

# Gibson General

H O S P I T A L

## 2010 Audit Results

**Gibson General Hospital, Inc. and Affiliate**

Accountants' Report and Combined Financial Statements

September 30, 2010 and 2009

**Gibson General Hospital, Inc. and Affiliate**  
**September 30, 2010 and 2009**

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## Independent Accountants' Report on Combined Financial Statements and Supplementary Information

Board of Directors  
Gibson General Hospital and Affiliate  
Princeton, Indiana

We have audited the accompanying combined balance sheets of Gibson General Hospital, Inc. and Affiliate (Hospital) as of September 30, 2010 and 2009, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying supplementary combining information is presented for purposes of additional analysis of the basic combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the basic combined financial statements. The combining information has been subjected to the procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole.

BKD, LLP

January 14, 2011

# Gibson General Hospital, Inc. and Affiliate

## Combined Balance Sheets September 30, 2010 and 2009

### Assets

|  | 2010          | 2009          |
|--|---------------|---------------|
| <b>Current Assets</b>  |               |               |
| Cash and cash equivalents  | \$ 5,912,869  | \$ 5,642,871  |
| Investments - certificates of deposit  | 1,759,342     | -             |
| Patient accounts receivable, net of allowance;<br>2010 - \$2,556,366; 2009 - \$2,860,962 | 3,450,214     | 3,387,057     |
| Contributions receivable - current   | 151,935       | 322,607       |
| Estimated amounts due from third-party payers  | -             | 527,987       |
| Other receivables  | 281,513       | 230,442       |
| Supplies   | 641,822       | 606,606       |
| Prepaid expenses and other   | 108,735       | 199,331       |
| Total current assets   | 12,306,430    | 10,916,901    |
| <b>Property and Equipment, net</b>   | 14,280,847    | 16,024,645    |
| <b>Other Assets</b>  |               |               |
| Beneficial interest in assets at<br>Community Foundation Alliance                        | 48,015        | 47,651        |
| Contributions receivable   | 249,064       | 369,847       |
| Deferred financing costs   | 56,248        | 60,101        |
|  | 353,327       | 477,599       |
| Total assets   | \$ 26,940,604 | \$ 27,419,145 |

### Liabilities and Net Assets

|  |               |               |
|--|---------------|---------------|
| <b>Current Liabilities</b>                 |               |               |
| Current maturities of long-term debt       | \$ 1,204,264  | \$ 964,846    |
| Accounts payable                           | 436,233       | 1,374,529     |
| Accrued expenses                           | 1,507,430     | 1,362,141     |
| Estimated amount due to third-party payers | 406,000       | -             |
| Deferred revenue                           | -             | 42,300        |
| Accrued self-insurance liabilities         | 273,131       | 201,000       |
| Total current liabilities                  | 3,827,058     | 3,944,816     |
| <b>Long-Term Debt</b>                      | 10,640,204    | 11,695,116    |
| Total liabilities                          | 14,467,262    | 15,639,932    |
| <b>Net Assets</b>                          |               |               |
| Unrestricted                               | 11,984,433    | 10,966,996    |
| Temporarily restricted                     | 440,894       | 764,566       |
| Permanently restricted                     | 48,015        | 47,651        |
| Total net assets                           | 12,473,342    | 11,779,213    |
| Total liabilities and net assets           | \$ 26,940,604 | \$ 27,419,145 |

**Gibson General Hospital, Inc. and Affiliate**  
**Combined Statements of Operations**  
**Years Ended September 30, 2010 and 2009**

|   | 2010          | 2009          |
|---|---------------|---------------|
| <b>Unrestricted Revenues, Gains and Other Support</b> |               |               |
| Net patient service revenue                           | \$ 32,167,838 | \$ 32,109,842 |
| Other   | 281,100       | 273,304       |
| Total unrestricted revenues, gains and other support  | 32,448,938    | 32,383,146    |
| <b>Expenses and Losses</b>                            |               |               |
| Salaries and wages                                    | 13,271,223    | 13,009,567    |
| Employee benefits                                     | 3,355,660     | 3,059,092     |
| Contracted services                                   | 2,151,299     | 3,374,053     |
| Supplies  | 2,348,874     | 2,403,548     |
| Physician fees  | 1,959,941     | 1,658,155     |
| Insurance   | 373,472       | 388,006       |
| Lease expense   | 235,675       | 268,264       |
| Utilities   | 584,093       | 563,066       |
| Other   | 560,017       | 598,354       |
| Depreciation and amortization                         | 2,098,817     | 2,145,249     |
| Professional fees                                     | 85,641        | 95,718        |
| Interest  | 488,124       | 384,744       |
| Maintenance and repair                                | 741,398       | 768,081       |
| Provision for uncollectible accounts                  | 3,200,912     | 3,021,844     |
| Advertising   | 259,948       | 279,214       |
| Recruiting  | 57,384        | 114,107       |
| Collection  | 131,164       | 141,814       |
| Minor equipment                                       | 118,752       | 149,432       |
| Total expenses and losses                             | 32,022,394    | 32,422,308    |
| <b>Operating Income (Loss)</b>                        | 426,544       | (39,162)      |
| <b>Other Income</b>                                   |               |               |
| Contributions received                                | 123,926       | 341,763       |
| Investment return                                     | 35,138        | 15,774        |
| Assets released from restriction                      | 431,829       | 782,198       |
| Total other income                                    | 590,893       | 1,139,735     |
| <b>Increase in Unrestricted Net Assets</b>            | \$ 1,017,437  | \$ 1,100,573  |

**Gibson General Hospital, Inc. and Affiliate**  
**Combined Statements of Changes in Net Assets**  
**Years Ended September 30, 2010 and 2009**

|   | 2010                        | 2009                        |
|---|-----------------------------|-----------------------------|
| <b>Increase in Unrestricted Net Assets</b>  | <u>\$ 1,017,437</u>         | <u>\$ 1,100,573</u>         |
| <b>Temporarily Restricted Net Assets</b>  |                             |                             |
| Contributions   | 108,157                     | 168,109                     |
| Assets released from restriction  | <u>(431,829)</u>            | <u>(782,198)</u>            |
|   | <u>(323,672)</u>            | <u>(614,089)</u>            |
| <b>Permanently Restricted Net Assets - change in beneficial interest in assets at Community Foundation Alliance</b> | <u>364</u>                  | <u>(7,859)</u>              |
| <b>Change in Net Assets</b>   | 694,129                     | 478,625                     |
| <b>Net Assets, Beginning of Year</b>  | <u>11,779,213</u>           | <u>11,300,588</u>           |
| <b>Net Assets, End of Year</b>  | <u><u>\$ 12,473,342</u></u> | <u><u>\$ 11,779,213</u></u> |

# Gibson General Hospital, Inc. and Affiliate

## Combined Statements of Cash Flows Years Ended September 30, 2010 and 2009

|  | 2010         | 2009         |
|--|--------------|--------------|
| <b>Operating Activities</b>                          |              |              |
| Change in net assets                                 | \$ 694,129   | \$ 478,625   |
| Items not requiring (providing) cash                 |              |              |
| Depreciation and amortization                        | 2,098,817    | 2,145,249    |
| Change in beneficial interest in assets at           |              |              |
| Community Foundation Alliance                        | (364)        | 7,859        |
| Provision for uncollectible accounts                 | 3,200,912    | 3,021,844    |
| Changes in   |              |              |
| Patient accounts receivable, net                     | (3,264,069)  | (2,206,423)  |
| Contributions receivable                             | 291,455      | 243,666      |
| Estimated amounts due from and to third-party payers | 933,987      | 146,004      |
| Accounts payable and accrued expenses                | (788,703)    | 687,233      |
| Other current assets and liabilities                 | (34,138)     | (102,166)    |
| Net cash provided by operating activities            | 3,132,026    | 4,421,891    |
| <b>Investing Activities</b>                          |              |              |
| Purchase of property and equipment                   | (287,192)    | (5,345,469)  |
| Purchase of certificates of deposit                  | (1,759,342)  | -            |
| Proceeds from sale of investments                    | -            | 529,315      |
| Net cash used in investing activities                | (2,046,534)  | (4,816,154)  |
| <b>Financing Activities</b>                          |              |              |
| Principal payments on long-term debt                 | (902,067)    | (805,948)    |
| Proceeds from issuance of long-term debt             | 86,573       | 3,233,005    |
| Net cash provided by (used in) financing activities  | (815,494)    | 2,427,057    |
| <b>Increase in Cash and Cash Equivalents</b>         | 269,998      | 2,032,794    |
| <b>Cash and Cash Equivalents, Beginning of Year</b>  | 5,642,871    | 3,610,077    |
| <b>Cash and Cash Equivalents, End of Year</b>        | \$ 5,912,869 | \$ 5,642,871 |
| <b>Supplemental Cash Flows Information</b>           |              |              |
| Interest paid  | \$ 488,124   | \$ 500,944   |
| Property and equipment purchases in accounts payable | 67,827       | -            |

# **Gibson General Hospital, Inc. and Affiliate**

## **Notes to Combined Financial Statements**

**September 30, 2010 and 2009**

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

#### ***Nature of Operations***

Gibson General Hospital, Inc. (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. The Hospital is affiliated with the Gibson General Health Foundation, Inc. (Foundation) 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.

#### ***Use of Estimates***

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

#### ***Principles of Combination***

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

#### ***Cash and Cash Equivalents***

The Hospital and the Foundation consider all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2010 and 2009, cash equivalents consisted primarily of sweep accounts and money market accounts. Effective July 2010, the FDIC's insurance limits permanently increased to \$250,000. At September 30, 2010, combined cash accounts exceeded federally insured limits by approximately \$4.3 million.

#### ***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 benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

# **Gibson General Hospital, Inc. and Affiliate**

## **Notes to Combined Financial Statements**

**September 30, 2010 and 2009**

### ***Investments and Investment Return***

Investments in certificates of deposit are stated at cost plus accrued interest, which approximates fair value. Investment return primarily includes interest and other investment income. 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.

### ***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

### ***Supplies***

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out method or market.

### ***Property and Equipment***

Property and equipment are stated at cost and are depreciated on a straight-line basis over the estimated useful life of each asset.

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 net assets when the donated asset is placed in service.

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of borrowing. Total interest capitalized during 2009 was \$116,200.

**Gibson General Hospital, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**September 30, 2010 and 2009**

***Deferred Financing Costs***

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being 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.

***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. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$1,086,194 and \$465,652 for 2010 and 2009, respectively.

***Contributions***

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

# **Gibson General Hospital, Inc. and Affiliate**

## **Notes to Combined Financial Statements**

### **September 30, 2010 and 2009**

#### ***Deferred Revenue***

Revenue from reimbursement based grants is deferred and recognized once eligible expenses are incurred.

#### ***Medical Malpractice Claims***

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

#### ***Beneficial Interest in 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 (Interest) 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.

#### ***Income Taxes***

The Hospital and the Foundation have been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Hospital and the Foundation are subject to federal income tax on any unrelated business taxable income. The Hospital and Foundation's tax years still subject to examination by taxing authorities are years subsequent to 2007.

#### ***Subsequent Events***

Subsequent events have been evaluated through January 14, 2011, which is the date the combined financial statements were available to be issued.

**Gibson General Hospital, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**September 30, 2010 and 2009**

**Note 2: Contributions Receivable**

Contributions receivable consisted of the following as of September 30:

|                          | <b>Temporarily Restricted</b> |             |
|--------------------------|-------------------------------|-------------|
|                          | <b>2010</b>                   | <b>2009</b> |
| Due within one year      | \$ 151,935                    | \$ 322,607  |
| Due in one to five years | 258,035                       | 402,105     |
|                          | 409,970                       | 724,712     |
| Unamortized discount     | (8,971)                       | (32,258)    |
|                          | \$ 400,999                    | \$ 692,454  |

The discount rate was .71% to 3.45% for 2010 and 2009.

**Note 3: Property and Equipment**

The Hospital's property and equipment consist of the following:

|  | <b>2010</b>   | <b>2009</b>   |
|--|---------------|---------------|
| Land and land improvements                     | \$ 653,693    | \$ 572,125    |
| Building and improvements                      | 17,859,942    | 17,292,276    |
| Furniture, fixtures and medical equipment      | 12,405,056    | 12,072,747    |
| Construction in progress                       | 9,942         | 636,466       |
| Total cost                                     | 30,928,633    | 30,573,614    |
| Less accumulated depreciation and amortization | (16,647,786)  | (14,548,969)  |
|  | \$ 14,280,847 | \$ 16,024,645 |

# Gibson General Hospital, Inc. and Affiliate

## Notes to Combined Financial Statements

September 30, 2010 and 2009

### Note 4: 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 designated by Medicare as a critical access hospital (CAH).

Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge for inpatient services and per occasion for outpatient services.

Approximately 39% and 41% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2010 and 2009. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

### Note 5: Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at September 30, 2010 and 2009 is:

|                          | 2010        | 2009        |
|--------------------------|-------------|-------------|
| Medicare                 | 24%         | 17%         |
| Medicaid                 | 3%          | 4%          |
| Other third-party payers | 55%         | 56%         |
| Patients                 | 18%         | 23%         |
|                          | <u>100%</u> | <u>100%</u> |

**Gibson General Hospital, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**September 30, 2010 and 2009**

**Note 6: Investment Return**

Total investment return is comprised of the following:

|   | 2010      | 2009      |
|---|-----------|-----------|
| Interest and dividends  | \$ 35,138 | \$ 15,774 |
| Unrealized gain (loss) on beneficial interest in assets at<br>Community Foundation Alliance | 364       | (7,859)   |
| Total investment return   | \$ 35,502 | \$ 7,915  |

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

|   | 2010      | 2009      |
|---|-----------|-----------|
| Unrestricted net assets - investment income | \$ 35,138 | \$ 15,774 |
| Permanently restricted net assets           | 364       | (7,859)   |
|   | \$ 35,502 | \$ 7,915  |

***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.

**Gibson General Hospital, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**September 30, 2010 and 2009**

**Note 7: Long-Term Debt and Line of Credit**

|                               | 2010          | 2009          |
|-------------------------------|---------------|---------------|
| 2005 Revenue bonds (A)        | \$ 6,617,726  | \$ 6,634,822  |
| 2007 Revenue bonds (B)        | 1,861,636     | 1,967,435     |
| 2008 Revenue bonds (C)        | 2,382,469     | 2,500,000     |
| Note payable (D)              | 216,028       | 249,900       |
| Note payable (E)              | 766,609       | 1,279,178     |
| Capital lease obligations (F) | -             | 28,627        |
|                               | 11,844,468    | 12,659,962    |
| Less current maturities       | (1,204,264)   | (964,846)     |
|                               | \$ 10,640,204 | \$ 11,695,116 |

- (A) The 2005 Revenue bonds (2005 Bonds) consist of City of Princeton Revenue Bonds in the original amount of \$7,100,000 dated June 2005, which bear a variable interest rate based on LIBOR. The interest rate is adjusted every five years, and the interest rate at September 30, 2010 and 2009 was 2.32% and 4.15%, respectively. The 2005 Bonds are payable in monthly installments of \$24,556 through June 2025, and are secured by substantially all assets of the Hospital. The Hospital drew down \$3,200,000 to retire previously issued Series 2000 bonds and \$700,000 to finance certain capital improvements in fiscal year 2005. The Hospital also drew down approximately \$87,000 and \$733,000 during fiscal year 2010 and 2009, respectively, for renovations to the emergency department.
- (B) The 2007 Revenue bonds (2007 Bonds) consist of City of Princeton Revenue Bonds in the original amount of \$2,096,000 dated October 2007, which bear a variable interest rate based on LIBOR. The interest rate is adjusted every five years and the rate at September 30, 2010 and 2009 was 4.36%. The 2007 Bonds are payable in monthly installments of \$16,017 through July 2023, and are secured by substantially all assets of the Hospital. The Hospital utilized these funds for an energy conservation project undertaken. The indenture agreement for the 2005 Bonds and the 2007 Bonds requires the Hospital to comply with certain restrictive covenants including maintaining a historical debt-service coverage ratio of at least 1.5 to 1.
- (C) The 2008 Revenue bonds (2008 Bonds) consist of City of Princeton Revenue Bonds in the original amount of \$2,500,000 dated December 2008, which bear a variable interest rate based on LIBOR. The interest rate is adjusted every five years and the rate at September 30, 2010 and 2009 was 3.53%. The 2008 Bonds are payable in monthly installments of \$17,971 through November 2024, and are secured by substantially all assets of the Hospital. The Hospital utilized these funds for renovations to the emergency department. In addition to the restrictive covenants on the 2005 Bonds and the 2007 Bonds, the indenture agreement for the 2008 Bonds also requires the Hospital to maintain an average cash flow coverage ratio of at least 1.5 to 1.

**Gibson General Hospital, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**September 30, 2010 and 2009**

- (D) Due in July 2015, payable \$4,647 monthly, including interest at 4.95%; secured by commercial real estate second mortgage.
- (E) Bonds issued on March 1, 2007 by the Indiana Health and Educational Facility Financing Authority and obligating the Hospital are due in March 2012, payable \$46,642 monthly, including interest at 4.57%; secured by certain diagnostic equipment and the facility improvements incurred to house the diagnostic equipment.
- (F) At varying rates of imputed interest from 6.0% to 7.4%, paid in full during fiscal year 2010; collateralized by property and equipment. Property and equipment include the following property under capital leases:

|                               | <b>2009</b> |
|-------------------------------|-------------|
| Equipment                     | \$ 619,203  |
| Less accumulated depreciation | (490,048)   |
|                               | \$ 129,155  |

Aggregate annual maturities of long-term debt at September 30, 2010 are:

|            | <b>Long-Term Debt</b> |
|------------|-----------------------|
| 2011       | \$ 1,204,264          |
| 2012       | 919,068               |
| 2013       | 711,133               |
| 2014       | 733,719               |
| 2015       | 744,252               |
| Thereafter | 7,532,032             |
|            | \$ 11,844,468         |

**Gibson General Hospital, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**September 30, 2010 and 2009**

**Note 8: Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purpose or periods:

|  | <u>2010</u>       | <u>2009</u>       |
|--|-------------------|-------------------|
| Purchase of equipment and ER expansion | \$ 417,634        | \$ 753,453        |
| Other programs                         | <u>23,260</u>     | <u>11,113</u>     |
| Total                                  | <u>\$ 440,894</u> | <u>\$ 764,566</u> |

Permanently restricted net assets are restricted to:

|  | <u>2010</u>      | <u>2009</u>      |
|--|------------------|------------------|
| Investments to be held in perpetuity, the<br>income of which is unrestricted | <u>\$ 48,015</u> | <u>\$ 47,651</u> |

**Note 9: Functional Expenses**

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

|                            | <u>2010</u>          | <u>2009</u>          |
|----------------------------|----------------------|----------------------|
| Health care services       | \$ 28,271,286        | \$ 28,457,123        |
| General and administrative | <u>3,751,108</u>     | <u>3,965,185</u>     |
|                            | <u>\$ 32,022,394</u> | <u>\$ 32,422,308</u> |

**Note 10: Operating Leases**

Noncancellable operating leases for primary care outpatient offices expire in various years through 2013. These leases generally require the Hospital to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at September 30, 2010 were:

|                               |                   |
|-------------------------------|-------------------|
| 2011                          | \$ 131,635        |
| 2012                          | 94,010            |
| 2013                          | 82,198            |
| 2014                          | <u>18,742</u>     |
| Future minimum lease payments | <u>\$ 326,585</u> |

Rental expense for all operating leases was \$235,675 and \$268,264 for 2010 and 2009, respectively.

**Gibson General Hospital, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**September 30, 2010 and 2009**

**Note 11: Pension Plan**

The Hospital has a defined-contribution pension plan covering substantially all employees. The Hospital matches employee contributions at 50% of employee contributions up to 4% of employee eligible compensation. Pension expense was \$138,124 and \$136,197 for 2010 and 2009, respectively.

**Note 12: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Allowance for Net Patient Service Revenue Adjustments***

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 4.

***Malpractice Claims***

Estimates related to the accrual for medical malpractice claims are described in Note 1.

***Litigation***

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's insurance program (discussed elsewhere in these notes); for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

The Hospital has been named a defendant in a lawsuit that asserts the existence of false claims in the form of medical billings submitted to governmental agencies for reimbursement, along with wrongful termination and violation of anti-kickback regulations. The plaintiff has requested an amount, presently indeterminable, for the asserted violation, an award for the assertion of the claim and for reimbursement of attorney fees, interest, and punitive damages incurred by plaintiff. Based on the advice of counsel, the Hospital has filed a motion to dismiss the claim and has denied any wrongdoing. No accrual for the potential loss had been recognized in the combined financial statements.

**Gibson General Hospital, Inc. and Affiliate**  
**Notes to Combined Financial Statements**  
**September 30, 2010 and 2009**

***Current Economic Conditions***

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The combined financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the combined financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

## **Supplementary Information**

**Gibson General Hospital, Inc. and Affiliate**  
**Combining Schedule - Balance Sheet Information**  
**September 30, 2010**

**Assets**

|   | Gibson<br>General<br>Hospital,<br>Inc. | Gibson<br>General<br>Health<br>Foundation,<br>Inc. | Total                    |
|---|--|--|--------------------------|
| <b>Current Assets</b>   |  |  |                          |
| Cash and cash equivalents   | \$ 5,730,739                           | \$ 182,130   | \$ 5,912,869             |
| Investments - certificates of deposit                             | 1,759,342                              | -  | 1,759,342                |
| Patient accounts receivable, net of allowance;<br>\$2,556,366     | 3,450,214                              | -  | 3,450,214                |
| Contributions receivable - current                                | -                                      | 151,935  | 151,935                  |
| Other receivables   | 281,513                                | -  | 281,513                  |
| Supplies  | 641,822                                | -  | 641,822                  |
| Prepaid expenses and other  | 108,735                                | -  | 108,735                  |
| Total current assets  | <u>11,972,365</u>                      | <u>334,065</u>                                     | <u>12,306,430</u>        |
| <br><b>Property and Equipment, net</b>                            | <br><u>14,280,847</u>                  | <br><u>-</u>                                       | <br><u>14,280,847</u>    |
| <b>Other Assets</b>   |  |  |                          |
| Beneficial interest in assets at<br>Community Foundation Alliance | 38,373                                 | 9,642  | 48,015                   |
| Contributions receivable  | -                                      | 249,064  | 249,064                  |
| Deferred financing costs  | 56,248                                 | -  | 56,248                   |
|   | <u>94,621</u>                          | <u>258,706</u>                                     | <u>353,327</u>           |
| <br>Total assets  | <br><u>\$ 26,347,833</u>               | <br><u>\$ 592,771</u>                              | <br><u>\$ 26,940,604</u> |

**Liabilities and Net Assets**

|   |                          |                       |                          |
|---|--------------------------|-----------------------|--------------------------|
| <b>Current Liabilities</b>                  |                          |                       |                          |
| Current maturities of long-term debt        | \$ 1,204,264             | \$ -                  | \$ 1,204,264             |
| Accounts payable                            | 436,233                  | -                     | 436,233                  |
| Accrued expenses                            | 1,507,430                | -                     | 1,507,430                |
| Estimated amounts due to third-party payers | 406,000                  | -                     | 406,000                  |
| Accrued self-insurance liabilities          | 273,131                  | -                     | 273,131                  |
| Total current liabilities                   | <u>3,827,058</u>         | <u>-</u>              | <u>3,827,058</u>         |
| <br><b>Long-Term Debt</b>                   | <br><u>10,640,204</u>    | <br><u>-</u>          | <br><u>10,640,204</u>    |
| Total liabilities                           | <u>14,467,262</u>        | <u>-</u>              | <u>14,467,262</u>        |
| <b>Net Assets</b>                           |                          |                       |                          |
| Unrestricted                                | 11,842,198               | 142,235               | 11,984,433               |
| Temporarily restricted                      | -                        | 440,894               | 440,894                  |
| Permanently restricted                      | 38,373                   | 9,642                 | 48,015                   |
| Total net assets                            | <u>11,880,571</u>        | <u>592,771</u>        | <u>12,473,342</u>        |
| <br>Total liabilities and net assets        | <br><u>\$ 26,347,833</u> | <br><u>\$ 592,771</u> | <br><u>\$ 26,940,604</u> |

**Gibson General Hospital, Inc. and Affiliate**  
**Combining Schedule - Statement of Operations Information**  
**Year Ended September 30, 2010**

|  | Gibson<br>General<br>Hospital,<br>Inc. | Gibson<br>General<br>Health<br>Foundation,<br>Inc. | Total                | Eliminations | Total                |
|--|--|--|----------------------|--------------|----------------------|
| <b>Unrestricted Revenues, Gains and Other Support</b>          |  |  |                      |              |                      |
| Net patient service revenue                                    | \$ 32,167,838                          | \$ -   | \$ 32,167,838        | \$ -         | \$ 32,167,838        |
| Other  | 281,100                                | -  | 281,100              | -            | 281,100              |
| Total unrestricted revenues, gains and other support           | <u>32,448,938</u>                      | <u>-</u>   | <u>32,448,938</u>    | <u>-</u>     | <u>32,448,938</u>    |
| <b>Expenses and Losses</b>                                     |  |  |                      |              |                      |
| Salaries and wages   | 13,218,368                             | 52,855   | 13,271,223           | -            | 13,271,223           |
| Employee benefits  | 3,339,598                              | 16,062   | 3,355,660            | -            | 3,355,660            |
| Contracted services  | 2,134,646                              | 16,653   | 2,151,299            | -            | 2,151,299            |
| Supplies and other   | 2,344,340                              | 4,534  | 2,348,874            | -            | 2,348,874            |
| Physician fees   | 1,959,941                              | -  | 1,959,941            | -            | 1,959,941            |
| Insurance  | 373,472                                | -  | 373,472              | -            | 373,472              |
| Lease expense  | 229,929                                | 5,746  | 235,675              | -            | 235,675              |
| Utilities  | 584,064                                | 29   | 584,093              | -            | 584,093              |
| Other  | 550,761                                | 9,256  | 560,017              | -            | 560,017              |
| Depreciation and amortization                                  | 2,098,817                              | -  | 2,098,817            | -            | 2,098,817            |
| Professional fees  | 85,641                                 | -  | 85,641               | -            | 85,641               |
| Interest   | 488,124                                | -  | 488,124              | -            | 488,124              |
| Maintenance and repair   | 741,398                                | -  | 741,398              | -            | 741,398              |
| Provision for uncollectible accounts                           | 3,200,912                              | -  | 3,200,912            | -            | 3,200,912            |
| Advertising  | 249,634                                | 10,314   | 259,948              | -            | 259,948              |
| Recruiting   | 57,384                                 | -  | 57,384               | -            | 57,384               |
| Collection   | 131,164                                | -  | 131,164              | -            | 131,164              |
| Minor equipment  | 115,564                                | 3,188  | 118,752              | -            | 118,752              |
| Total expenses and losses                                      | <u>31,903,757</u>                      | <u>118,637</u>                                     | <u>32,022,394</u>    | <u>-</u>     | <u>32,022,394</u>    |
| Operating Income (Loss)  | <u>545,181</u>                         | <u>(118,637)</u>                                   | <u>426,544</u>       | <u>-</u>     | <u>426,544</u>       |
| <b>Other Income (Expense)</b>                                  |  |  |                      |              |                      |
| Contributions received   | 511,604                                | 123,895  | 635,499              | (511,573)    | 123,926              |
| Investment income  | 33,689                                 | 1,449  | 35,138               | -            | 35,138               |
| Assets released from restriction                               | -                                      | 431,829  | 431,829              | -            | 431,829              |
| Contributions to affiliate                                     | (110,461)                              | (401,112)  | (511,573)            | 511,573      | -                    |
| Total other income   | <u>434,832</u>                         | <u>156,061</u>                                     | <u>590,893</u>       | <u>-</u>     | <u>590,893</u>       |
| Increase in Unrestricted Net Assets                            | <u>980,013</u>                         | <u>37,424</u>                                      | <u>1,017,437</u>     | <u>-</u>     | <u>1,017,437</u>     |
| <b>Temporarily Restricted Net Assets</b>                       |  |  |                      |              |                      |
| Contributions  | -                                      | 108,157  | 108,157              | -            | 108,157              |
| Assets released from restriction                               | -                                      | (431,829)  | (431,829)            | -            | (431,829)            |
| Net change in temporarily restricted net assets                | <u>-</u>                               | <u>(323,672)</u>                                   | <u>(323,672)</u>     | <u>-</u>     | <u>(323,672)</u>     |
| <b>Permanently Restricted Net Assets - change in</b>           |  |  |                      |              |                      |
| beneficial interest in assets at Community Foundation Alliance | 609                                    | (245)  | 364                  | -            | 364                  |
| Change in Net Assets   | <u>980,622</u>                         | <u>(286,493)</u>                                   | <u>694,129</u>       | <u>-</u>     | <u>694,129</u>       |
| Net Assets, Beginning of Year                                  | <u>10,899,949</u>                      | <u>879,264</u>                                     | <u>11,779,213</u>    | <u>-</u>     | <u>11,779,213</u>    |
| Net Assets, End of Year  | <u>\$ 11,880,571</u>                   | <u>\$ 592,771</u>                                  | <u>\$ 12,473,342</u> | <u>\$ -</u>  | <u>\$ 12,473,342</u> |