

Gibson General Hospital, Inc. and Affiliate

Accountants' Report and Combined Financial Statements

September 30, 2011 and 2010

Gibson General Hospital, Inc. and Affiliate

September 30, 2011 and 2010

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Independent Accountants' Report on Combined Financial Statements and Supplementary Information

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

We have audited the accompanying combined balance sheets of Gibson General Hospital, Inc. and Affiliate (Hospital) as of September 30, 2011 and 2010, and the related combined 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, 2011 and 2010, 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 procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in related to the basic combined financial statements taken as a whole.

BKD, LLP

March 1, 2012

Gibson General Hospital, Inc. and Affiliate
Combined Balance Sheets
September 30, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 3,365,030	\$ 5,912,869
Investments - certificates of deposit	-	1,759,342
Patient accounts receivable, net of allowance; 2011 - \$2,220,734; 2010 - \$2,556,366	3,129,781	3,450,214
Contributions receivable - current	142,824	151,935
Other receivables	189,851	281,513
Supplies	638,110	641,822
Prepaid expenses and other	185,743	108,735
Total current assets	<u>7,651,339</u>	<u>12,306,430</u>
Property and Equipment, net	<u>12,263,582</u>	<u>14,280,847</u>
Other Assets		
Assets limited as to use - internally designated	3,843,104	-
Beneficial interest in assets at Community Foundation Alliance	56,747	48,015
Contributions receivable	21,249	249,064
Deferred financing costs	52,394	56,248
	<u>3,973,494</u>	<u>353,327</u>
Total assets	<u>\$ 23,888,415</u>	<u>\$ 26,940,604</u>

Liabilities and Net Assets

Current Liabilities		
Current maturities of long-term debt	\$ 919,068	\$ 1,204,264
Accounts payable	1,620,624	436,233
Accrued expenses	1,100,393	1,507,430
Estimated amount due to third-party payers	271,703	406,000
Accrued self-insurance liabilities	265,042	273,131
Total current liabilities	<u>4,176,830</u>	<u>3,827,058</u>
Long-Term Debt	<u>9,723,147</u>	<u>10,640,204</u>
Total liabilities	<u>13,899,977</u>	<u>14,467,262</u>
Net Assets		
Unrestricted	9,680,011	11,984,433
Temporarily restricted	251,680	440,894
Permanently restricted	56,747	48,015
Total net assets	<u>9,988,438</u>	<u>12,473,342</u>
Total liabilities and net assets	<u>\$ 23,888,415</u>	<u>\$ 26,940,604</u>

Gibson General Hospital, Inc. and Affiliate
Combined Statements of Operations
Years Ended September 30, 2011 and 2010

	2011	2010
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 31,301,045	\$ 32,167,838
Other	414,304	281,100
Total unrestricted revenues, gains and other support	31,715,349	32,448,938
Expenses and Losses		
Salaries and wages	13,698,616	13,271,223
Employee benefits	3,154,848	3,355,660
Contracted services	2,292,891	2,151,299
Supplies	2,449,510	2,348,874
Physician fees	2,169,812	1,959,941
Insurance	394,643	373,472
Lease expense	352,989	235,675
Utilities	577,070	584,093
Other	610,949	560,017
Depreciation and amortization	1,822,566	2,098,817
Professional fees	152,186	85,641
Interest	354,701	488,124
Maintenance and repair	780,698	741,398
Provision for uncollectible accounts	3,093,490	3,200,912
Advertising	316,515	259,948
Recruiting	51,484	57,384
Collection	110,695	131,164
Minor equipment	68,690	118,752
Impairment loss recognized on property and equipment	691,297	-
Settlement expense	1,112,714	-
Total expenses and losses	34,256,364	32,022,394
Operating Income (Loss)	(2,541,015)	426,544
Other Income (Expense)		
Contributions received	44,653	123,926
Investment return	54,563	35,138
Assets released from restriction	296,128	431,829
Total other income	395,344	590,893
Excess (Deficiency) of Revenues Over Expenses	(2,145,671)	1,017,437
Investment return - change in unrealized gains and losses on other than trading securities	(158,751)	-
Increase (Decrease) in Unrestricted Net Assets	\$ (2,304,422)	\$ 1,017,437

Gibson General Hospital, Inc. and Affiliate
Combined Statements of Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Increase (Decrease) in Unrestricted Net Assets	\$ (2,304,422)	\$ 1,017,437
Temporarily Restricted Net Assets		
Contributions	106,914	108,157
Assets released from restriction	(296,128)	(431,829)
	(189,214)	(323,672)
Permanently Restricted Net Assets - change in beneficial interest in assets at Community Foundation Alliance	8,732	364
Change in Net Assets	(2,484,904)	694,129
Net Assets, Beginning of Year	12,473,342	11,779,213
Net Assets, End of Year	\$ 9,988,438	\$ 12,473,342

Gibson General Hospital, Inc. and Affiliate
Combined Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Operating Activities		
Change in net assets	\$ (2,484,904)	\$ 694,129
Items not requiring cash		
Depreciation and amortization	1,822,566	2,098,817
Impairment loss recognized on property and equipment	691,297	-
Net unrealized loss on investments	158,751	-
Change in beneficial interest in assets at Community Foundation Alliance	(8,732)	(364)
Provision for uncollectible accounts	3,093,490	3,200,912
Changes in		
Patient accounts receivable, net	(2,773,057)	(3,264,069)
Contributions receivable	236,926	291,455
Estimated amounts due from and to third-party payers	(134,297)	933,987
Accounts payable and accrued expenses	769,265	(788,703)
Other current assets and liabilities	22,220	(34,138)
Net cash provided by operating activities	1,393,525	3,132,026
Investing Activities		
Purchase of property and equipment	(496,598)	(287,192)
Purchase of investments	(4,054,563)	-
Purchase of certificates of deposit	-	(1,759,342)
Proceeds from sale of investments	1,812,050	-
Net cash used in investing activities	(2,739,111)	(2,046,534)
Financing Activities		
Principal payments on long-term debt	(1,202,253)	(902,067)
Proceeds from issuance of long-term debt	-	86,573
Net cash used in financing activities	(1,202,253)	(815,494)
Increase (Decrease) in Cash and Cash Equivalents	(2,547,839)	269,998
Cash and Cash Equivalents, Beginning of Year	5,912,869	5,642,871
Cash and Cash Equivalents, End of Year	\$ 3,365,030	\$ 5,912,869
Supplemental Cash Flows Information		
Interest paid	\$ 354,701	\$ 488,124
Property and equipment purchases in accounts payable	-	67,827

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements

September 30, 2011 and 2010

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 combined financial statements include the 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

The Hospital and the Foundation consider all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2011 and 2010, cash equivalents consisted primarily of sweep accounts and money market accounts. Effective July 2010, the FDIC's insurance limits permanently increased to \$250,000. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts through December 31, 2012, at all FDIC-insured institutions. At September 30, 2011, combined cash accounts exceeded federally insured limits by approximately \$2.6 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.

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements

September 30, 2011 and 2010

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.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. 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 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.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors 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.

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.

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements

September 30, 2011 and 2010

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.

Long-Lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of a long-lived asset whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value, and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

An impairment loss of \$691,297 was recognized for a Hospital-owned nursing home and the related land for the year ended September 30, 2011, based on structural damage incurred during the year and management's intention to demolish the building. The loss is included as an operating expense in the accompanying combined statement of operations. Fair value was determined based on the remaining market value of the land.

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.

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.

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements

September 30, 2011 and 2010

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 \$988,516 and \$1,086,194 for 2011 and 2010, 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.

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.

Gibson General Hospital, Inc. and Affiliate
Notes to Combined Financial Statements
September 30, 2011 and 2010

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's and Foundation's tax years still subject to examination by taxing authorities are years subsequent to 2008.

Excess (Deficiency) of Revenues Over Expenses

The combined statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the combined financial statements were available to be issued.

Note 2: Contributions Receivable

Contributions receivable consisted of the following as of September 30:

	Temporarily Restricted	
	2011	2010
Due within one year	\$ 142,824	\$ 151,935
Due in one to five years	21,249	258,035
	164,073	409,970
Unamortized discount	-	(8,971)
	\$ 164,073	\$ 400,999

The discount rate was .71% for 2010.

Gibson General Hospital, Inc. and Affiliate
Notes to Combined Financial Statements
September 30, 2011 and 2010

Note 3: Property and Equipment

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

	2011	2010
Land and land improvements	\$ 653,693	\$ 653,693
Building and improvements	17,141,173	17,859,942
Furniture, fixtures and medical equipment	12,630,437	12,405,056
Construction in progress	135,859	9,942
Total cost	<u>30,561,162</u>	<u>30,928,633</u>
Less accumulated depreciation and amortization	<u>(18,297,580)</u>	<u>(16,647,786)</u>
	<u>\$ 12,263,582</u>	<u>\$ 14,280,847</u>

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% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2011 and 2010. 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.

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements

September 30, 2011 and 2010

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, 2011 and 2010 is:

	2011	2010
Medicare	17%	24%
Medicaid	3%	3%
Other third-party payers	59%	55%
Patients	21%	18%
	100%	100%

Note 6: Investments and Investment Return

Investments and assets limited as to use at September 30, include:

	2011	2010
Certificates of deposit	\$ -	\$ 1,759,342
Assets limited as to use		
Cash equivalents	2,352,192	-
Equities	264,939	-
Equity mutual funds	391,292	-
Municipal bonds	354,697	-
Bond mutual funds	479,984	-
	3,843,104	-
	\$ 3,843,104	\$ 1,759,342

Total investment return is comprised of the following:

	2011	2010
Interest and dividends	\$ 54,563	\$ 35,138
Unrealized loss on other than trading securities	(158,751)	-
Unrealized gain on beneficial interest in assets at Community Foundation Alliance	8,732	364
Total investment return	\$ (95,456)	\$ 35,502

Gibson General Hospital, Inc. and Affiliate
Notes to Combined Financial Statements
September 30, 2011 and 2010

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

	2011	2010
Unrestricted net assets - investment income (loss)		
Investment income	\$ 54,563	\$ 35,138
Unrealized loss on other than trading securities	(158,751)	-
Permanently restricted net assets	8,732	364
	\$ (95,456)	\$ 35,502

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.

Note 7: Long-Term Debt and Line of Credit

	2011	2010
2005 Revenue bonds (A)	\$ 6,237,039	\$ 6,617,726
2007 Revenue bonds (B)	1,750,534	1,861,636
2008 Revenue bonds (C)	2,249,219	2,382,469
Note payable (D)	174,830	216,028
Note payable (E)	230,593	766,609
	10,642,215	11,844,468
Less current maturities	(919,068)	(1,204,264)
	\$ 9,723,147	\$ 10,640,204

(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, 2011 and 2010 was 2.32%. 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.

Gibson General Hospital, Inc. and Affiliate
Notes to Combined Financial Statements
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- (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, 2011 and 2010 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. At September 30, 2011, the Hospital was in noncompliance with this requirement which was formally approved by the lender through September 30, 2012.
- (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, 2011 and 2010 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. At September 30, 2011, the Hospital was in noncompliance with this requirement which was formally approved by the lender through September 30, 2012.
- (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.

Aggregate annual maturities of long-term debt at September 30, 2011 are:

	Long-Term Debt
2012	\$ 919,068
2013	711,133
2014	733,719
2015	744,238
2016	727,606
Thereafter	6,806,451
	\$ 10,642,215

Gibson General Hospital, Inc. and Affiliate
Notes to Combined Financial Statements
September 30, 2011 and 2010

Note 8: Temporarily and Permanently Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Purchase of equipment and emergency department expansion	\$ 163,471	\$ 417,634
Other programs	<u>88,209</u>	<u>23,260</u>
Total	<u>\$ 251,680</u>	<u>\$ 440,894</u>

Permanently restricted net assets are restricted to:

	<u>2011</u>	<u>2010</u>
Investments to be held in perpetuity, the income of which is unrestricted	<u>\$ 56,747</u>	<u>\$ 48,015</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>2011</u>	<u>2010</u>
Health care services	\$ 29,114,241	\$ 28,271,286
General and administrative	<u>5,142,123</u>	<u>3,751,108</u>
	<u>\$ 34,256,364</u>	<u>\$ 32,022,394</u>

Note 10: Operating Leases

Noncancellable operating leases for primary care outpatient offices expire in various years through 2040. These leases generally require the Hospital to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at September 30, 2011 were:

2012	\$ 101,510
2013	89,698
2014	26,242
2015	7,500
2016	7,500
Thereafter	<u>261,875</u>
Future minimum lease payments	<u>\$ 494,325</u>

Rental expense for all operating leases was \$352,989 and \$235,675 for 2011 and 2010, respectively.

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements

September 30, 2011 and 2010

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 \$141,462 and \$138,124 for 2011 and 2010, respectively.

Note 12: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying combined balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Cash Equivalents

The Hospital's cash equivalents consist of money market funds that have quoted market prices available in an active market and are classified within Level 1 of the hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash equivalents, equities, equity mutual funds and bond mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include municipal bonds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Hospital currently does not have any Level 3 securities.

Gibson General Hospital, Inc. and Affiliate
Notes to Combined Financial Statements
September 30, 2011 and 2010

The following table presents the fair value measurements of assets recognized in the accompanying combined balance sheet measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2011. The Hospital did not have any securities measured at fair value at September 30, 2010.

	Fair Value	2011 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 100,305	\$ 100,305	\$ -	\$ -
Assets limited as to use				
Cash equivalents	2,352,192	2,352,192	-	-
Equities	264,939	264,939	-	-
Equity mutual funds	391,292	391,292	-	-
Municipal bonds	354,697	-	354,697	-
Bond mutual funds	479,984	479,984	-	-
	<u>\$ 3,943,409</u>	<u>\$ 3,588,712</u>	<u>\$ 354,697</u>	<u>\$ -</u>

Note 13: 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.

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements

September 30, 2011 and 2010

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 had been named a defendant in a lawsuit that asserted 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 Hospital reached a settlement for the false claims lawsuit with the governmental agency during 2011 for approximately \$1.1 million, which is accrued in accounts payable at September 30, 2011 in the combined balance sheet. The Hospital was released from its liability related to this claim.

The Hospital is still named as a defendant in the lawsuit related to wrongful termination of the plaintiff who has requested an amount, presently indeterminable, for reimbursement of attorney fees, interest, and punitive damages incurred. Based on the advice of counsel, the Hospital has filed a motion to dismiss the wrongful termination claim and has denied any wrongdoing. No accrual for the potential future loss had been recognized in the combined financial statements for this matter.

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 the Hospital's 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, 2011

Assets

	Gibson General Hospital, Inc.	Gibson General Health Foundation, Inc.	Total
Current Assets			
Cash and cash equivalents	\$ 3,085,368	\$ 279,662	\$ 3,365,030
Patient accounts receivable, net of allowance of \$2,220,734	3,129,781	-	3,129,781
Contributions receivable - current	-	142,824	142,824
Estimated amounts due from third-party payers	-	-	-
Other receivables	189,851	-	189,851
Supplies	638,110	-	638,110
Prepaid expenses and other	185,743	-	185,743
Total current assets	<u>7,228,853</u>	<u>422,486</u>	<u>7,651,339</u>
Property and Equipment, net	<u>12,263,582</u>	<u>-</u>	<u>12,263,582</u>
Other Assets			
Assets limited as to use - internally designated	3,843,104	-	3,843,104
Beneficial interest in assets at Community Foundation Alliance	45,317	11,430	56,747
Contributions receivable	-	21,249	21,249
Deferred financing costs	52,394	-	52,394
	<u>3,940,815</u>	<u>32,679</u>	<u>3,973,494</u>
Total assets	<u>\$ 23,433,250</u>	<u>\$ 455,165</u>	<u>\$ 23,888,415</u>
Liabilities and Net Assets			
Current Liabilities			
Current maturities of long-term debt	\$ 919,068	\$ -	\$ 919,068
Accounts payable	1,620,624	-	1,620,624
Accrued expenses	1,100,393	-	1,100,393
Estimated amounts due to third-party payers	271,703	-	271,703
Accrued self-insurance liabilities	265,042	-	265,042
Total current liabilities	<u>4,176,830</u>	<u>-</u>	<u>4,176,830</u>
Long-Term Debt	<u>9,723,147</u>	<u>-</u>	<u>9,723,147</u>
Total liabilities	<u>13,899,977</u>	<u>-</u>	<u>13,899,977</u>
Net Assets			
Unrestricted	9,487,956	192,055	9,680,011
Temporarily restricted	-	251,680	251,680
Permanently restricted	45,317	11,430	56,747
Total net assets	<u>9,533,273</u>	<u>455,165</u>	<u>9,988,438</u>
Total liabilities and net assets	<u>\$ 23,433,250</u>	<u>\$ 455,165</u>	<u>\$ 23,888,415</u>

Gibson General Hospital, Inc. and Affiliate

Combining Schedule - Statement of Operations Information

Year Ended September 30, 2011

	Gibson General Hospital, Inc.	Gibson General Health Foundation, Inc.	Total	Eliminations	Total
Unrestricted Revenues, Gains and Other Support					
Net patient service revenue	\$ 31,301,045	\$ -	\$ 31,301,045	\$ -	\$ 31,301,045
Other	414,304	-	414,304	-	414,304
Total unrestricted revenues, gains and other support	<u>31,715,349</u>	<u>-</u>	<u>31,715,349</u>	<u>-</u>	<u>31,715,349</u>
Expenses and Losses					
Salaries and wages	13,645,434	53,182	13,698,616	-	13,698,616
Employee benefits	3,150,315	4,533	3,154,848	-	3,154,848
Contracted services	2,280,444	12,447	2,292,891	-	2,292,891
Supplies and other	2,420,664	28,846	2,449,510	-	2,449,510
Physician fees	2,169,812	-	2,169,812	-	2,169,812
Insurance	394,319	324	394,643	-	394,643
Lease expense	351,365	1,624	352,989	-	352,989
Utilities	576,890	180	577,070	-	577,070
Other	604,535	6,414	610,949	-	610,949
Depreciation and amortization	1,822,566	-	1,822,566	-	1,822,566
Professional fees	152,186	-	152,186	-	152,186
Interest	354,701	-	354,701	-	354,701
Maintenance and repair	780,698	-	780,698	-	780,698
Provision for uncollectible accounts	3,093,490	-	3,093,490	-	3,093,490
Advertising	315,537	978	316,515	-	316,515
Recruiting	51,484	-	51,484	-	51,484
Collection	110,695	-	110,695	-	110,695
Minor equipment	67,783	907	68,690	-	68,690
Impairment loss recognized on property and equipment	691,297	-	691,297	-	691,297
Settlement expense	1,112,714	-	1,112,714	-	1,112,714
Total expenses and losses	<u>34,146,929</u>	<u>109,435</u>	<u>34,256,364</u>	<u>-</u>	<u>34,256,364</u>
Operating Loss	<u>(2,431,580)</u>	<u>(109,435)</u>	<u>(2,541,015)</u>	<u>-</u>	<u>(2,541,015)</u>
Other Income (Expense)					
Contributions received	284,895	182,296	467,191	(422,538)	44,653
Investment income	53,975	588	54,563	-	54,563
Assets released from restriction	-	296,128	296,128	-	296,128
Contributions to affiliate	(102,781)	(319,757)	(422,538)	422,538	-
Total other income	<u>236,089</u>	<u>159,255</u>	<u>395,344</u>	<u>-</u>	<u>395,344</u>
Excess (Deficiency) of Revenues Over Expenses	<u>(2,195,491)</u>	<u>49,820</u>	<u>(2,145,671)</u>	<u>-</u>	<u>(2,145,671)</u>
Investment income - change in unrealized gains and losses on other than trading securities	<u>(158,751)</u>	<u>-</u>	<u>(158,751)</u>	<u>-</u>	<u>(158,751)</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(2,354,242)</u>	<u>49,820</u>	<u>(2,304,422)</u>	<u>-</u>	<u>(2,304,422)</u>
Temporarily Restricted Net Assets					
Contributions	-	106,914	106,914	-	106,914
Assets released from restriction	-	(296,128)	(296,128)	-	(296,128)
Net change in temporarily restricted net assets	<u>-</u>	<u>(189,214)</u>	<u>(189,214)</u>	<u>-</u>	<u>(189,214)</u>
Permanently Restricted Net Assets - change in					
beneficial interest in assets at Community Foundation Alliance	<u>6,944</u>	<u>1,788</u>	<u>8,732</u>	<u>-</u>	<u>8,732</u>
Change in Net Assets	<u>(2,347,298)</u>	<u>(137,606)</u>	<u>(2,484,904)</u>	<u>-</u>	<u>(2,484,904)</u>
Net Assets, Beginning of Year	<u>11,880,571</u>	<u>592,771</u>	<u>12,473,342</u>	<u>-</u>	<u>12,473,342</u>
Net Assets, End of Year	<u>\$ 9,533,273</u>	<u>\$ 455,165</u>	<u>\$ 9,988,438</u>	<u>\$ -</u>	<u>\$ 9,988,438</u>