear from exercising its rights and remedies related to the default caused by the Hospital not meeting its debt service coverage covenants related to the bond issues. The forbearance period is for the period beginning March 21, 2016 to the earlier of October 1, 2016 or the date of the occurrence of any new events of default as defined in the Agreement. Our opinion is not modified with respect to this matter.

Dean Dotson Allen Ford, PLLC

March 21, 2016
Louisville, Kentucky

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GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Combined Balance Sheets

September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 637,616	\$ 1,374,002
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$2,800,000 in both 2015 and 2014	3,679,146	3,252,311
Other receivables	456,751	342,944
Supplies	816,213	667,977
Prepaid expenses	<u>174,946</u>	<u>459,983</u>
Total current assets	5,764,672	6,097,217
Assets limited as to use - internally designated	4,221,927	4,622,532
Property and equipment, net	12,078,250	12,681,685
Beneficial interest in assets at Community Foundation Alliance	<u>63,490</u>	<u>63,490</u>
Total other assets	<u>16,363,667</u>	<u>17,367,707</u>
 Total assets	 <u>\$ 22,128,339</u>	 <u>\$ 23,464,924</u>

	<u>2015</u>	<u>2014</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 831,607	\$ 741,280
Accrued expenses	1,445,020	1,327,320
Line of credit	600,000	-
Estimated Medicare-Medicaid cost report settlements payable	19,463	499,928
Accrued self-insurance liabilities	193,943	239,079
Deferred revenue	29,417	-
Current maturities of long-term debt	<u>901,132</u>	<u>925,527</u>
Total current liabilities	4,020,582	3,733,134
Long-term debt, net of current maturities	<u>7,808,700</u>	<u>8,727,230</u>
Total liabilities	11,829,282	12,460,364
Net assets:		
Unrestricted	10,184,560	10,883,264
Temporarily restricted	51,007	57,806
Permanently restricted	<u>63,490</u>	<u>63,490</u>
Total net assets	<u>10,299,057</u>	<u>11,004,560</u>
Total liabilities and net assets	<u>\$ 22,128,339</u>	<u>\$ 23,464,924</u>

See accompanying notes.

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Combined Statements of Operations and Changes in Net Assets

Years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 34,349,394	\$ 33,796,414
Provision for bad debts	<u>(3,943,699)</u>	<u>(3,716,513)</u>
Net patient service revenue less provision for bad debts	30,405,695	30,079,901
Other revenue	<u>467,338</u>	<u>811,746</u>
Total unrestricted revenues, gains and other support	30,873,033	30,891,647
Expenses and losses:		
Salaries and wages	14,482,267	14,697,133
Employee benefits	3,655,429	3,717,227
Contracted services	2,770,005	2,614,134
Supplies	2,813,428	2,760,879
Physician fees	2,268,074	2,154,279
Insurance	426,280	478,272
Lease expense	438,177	476,532
Utilities	653,327	665,375
Other expenses	622,097	715,547
Depreciation and amortization	1,215,995	1,233,579
Professional fees	147,784	146,907
Interest	230,643	263,095
Maintenance and repair	994,119	901,219
Advertising	285,183	261,511
Recruiting	88,562	76,215
Collection	162,255	128,455
Minor equipment	116,218	71,672
Provider hospital assessment fee	<u>312,860</u>	<u>1,015,702</u>
Total expenses and losses	<u>31,682,703</u>	<u>32,377,733</u>
Operating loss	(809,670)	(1,486,086)
Other income:		
Contributions received	188,222	108,872
Investment return	226,818	189,242
Assets released from restriction	<u>6,799</u>	<u>5,818</u>
Total other income	<u>421,839</u>	<u>303,932</u>
Deficit of expenses over revenues	(387,831)	(1,182,154)

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Combined Statements of Operations and Changes in Net Assets, continued

Years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted net assets:		
Deficit of expenses over revenues	(387,831)	(1,182,154)
Investment return - change in unrealized gains and losses on other than trading securities	<u>(310,873)</u>	<u>377,762</u>
Decrease in unrestricted net assets	(698,704)	(804,392)
Temporarily restricted net assets:		
Contributions	-	5,547
Assets released from restriction	<u>(6,799)</u>	<u>(5,818)</u>
Decrease in temporarily restricted net assets	(6,799)	(271)
Permanently restricted net assets:		
Change in beneficial interest in assets at Community Foundation Alliance	<u>-</u>	<u>3,531</u>
Decrease in net assets	(705,503)	(801,132)
Net assets, beginning of year	<u>11,004,560</u>	<u>11,805,692</u>
Net assets, end of year	<u>\$ 10,299,057</u>	<u>\$ 11,004,560</u>

See accompanying notes.

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Combined Statements of Cash Flows

Years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (705,503)	\$ (801,132)
Adjustment to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,215,995	1,233,579
Net unrealized loss (gain) on investments	310,873	(377,762)
Change in beneficial interest in assets at Community Foundation Alliance	-	(3,531)
Provision for uncollectible accounts	3,943,699	3,716,513
Increase (decrease) in cash due to changes in:		
Patient accounts receivable	(4,370,534)	(3,705,687)
Other receivables	(113,807)	194,587
Supplies	(148,236)	41,212
Prepaid expenses	285,037	(212,669)
Accounts payable	90,327	(27,860)
Accrued expenses	72,564	(29,962)
Estimated Medicare - Medicaid cost settlements payable	(480,465)	189,755
Deferred revenue	<u>29,417</u>	<u>-</u>
Net cash provided by operating activities	129,367	217,043
Cash flows from investing activities:		
Purchase of property and equipment	(608,706)	(1,109,095)
Decrease in assets limited as to use, net	<u>89,732</u>	<u>484,067</u>
Net cash used in investing activities	(518,974)	(625,028)
Cash flows from financing activities:		
Repayment of debt	(946,779)	(915,058)
Increase in line of credit, net	<u>600,000</u>	<u>-</u>
Net cash used in financing activities	<u>(346,779)</u>	<u>(915,058)</u>
Net decrease in cash	(736,386)	(1,323,043)
Cash and cash equivalents, beginning of year	<u>1,374,002</u>	<u>2,697,045</u>
Cash and cash equivalents, end of year	\$ <u><u>637,616</u></u>	\$ <u><u>1,374,002</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 230,643	\$ 263,095

See accompanying notes.

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements

1. Description of the Organization

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

Gibson General Health Foundation, Inc. (the 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.

2. Summary of Significant Accounting Policies

The combined financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Hospital in the preparation of its financial statements:

Principles of Combination

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

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits and investments with an original maturity of three months or less. At times, balances in the Hospital's cash accounts may exceed federally insured limits. The Hospital has not experienced any losses on such accounts. The Hospital believes it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable

Patient accounts receivable consist of amounts due from government programs (e.g., Medicare and Medicaid) and non-government payors (e.g., self-pay and commercial payors). Management believes there are minimal credit risks associated with the receivables from government programs. Non-government receivables are from various payors that are subject to differing economic conditions. Management continually monitors and adjusts the allowance for uncollectible accounts associated with credit risk of patient accounts receivable.

Supplies

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

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Assets Limited as to Use

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

Investment and Investment Return

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

Beneficial Interest in Assets of Community Foundation Alliance

Community Foundation Alliance (Alliance) and the Hospital are financially interrelated organizations as defined by GAAP. The Alliance seeks private support for and hold 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.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the combined statements of operations and changes in net assets. 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.

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

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability for 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.

Risk Management

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

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

Self-Insurance

The Hospital has elected to self-insure certain costs related to employee health programs. Costs resulting from noninsured losses are charged to income when incurred. The Hospital has purchased insurance that limits its exposure for individual claims in excess of \$75,000 and its aggregate exposure to \$1,000,000. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors.

Deferred Financing Costs

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

Temporarily and Permanently Restricted Net Assets

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

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Net Patient Service Revenue

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. 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.

Charity Care

The Hospital accepts patients regardless of their ability to pay. A patient is classified as a charity patient based on certain established policies. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital includes certain cases where incurred charges are significant when compared to the patient's income. Charity care provided, measured at cost was \$756,030 and \$1,096,620 for September 30, 2015 and 2014, respectively. These charges are not included in net patient service revenue.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Deficit of Expenses Over Revenues

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

Income Taxes

The Hospital and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. However, the Hospital is subject to federal income tax on any unrelated business taxable income. Management believes they do not have any unrelated business taxable income.

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

New Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, requiring all leases to be recognized on the Hospital's balance sheet as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the Hospital will recognize: 1) a lease liability for Hospital's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents the Hospital's right to use, or control the use of, the specified asset for the lease term. Upon adopting the ASU, the Hospital will be required to recognize and measure its leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 will be effective for the Hospital for the year ending September 30, 2021, with early adoption permitted. The Hospital is currently evaluating the effect that the new standard will have on its combined financial statements.

Reclassifications

Certain accounts in the 2014 financial statements have been reclassified to conform with the 2015 presentation with no effect on net assets or changes in net assets.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through March 21, 2016, the date that the combined financial statements were available to be issued. Except as disclosed in Notes 2, 8 and 9, there were no events during the evaluation period that require recognition or disclosure in the combined financial statements.

3. Net Patient Service Revenue

The Hospital has agreements with federal, state and third-party payors that provide for reimbursement at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates and amounts reimbursed by third-party payors. The Hospital participates in the Medicare and Medicaid programs. Approximately 42% and 43% of the Hospital's net patient service revenues in 2015 and 2014, respectively, were derived from services to patients covered by these programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

3. Net Patient Service Revenue, continued

The Hospital has elected critical access hospital status for Medicare and Medicaid reimbursement purposes. The election allows the Hospital to receive cost-based reimbursement for services rendered to Medicare and Medicaid beneficiaries. The Hospital receives interim payments from Medicare and Medicaid. Final settlements are determined after the submission of annual cost reports filed by the Hospital and the audit or desk review thereof by Medicare and Medicaid. Management feels that adequate provision has been made for the effects, if any, for audits or desk reviews by either program.

The Hospital received approximately \$1,156,000 and \$1,600,000 during 2015 and 2014, respectively, due to the enactment of a state provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the combined statements of operations and changes in net assets for 2015 and 2014. The Hospital paid approximately \$313,000 and \$1,016,000 into the Medicaid program for 2015 and 2014, which is recorded as an operating expense in the combined statements of operations and changes in net assets. This program is scheduled to end on June 30, 2017.

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

Following is a summary of gross and net patient service revenue for the years ended September 30:

	<u>2015</u>	<u>2014</u>
Gross patient service revenue	\$ 59,178,638	\$ 55,780,641
Deductions from revenue:		
Contractual allowances	24,073,214	20,887,607
Charity care	756,030	1,096,620
Provision for bad debts	<u>3,943,699</u>	<u>3,716,513</u>
Net patient service revenue	<u>\$ 30,405,695</u>	<u>\$ 30,079,901</u>

4. Assets Limited as to Use and Investment Return

Assets limited as to use consist of the following as of September 30:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 1,047,721	\$ 9,339
Equities	1,002,709	1,668,972
Mutual funds	1,656,338	2,193,062
Municipal bonds	<u>515,159</u>	<u>751,159</u>
	<u>\$ 4,221,927</u>	<u>\$ 4,622,532</u>

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

4. Assets Limited as to Use and Investment Return, continued

Investment income and gains for assets limited as to use and cash equivalents are comprised of the following for the years ended September 30:

	<u>2015</u>	<u>2014</u>
Investment (loss) income:		
Interest and dividends	\$ 226,818	\$ 189,242
Unrealized (losses) gains	(310,873)	377,762
Unrealized gain on interest in assets at Community Foundation Alliance	<u>-</u>	<u>3,531</u>
	<u>\$ (84,055)</u>	<u>\$ 570,535</u>

5. Fair Value Measurements

The Hospital has determined the fair value of certain assets as follows:

	<u>Fair Value Measurement at Reporting Date Using</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>September 30, 2015</u>				
Cash equivalents	\$ 1,047,721	\$ 1,047,721	\$ -	\$ -
Equities	1,002,709	1,002,709	-	-
Mutual funds	1,656,338	1,656,338	-	-
Municipal bonds	<u>515,159</u>	<u>-</u>	<u>515,159</u>	<u>-</u>
Total assets	<u>\$ 4,221,927</u>	<u>\$ 3,706,768</u>	<u>\$ 515,159</u>	<u>\$ -</u>

	<u>Fair Value Measurement at Reporting Date Using</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>September 30, 2014</u>				
Cash equivalents	\$ 9,339	\$ 9,339	\$ -	\$ -
Equities	1,668,972	1,668,972	-	-
Mutual funds	2,193,062	2,193,062	-	-
Municipal bonds	<u>751,159</u>	<u>-</u>	<u>751,159</u>	<u>-</u>
Total assets	<u>\$ 4,622,532</u>	<u>\$ 3,871,373</u>	<u>\$ 751,159</u>	<u>\$ -</u>

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

5. Fair Value Measurements, continued

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using Level 3 inputs are based primarily on assumptions that management believes market participants would utilize in pricing the asset. Valuation techniques utilized to determine fair value are consistently applied.

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments. There were no changes in the methodologies used at September 30, 2015 and 2014.

Money market funds: Valued at cost which approximates fair value.

Equity securities and mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Municipal bonds: Fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing modules, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows.

6. Beneficial Interest in Assets at Community Foundation Alliance

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

7. Property and Equipment

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

	<u>2015</u>	<u>2014</u>
Land and improvements	\$ 684,803	\$ 679,512
Buildings and improvements	19,332,050	19,332,051
Equipment	<u>13,826,301</u>	<u>13,532,478</u>
	33,843,154	33,544,041
Less accumulated depreciation and amortization	<u>(22,253,932)</u>	<u>(21,041,791)</u>
	11,589,222	12,502,250
Construction in progress	<u>489,028</u>	<u>179,435</u>
Property and equipment, net	<u>\$ 12,078,250</u>	<u>\$ 12,681,685</u>

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

7. Property and Equipment, continued

Depreciation expense for the years ended September 30, 2015 and 2014, amounted to \$1,212,142 and \$1,229,725, respectively.

As of September 30, 2015, the Hospital expects the remaining construction in progress to approximate \$78,800.

8. Line of Credit

The Hospital had a line of credit arrangement with a financial institution in the amount of \$1,000,000 that expired in October 2015. As of September 30, 2015, \$600,000 was outstanding on this line. This line of credit was renewed on similar terms in October 2015 and matures in October 2016. The line bears an interest rate based on the prime rate (3.25% as of September 30, 2015) and is secured by one of the Hospital's investment accounts.

9. Debt

A summary of debt as of September 30:

	<u>2015</u>	<u>2014</u>
City of Princeton, Indiana Economic Development Revenue Bonds (Series 2005 Bonds)	\$ 4,598,409	\$ 5,027,957
City of Princeton, Indiana Economic Development Revenue Bonds (Series 2008 Bonds)	1,658,039	1,821,106
City of Princeton, Indiana Economic Development Revenue Bonds (Series 2007 Bonds)	1,213,532	1,361,680
 Promissory note with a financial institution in the amount of \$1,125,000 to purchase the surgery center building. This note bears interest at 3.75% and is secured by the building purchased. Principal and interest payments are made monthly. This note expires in December 2027.	 963,680	 1,024,304
 Promissory note with a financial institution in the amount of \$425,000 to purchase radiology equipment. This note bears interest at 2.78%. Principal and interest payments are made monthly. This note expires in August 2018.	 254,392	 337,201
 Promissory note with a financial institution in the amount of \$126,000 to purchase equipment for the surgery center. This note bears interest at 2.60% and is secured by a the equipment purchased. Principal and interest payments are made monthly. This note expires in December 2017.	 58,758	 83,774

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

9. Debt, continued

Promissory note with a financial institution in the amount of \$4,100,000. This note bears interest at 4.95% and is secured by a commercial real estate second mortgage. The note expired in July 2015 and was paid in full.	-	37,567
Financing costs capitalized, net of accumulated amortization of \$38,539 in 2015 and \$34,685 in 2014, respectively.	<u>(36,978)</u>	<u>(40,832)</u>
Total long-term debt	8,709,832	9,652,757
Less current portion	<u>(901,132)</u>	<u>(925,527)</u>
Long-term debt, net of current portion	<u>\$ 7,808,700</u>	<u>\$ 8,727,230</u>

Series 2005 Bonds

The City of Princeton, Indiana Economic Development Revenue Bonds, Series 2005 were issued in the original amount of \$7,100,000 dated June 2005. The bonds bear a variable interest rate based on LIBOR and is adjusted every five years. The interest rates at September 2015 and 2014 were 2.18% and 2.32%, respectively. Principal and interest payments are made on the 1st day of each month. The bonds are secured by substantially all of the assets of the Hospital and are set to expire in June 2025. Under these terms, the Hospital has agreed to certain covenants, including maintaining a historical debt-service coverage ratio of at least 1.5 to 1. For the year ending September 30, 2015, the Hospital did not meet its debt service coverage covenant. See "Forbearance Agreement" paragraph as follows.

Series 2007 Bonds

The City of Princeton, Indiana Economic Development Revenue Bonds, Series 2007 were issued in the original amount of \$2,096,000 dated October 2007 and were utilized by the Hospital for an energy conservation project. The bonds bear a variable interest rate based on LIBOR and is adjusted every five years. The interest rate at both September 2015 and 2014 was 1.42%. Principal and interest payments are made on the 1st day of each month. The bonds are secured by substantially all of the assets of the Hospital and are set to expire in June 2023. Under these terms, the Hospital has agreed to certain covenants, including maintaining a historical debt-service coverage ratio of at least 1.5 to 1. For the year ending September 30, 2015, the Hospital did not meet its debt service coverage covenant. See "Forbearance Agreement" paragraph as follows.

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

9. Debt, continued

Series 2008 Bonds

The City of Princeton, Indiana Economic Development Revenue Bonds, Series 2008 were issued in the original amount of \$2,500,000 dated December 2008 and were utilized by the Hospital for renovations to the emergency department. The bonds bear a variable interest rate based on LIBOR and is adjusted every five years. The interest rates at September 2015 and 2014 were 2.43% and 3.53%, respectively. Principal and interest payments are made on the 1st day of each month. The bonds are secured by substantially all of the assets of the Hospital and are set to expire in November 2024. Under these terms, the Hospital has agreed to certain covenants, including maintaining a historical debt-service coverage ratio of at least 1.5 to 1. For the year ending September 30, 2015, the Hospital did not meet its debt service coverage covenant. See "Forbearance Agreement" paragraph as follows.

Forbearance Agreement

On March 21, 2016, the original purchaser (Old National Bank i.e. "the Bank") of the Series 2005, 2007 and 2008 Bonds and the Hospital agreed to a Forbearance Agreement (the Agreement) which outlines the terms and conditions under which the Bank will forbear from exercising its rights and remedies related to the default caused by the Hospital not meeting its debt service coverage covenants related to the bond issues. The forbearance period is for the period beginning March 21, 2016 to the earlier of October 1, 2016 or the date of the occurrence of any new events of default as defined in the Agreement.

Scheduled payments on debt are as follows:

Year Ending September 30:

2016	\$	901,132
2017		933,771
2018		928,867
2019		861,261
2020		725,437
Thereafter		<u>4,396,342</u>
	\$	<u>8,746,810</u>

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

10. Operating Lease

The Hospital leases space and equipment under several non-cancelable operating leases that expire in various years through 2021.

Future minimum lease payments are as follows:

<u>Year Ending September 30:</u>	
2016	\$ 359,131
2017	359,131
2018	334,101
2019	334,101
2020	276,933
Thereafter	<u>230,813</u>
	<u>\$ 1,894,210</u>

Rental expense related to all operating leases was \$438,177 and \$476,532 in 2015 and 2014, respectively.

11. Long - Term Care Operating Lease and Management Agreement

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

The lease agreement calls for monthly base rental of \$37,500 during the initial term of the agreement. The parties agree to negotiate rental increases during any optional extended terms with automatic annual 1% increases in the event the rent is not re-negotiated. Rental income was \$205,334 and \$203,713 in 2015 and 2014, respectively, and is included in other revenue. Future minimum rentals are \$210,000 for fiscal year 2016.

The management agreement includes a base management fee, subordinate management fee and incentive management fee. These amounts are based on net patient revenue of the facility. Subordinate and incentive management fees are to be paid only if sufficient working capital exists. The agreements also call for quality, royalty and capital improvement fees to be paid to the Hospital. Management and other fees received in 2015 and 2014 were \$0 and \$343,070, respectively, and are included in other revenue.

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	<u>2015</u>	<u>2014</u>
Purchase of equipment and emergency department expansion	\$ 4,635	\$ 3,216
Other programs	<u>46,372</u>	<u>54,590</u>
	<u>\$ 51,007</u>	<u>\$ 57,806</u>

Permanently restricted net assets are restricted to:

	<u>2015</u>	<u>2014</u>
Investments to be held in perpetuity, the income of which is unrestricted	<u>\$ 63,490</u>	<u>\$ 63,490</u>

13. Pension Plan

The Hospital has a defined contribution pension plan covering substantially all employees of the Hospital. 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, 2015 and 2014, the amount of retirement expense was \$193,629 and \$235,640, respectively.

14. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Medicare	17 %	19 %
Medicaid	6	4
Other third-party payors	50	51
Patients	<u>27</u>	<u>26</u>
	<u>100 %</u>	<u>100 %</u>

15. Contingencies

The Hospital insures for medical malpractice losses through a claims-made policy and provides an estimated reserve for deductibles for outstanding claims, which in the opinion of management, is adequate to cover losses, if any. Should the current claims-made policy not be renewed or replaced with equivalent insurance, claims based upon occurrences during their terms but reported subsequently will be uninsured. The Hospital intends to continue carrying such insurance.

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

15. Commitments and Contingencies, continued

The Hospital is currently, and from time to time, subject to claims and suits arising in the ordinary course of its business, including claims for medical malpractice and damages for personal injuries. In the opinion of the Hospital's management, the ultimate resolution of any of these pending claims and legal proceedings will not have a material effect on the Hospital's financial position or results of operations.

16. Estimated Malpractice Claims

The Hospital maintains commercial insurance on a claims-made basis for medical malpractice liabilities. The insurance coverages are \$75,000 individually and \$1,000,000 in the aggregate annually. Management intends to maintain such coverage in the future and is of the opinion that insurance coverage is adequate to cover any potential losses on asserted claims. Management is unaware of any incidents which would ultimately result in a loss in excess of the Hospital's insurance coverages.

17. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30 are as follows:

	<u>2015</u>	<u>2014</u>
Health care services	\$ 26,518,293	\$ 27,174,884
General and administrative	<u>5,164,410</u>	<u>5,202,849</u>
	<u>\$ 31,682,703</u>	<u>\$ 32,377,733</u>

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Notes to the Financial Statements, continued

18. Healthcare Reform

Patient Protection and Affordable Care Act

On March 23, 2010, *The Patient Protection and Affordable Care Act* (the Act) was signed into law. The effects of this legislation on hospitals are wide-ranging and potentially dramatic. In particular, the Act imposes additional requirements on hospitals seeking to obtain or maintain charitable tax-exempt status as defined under Section 501 of the Code. Hospitals seeking to obtain or maintain charitable tax-exempt status must now:

1. *Conduct a community health needs assessment.* Hospitals must conduct a community health needs assessment once every three years and then adopt and implement a strategy addressing the needs associated with the assessment.
2. *Establish written financial assistance and emergency care policies.*
3. *Limit billed charge amounts for emergency or other medically necessary care to patients eligible for financial assistance.*
4. *Prohibit the use of "extraordinary" collection efforts on patients who qualify for financial assistance.*

Charitable hospitals seeking to obtain or maintain charitable tax-exempt status must meet the new requirements by fiscal years beginning after March 23, 2010 with the exception of the community health needs assessment which is required for fiscal years beginning after March 23, 2012.

The Hospital believes it is in compliance with the Act.

The American Recovery and Reinvestment Act of 2009

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the Recovery Act) was signed into law. A major component of the Recovery Act is its emphasis on improving health information technology (also known as HIT). The federal government believes the implementation of technology will ultimately increase the quality and reduce the cost of healthcare.

To accomplish the improvement of HIT, the Recovery Act includes payment incentives for qualifying professionals. Physicians and hospitals that are considered early adopters of electronic health records (EHR) can become eligible to receive a significant amount of money from Medicare or Medicaid.

The Hospital received payments of approximately \$40,300 and \$58,800 during the years ended September 30, 2015 and 2014, respectively. Both the 2015 and 2014 funds are contingent on reaching certain metrics and various states of "meaningful use" as defined by the Recovery Act.

SUPPLEMENTAL SCHEDULES

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE
Combining Schedule - Balance Sheet
September 30, 2015

	Gibson General Hospital, Inc.	Gibson General Health Foundation, Inc.	Combining Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 277,238	\$ 360,378	\$ 637,616
Patient accounts receivable, net	3,679,146	-	3,679,146
Other receivables	439,566	17,185	456,751
Supplies	816,213	-	816,213
Prepaid expenses	174,946	-	174,946
Total current assets	5,387,109	377,563	5,764,672
Other assets:			
Assets limited as to use - internally designated	4,221,927	-	4,221,927
Property and equipment, net	12,078,250	-	12,078,250
Beneficial interest in assets at Community Foundation Alliance	51,931	11,559	63,490
Total other assets	16,352,108	11,559	16,363,667
Total assets	\$ 21,739,217	\$ 389,122	\$ 22,128,339
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 821,313	\$ 10,294	\$ 831,607
Accrued expenses	1,445,020	-	1,445,020
Line of credit	600,000	-	600,000
Estimated Medicare-Medicaid cost report settlements payable	19,463	-	19,463
Accrued self-insurance liabilities	193,943	-	193,943
Deferred revenue	29,417	-	29,417
Current maturities of long-term debt	901,132	-	901,132
Total current liabilities	4,010,288	10,294	4,020,582
Long-term debt, net of current portion	7,808,700	-	7,808,700
Total liabilities	11,818,988	10,294	11,829,282
Net assets			
Unrestricted	9,868,298	316,262	10,184,560
Temporarily restricted	-	51,007	51,007
Permanently restricted	51,931	11,559	63,490
Total net assets	9,920,229	378,828	10,299,057
Total liabilities and net assets	\$ 21,739,217	\$ 389,122	\$ 22,128,339

See accompanying notes and report of independent auditors.

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Combining Schedule - Statement of Operations and Changes in Net Assets

Year ended September 30, 2015

	Gibson General Hospital, Inc.	Gibson General Health Foundation, Inc.	Eliminations	Combining Total
Unrestricted revenues, rains and other support:				
Patient service revenue (net of contractual allowances and discounts)	\$ 34,349,394	\$ -	\$ -	\$ 34,349,394
Provision for bad debts	<u>3,943,699</u>	<u>-</u>	<u>-</u>	<u>3,943,699</u>
Net patient service revenue less provision for bad debts	30,405,695	-	-	30,405,695
Other revenue	<u>467,338</u>	<u>-</u>	<u>-</u>	<u>467,338</u>
Total unrestricted revenues, gains and other support	30,873,033	-	-	30,873,033
Expenses and losses:				
Salaries and wages	14,482,267	-	-	14,482,267
Employee benefits	3,655,429	-	-	3,655,429
Contracted services	2,770,005	-	-	2,770,005
Supplies	2,811,593	1,835	-	2,813,428
Physician fees	2,268,074	-	-	2,268,074
Insurance	426,280	-	-	426,280
Lease expense	436,126	2,051	-	438,177
Utilities	653,313	14	-	653,327
Other expenses	503,983	118,114	-	622,097
Depreciation and amortization	1,215,995	-	-	1,215,995
Professional fees	144,118	3,666	-	147,784
Interest	230,643	-	-	230,643
Maintenance and repair	994,119	-	-	994,119
Advertising	285,088	95	-	285,183
Recruiting	88,562	-	-	88,562
Collection	162,255	-	-	162,255
Minor equipment	116,218	-	-	116,218
Provider hospital assessment fee	<u>312,860</u>	<u>-</u>	<u>-</u>	<u>312,860</u>
Total expenses and losses	<u>31,556,928</u>	<u>125,775</u>	<u>-</u>	<u>31,682,703</u>
Operating loss	(683,895)	(125,775)	-	(809,670)
Other income:				
Contributions received	77,739	110,483	-	188,222
Investment return	226,561	257	-	226,818
Assets released from restriction	<u>-</u>	<u>6,799</u>	<u>-</u>	<u>6,799</u>
Total other income	<u>304,300</u>	<u>117,539</u>	<u>-</u>	<u>421,839</u>
Deficit of expenses over revenues	(379,595)	(8,236)	-	(387,831)

GIBSON GENERAL HOSPITAL, INC. AND AFFILIATE

Combining Schedule - Statement of Operations and Changes in Net Assets, continued

Year ended September 30, 2015

	Gibson General Hospital, Inc.	Gibson General Health Foundation, Inc.	Eliminations	Combining Total
Unrestricted net assets:				
Deficit of expenses over revenues	(379,595)	(8,236)	-	(387,831)
Investment return - change in unrealized gains and losses on other than trading securities	<u>(310,873)</u>	<u>-</u>	<u>-</u>	<u>(310,873)</u>
Decrease in unrestricted net assets	(690,468)	(8,236)	-	(698,704)
Temporarily restricted net assets:				
Assets released from restriction	<u>-</u>	<u>(6,799)</u>	<u>-</u>	<u>(6,799)</u>
Decrease in temporarily restricted net assets	<u>-</u>	<u>(6,799)</u>	<u>-</u>	<u>(6,799)</u>
Decrease in net assets	(690,468)	(15,035)	-	(705,503)
Net assets, beginning of year	<u>10,610,697</u>	<u>393,863</u>	<u>-</u>	<u>11,004,560</u>
Net assets, end of year	<u>\$ 9,920,229</u>	<u>\$ 378,828</u>	<u>\$ -</u>	<u>\$ 10,299,057</u>

See accompanying notes and report of independent auditors.