
Adena Health System and Subsidiaries

**Consolidated Financial Report
with Additional Information
December 31, 2017**

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Independent Auditor's Report

To the Board of Directors
Adena Health System and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Adena Health System and Subsidiaries (the "System"), which comprise the consolidated balance sheet as of December 31, 2017 and 2016 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Adena Health System and Subsidiaries as of December 31, 2017 and 2016 and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Adena Health System and Subsidiaries

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2018 on our consideration of Adena Health System and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Adena Health System and Subsidiaries' internal control over financial reporting and compliance.

Plante & Moran, PLLC

March 21, 2018

Adena Health System and Subsidiaries

Consolidated Balance Sheet

December 31, 2017 and 2016

| | 2017 | 2016 |
|--|-----------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 28,819,543 | \$ 76,879,564 |
| Patient accounts receivable - Net (Note 4) | 64,222,755 | 57,268,333 |
| Inventory | 6,710,452 | 6,148,715 |
| Other current assets | 3,747,400 | 3,367,153 |
| Estimated third-party payor settlements (Note 8) | 900,519 | - |
| Prepaid expenses and other | 3,943,720 | 13,674,905 |
| Total current assets | 108,344,389 | 157,338,670 |
| Assets Limited as to Use (Note 5) | 318,953,231 | 193,488,269 |
| Property and Equipment - Net (Note 6) | 146,955,886 | 144,099,358 |
| Indefeasible Right-of-use Asset (Note 7) | 13,885,684 | 14,657,555 |
| Other Assets | | |
| Notes and grants receivable | 3,554,898 | 1,916,912 |
| Defined benefit plan receivable (Note 12) | - | 1,171,676 |
| Other noncurrent assets | 15,223,972 | 12,737,424 |
| Total other assets | 18,778,870 | 15,826,012 |
| Total assets | \$ 606,918,060 | \$ 525,409,864 |

Adena Health System and Subsidiaries

Consolidated Balance Sheet (Continued)

| | December 31, 2017 and 2016 | |
|--|----------------------------|-----------------------|
| | 2017 | 2016 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 23,404,894 | \$ 17,769,628 |
| Current portion of long-term debt (Note 11) | 4,253,245 | 4,366,413 |
| Estimated third-party payor settlements (Note 8) | - | 2,063,528 |
| Accrued liabilities and other: | | |
| Accrued compensation | 31,295,839 | 26,633,783 |
| Deferred compensation | 5,648,000 | 5,292,102 |
| Accrued interest | 684,580 | 672,457 |
| Other accrued liabilities | 2,096,755 | 1,812,338 |
| Total current liabilities | 67,383,313 | 58,610,249 |
| Long-term Debt and Capital Lease Obligations - Net of current portion (Note 11) | 190,341,426 | 154,397,592 |
| Defined Benefit Plan Liability (Note 12) | 3,198,430 | - |
| Other Liabilities | 20,414,405 | 18,126,893 |
| Total liabilities | 281,337,574 | 231,134,734 |
| Net Assets | | |
| Unrestricted | 319,442,169 | 289,904,506 |
| Temporarily restricted (Note 14) | 5,959,117 | 4,191,424 |
| Permanently restricted (Note 14) | 179,200 | 179,200 |
| Total net assets | 325,580,486 | 294,275,130 |
| Total liabilities and net assets | \$ 606,918,060 | \$ 525,409,864 |

Adena Health System and Subsidiaries

Consolidated Statement of Operations

Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|-----------------------------|-----------------------------|
| Unrestricted Revenue, Gains, and Other Support | | |
| Net patient service revenue | \$ 476,364,590 | \$ 443,913,305 |
| Provision for bad debts | <u>(13,957,000)</u> | <u>(16,063,296)</u> |
| Net patient service revenue less provision for bad debts | 462,407,590 | 427,850,009 |
| Other operating revenue | 7,970,250 | 8,920,507 |
| Net assets released from restrictions (Note 14) | <u>218,868</u> | <u>391,312</u> |
| Total unrestricted revenue, gains, and other support | 470,596,708 | 437,161,828 |
| Expenses | | |
| Salaries and wages | 210,641,110 | 197,941,796 |
| Employee benefits and payroll taxes | 52,338,814 | 48,776,331 |
| Operating supplies and expenses | 74,577,257 | 73,024,579 |
| Professional services and consultant fees | 3,806,681 | 2,554,859 |
| Purchased services | 45,390,506 | 44,403,368 |
| Insurance | 1,883,900 | 2,361,891 |
| Utilities | 4,766,391 | 4,777,400 |
| Travel/Education | 2,936,097 | 2,564,579 |
| Repair, maintenance, and rental | 20,389,347 | 19,370,110 |
| Assessments | 5,027,966 | 4,404,790 |
| Depreciation and amortization | 24,654,977 | 22,680,825 |
| Interest expense | <u>6,941,431</u> | <u>8,397,747</u> |
| Total expenses (Note 16) | <u>453,354,477</u> | <u>431,258,275</u> |
| Operating Income | 17,242,231 | 5,903,553 |
| Nonoperating Income (Loss) | | |
| Interest income and net realized gains (Note 5) | 14,270,677 | 2,152,762 |
| Unrealized gains on investments | 13,029,731 | 8,510,081 |
| Benefit plan expense | (838,418) | (92,550) |
| Other (loss) income | <u>(10,797,158)</u> | <u>194,700</u> |
| Total nonoperating income | <u>15,664,832</u> | <u>10,764,993</u> |
| Excess of Revenue Over Expenses | 32,907,063 | 16,668,546 |
| Net Assets Released from Restriction for Purchase of Capital Assets (Note 14) | 124,848 | 92,586 |
| Pension-related Changes Other than Net Periodic Cost | (3,494,248) | 1,913,600 |
| Grant Income | - | 17,744 |
| Increase in Unrestricted Net Assets | <u><u>\$ 29,537,663</u></u> | <u><u>\$ 18,692,476</u></u> |

Adena Health System and Subsidiaries

Consolidated Statement of Changes in Net Assets

Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| Unrestricted Net Assets | | |
| Excess of revenue over expenses | \$ 32,907,063 | \$ 16,668,546 |
| Pension-related changes other than net periodic cost | (3,494,248) | 1,913,600 |
| Grant income | - | 17,744 |
| Net assets released from restriction for purchase of capital assets (Note 14) | 124,848 | 92,586 |
| Increase in unrestricted net assets | 29,537,663 | 18,692,476 |
| Temporarily Restricted Net Assets | | |
| Restricted contributions | 1,798,346 | 830,975 |
| Restricted investment income | 172,299 | 80,542 |
| Net realized and unrealized gains on investments | 139,562 | 24,903 |
| Net assets released from restriction (Note 14) | (342,514) | (475,025) |
| Increase in temporarily restricted net assets | 1,767,693 | 461,395 |
| Permanently Restricted Net Assets | | |
| Net realized and unrealized gains on investments | 12,180 | 17,075 |
| Net assets released from restriction | (12,180) | (17,075) |
| Change in permanently restricted net assets | - | - |
| Increase in Net Assets | 31,305,356 | 19,153,871 |
| Net Assets - Beginning of year | 294,275,130 | 275,121,259 |
| Net Assets - End of year | \$ 325,580,486 | \$ 294,275,130 |

Adena Health System and Subsidiaries

Consolidated Statement of Cash Flows

Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Cash Flows from Operating Activities | | |
| Increase in net assets | \$ 31,305,356 | \$ 19,153,871 |
| Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities: | | |
| Depreciation and amortization | 24,501,054 | 22,820,348 |
| Net realized gains on investments | (5,099,402) | (2,058,684) |
| Unrealized net gains on investments | (13,029,731) | (8,510,081) |
| Grant income | - | (17,744) |
| Pension-related changes other than net periodic cost | 3,494,248 | (1,913,600) |
| Provision for bad debts | 13,957,000 | 16,063,296 |
| Loss on refunding of bonds | 10,414,632 | - |
| Changes in operating assets and liabilities which (used) provided cash and cash equivalents: | | |
| Patient accounts receivable | (20,911,422) | 2,329,545 |
| Other current assets | 8,789,223 | (1,039,543) |
| Other noncurrent assets | (4,166,556) | (912,786) |
| Accounts payable | 5,635,266 | 2,372,928 |
| Accrued liabilities and other | 7,602,006 | 2,058,810 |
| Estimated third-party payor settlements | (2,964,047) | 4,679,866 |
| Change in defined benefit plan liability | 875,858 | 141,634 |
| Net cash and cash equivalents provided by operating activities | 60,403,485 | 55,167,860 |
| Cash Flows from Investing Activities | | |
| Purchase of property and equipment | (26,697,634) | (14,442,982) |
| Purchases of investments | (125,077,435) | - |
| Proceeds from sales and maturities of investments | 9,709,909 | 193,983 |
| Net cash and cash equivalents used in investing activities | (142,065,160) | (14,248,999) |
| Cash Flows from Financing Activities | | |
| Proceeds from issuance of debt, including original issuance premium | 168,500,326 | - |
| Principal payments on long-term debt | (2,701,795) | (4,243,556) |
| Debt issuance costs | (1,621,877) | - |
| Early termination of debt | (130,575,000) | - |
| Net cash and cash equivalents provided by (used in) financing activities | 33,601,654 | (4,243,556) |
| Net (Decrease) Increase in Cash and Cash Equivalents | (48,060,021) | 36,675,305 |
| Cash and Cash Equivalents - Beginning of year | 76,879,564 | 40,204,259 |
| Cash and Cash Equivalents - End of year | \$ 28,819,543 | \$ 76,879,564 |
| Supplemental Cash Flow Information | | |
| Cash paid for interest - Net of capitalized amounts | \$ 6,989,000 | \$ 8,411,000 |
| Grant income | - | 17,744 |

December 31, 2017 and 2016

Note 1 - Nature of Business

Adena Health System and Subsidiaries (the "System"), located in Ross County, Ohio, is a not-for-profit acute-care hospital operating 214 general acute-care beds. Adena Health System provides inpatient, outpatient, and emergency care services for residents of Ross County, Ohio and the surrounding communities.

In September 1999, Adena Health System became the sole member of Greenfield Area Medical Center (Greenfield), a 25-bed acute-care hospital located in Greenfield, Ohio. Greenfield has Section 501(c)(3) status with the IRS. Adena Health System, in its discretion as the sole member of Greenfield, may at any time amend the articles of incorporation and code of regulations of Greenfield in any manner and take any other action with respect to Greenfield that members of not-for-profit corporations may take under the Ohio not-for-profit corporation law. Effective June 1, 2001, Greenfield received federal critical access hospital (CAH) designation, which is awarded to select small, rural hospitals, which allows it to recoup Medicare-defined allowable costs for services provided to Medicare patients. The CAH designation gives Greenfield increased reimbursement so that it can better serve its community. To receive this designation, hospitals must meet specific criteria, such as available beds, patient length of stay, and transfer agreements with other facilities.

On January 7, 2002, Adena Health System created the Adena Health Foundation (the "Foundation"). The purpose of the Foundation is to support Adena Health System and community programs to improve the health and well-being of the people served by Adena Health System. The Foundation received its 501(c)(3) status from the IRS on April 10, 2002.

On December 14, 2007, Adena Health System created Southern Ohio Health Care Network, Inc. (SOHCN). The purpose for which SOHCN was formed was to create an inclusive and sustainable broadband healthcare network open to all providers in the southern Ohio service area. The System was granted tax exemption for SOHCN during 2014.

On October 19, 2009, Adena Health System created Adena Medical Group, LLC (AMG). AMG is a disregarded entity with Adena Health System as its sole member. AMG was formed to employ physicians to provide patient care within the Adena Health System, and it became operational on April 1, 2010.

On January 1, 2010, Adena Health System created Adena Pharmacy, LLC (AP). AP is a disregarded entity with Adena Health System as its sole member. AP was formed to establish and operate a retail pharmacy within the Adena Health System, and it became operational on November 1, 2012.

On August 11, 2010, Adena Health System created Adena Hospice, LLC, Adena Home Health LLC, Adena Home Infusion, and DME & Respiratory, LLC (collectively referred to as "Adena Home Care"). Adena Health System is the sole member of these entities. The entities were formed to provide hospice care, home health services, and DME equipment/services, respectively, to patients within the Adena Health System service area.

On November 10, 2011, Adena Health System created Adena Care, Inc., which is doing business as (d/b/a) Adena Health Plan. Adena Health System is the sole shareholder of Adena Care, Inc. Adena Health Plan functions as a taxable entity and was formed to market employee health insurance to organizations in Ohio.

On March 1, 2012, the System became the sole corporate member of Pike Health Services, Inc. (Adena Pike Community Hospital). The System took operational control effective March 1, 2012. Pike Health Services, Inc. is a not-for-profit hospital operating 25 beds in Waverly, Ohio that has received critical access hospital designation.

December 31, 2017 and 2016

Note 2 - Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Adena Health System and its subsidiaries, Greenfield Area Medical Center, Adena Health Foundation, Southern Ohio Health Care Network, Inc., Adena Medical Group, LLC, Adena Pharmacy, LLC, Adena Hospice, LLC, Adena Home Health LLC, Adena Home Infusion, DME & Respiratory, LLC, Adena Care, Inc. d/b/a Adena Health Plan, and Adena Pike Community Hospital (collectively, the "System"). All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less.

Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss-rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the System's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is established based on expected payment rates from payors utilizing current reimbursement methodologies and payment rates. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

Physician Receivables and Advances

The System has entered into agreements to advance money to physicians. Based upon the terms of the agreements, these loans are to be repaid by the physicians or fulfilled through providing services at the System for an agreed-upon time period. Most of these loans are expected to be satisfied by the physicians providing services at the System. These amounts are shown within other current assets and notes and grants receivable on the consolidated balance sheet.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law.

Assets Limited as to Use

Assets limited as to use include assets designated by the board of directors for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes. Assets limited as to use also include assets held by trustees in connection with repayment of principal and interest on bond indebtedness and funds designated for the professional liability self-insurance trust.

Note 2 - Significant Accounting Policies (Continued)

Inventory

Inventories, which consist of medical, surgical, and office supplies and pharmaceutical products, are stated at the lower of cost, determined on a first-in, first-out basis, or market.

Property and Equipment

Property and equipment are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Capitalized interest was \$993,253 and \$0 for the years ended December 31, 2017 and 2016, respectively.

Indefeasible Right-of-use Asset

The indefeasible right-of-use asset is recorded at cost and is being amortized over the estimated useful life of the asset of 24 years.

Classification of Net Assets

Net assets of the System are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the System's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Excess of Revenue Over Expenses

The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, indefeasible right-of-use (grant) income (loss), and pension-related changes other than net periodic cost.

Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System for services rendered at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge or service, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action, including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 2 - Significant Accounting Policies (Continued)

The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the System records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources in total was \$476,364,590 and \$443,913,305 for the years ended December 31, 2017 and 2016, respectively. These amounts are made up of amounts from third-party payors of \$453,427,122 and \$430,389,896 as of December 31, 2017 and 2016, respectively, and amounts from self-pay payors of \$22,937,468 and \$13,523,409 for the years ended December 31, 2017 and 2016, respectively.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue.

Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the System's total operating expenses divided by gross patient service revenue. The System estimates that it provided approximately \$8,838,000 and \$8,342,000 of services to indigent patients during 2017 and 2016, respectively. The System received approximately \$1,830,000 and \$2,043,000 in net distributions from the Ohio Medicaid HCAP Program during 2017 and 2016, respectively, as assistance to offset the cost of charity care.

Litigation

The System is exposed to litigation arising in the course of business. The System has purchased excess coverage for these claims in excess of its self-insured retention. Settled claims related to the coverage have not exceeded the amount of insurance coverage in 2017 or 2016. The System accrues an estimate of the ultimate expense, including litigation and settlement expense, for incidents of potential improper professional service and other liability claims occurring during the year, as well as for those claims that have not been reported at year end.

Contributions and Grants

The System reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of changes in net assets as net assets released from restrictions.

The System reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the System reports the expiration of donor restrictions when the assets are placed in service.

December 31, 2017 and 2016

Note 2 - Significant Accounting Policies (Continued)

Contributions and grants received for capital purposes are excluded from the performance indicator (excess of revenue over expenses) while grants received for operational purposes are included in other operating income.

Use of Estimates

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

Tax Status

Adena Health System and its subsidiaries (except for Adena Pharmacy, LLC, Adena Home Care, and Adena Care, Inc. d/b/a Adena Health Plan) are nonprofit, tax-exempt entities. Adena Pharmacy, LLC and Adena Home Care are limited liability companies and, as such, federal and other income taxes are not provided for by these entities. The sole member, Adena Health System, may be taxed on the earnings, but taxes, if any, are not expected to be significant. Adena Care, Inc. is a taxable entity; however, Adena Care, Inc. has recorded operating losses and has an operating loss carryforward at December 31, 2017.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the System's year ending December 31, 2018. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The System has not yet determined which application method it will use. Management does not expect that this standard will have a significant impact to the timing and recognition pattern of the System's main revenue streams. However, management is still assessing the ultimate impact of the standard to the System.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the System, including required disclosures about the liquidity and availability of resources. The new standard is effective for the System's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The System expects this standard to have an impact on the presentation of net assets and to result in enhanced disclosures related to liquidity and availability.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 2 - Significant Accounting Policies (Continued)

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the System's year ending December 31, 2019 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The expected impact on the consolidated balance sheet is a significant increase in long-term assets and lease liabilities. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Change in Accounting Policy

As of January 1, 2017, the System adopted ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit*, which amends the presentation requirements related to reporting the service cost component of net benefit costs be reported in the same line item as other compensation costs and requires the other components of net benefit costs to be presented separately from the service component, outside a subtotal of income from operations. The updated guidance was early adopted by the System for the year ended December 31, 2017 to more clearly present the components of its pension-related costs. The standard was retroactively applied to the year ended December 31, 2016, utilizing the amount previously disclosed in the pension plan noted as a practical expedient as allowed under the standard, including retrospective application to the year ended December 31, 2016. As a result, approximately, \$93,000 of expenses were reclassified from employee benefits and payroll taxes (included in operating expenses) to benefit plan expense (included in nonoperating income (loss)).

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including March 21, 2018, which is the date the consolidated financial statements were issued.

Note 3 - Cash in Excess of Insured Limits

The System and its subsidiaries maintain cash and investment balances at several financial institutions located in the vicinity of Chillicothe, Ohio. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. As of December 31, 2017 and 2016, cash balances exceed the insured limit. Management believes that, due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

Note 4 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|----------------------|----------------------|
| Patient accounts receivable | \$ 223,440,755 | \$ 220,037,333 |
| Less: | | |
| Allowance of uncollectible accounts | 30,521,000 | 48,264,000 |
| Allowance for contractual adjustments | <u>128,697,000</u> | <u>114,505,000</u> |
| Net patient accounts receivable | <u>\$ 64,222,755</u> | <u>\$ 57,268,333</u> |

Adena Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 4 - Patient Accounts Receivable (Continued)

| | 2017 | 2016 |
|--------------------------------|-----------------|-----------------|
| Medicare | 23.00 % | 27.00 % |
| Medicaid | 23.00 | 20.00 |
| Commercial insurance and other | 53.00 | 51.00 |
| Self pay | 1.00 | 2.00 |
| Total | <u>100.00 %</u> | <u>100.00 %</u> |

The System's allowance for doubtful accounts for self-pay patients is 95 percent and 97 percent of self-pay accounts receivable at December 31, 2017 and 2016, respectively. The System does not maintain a significant allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors. The System has experienced a significant lag in payment from the Veteran Administration, and as a result, the net accounts receivable at December 31, 2017 has increased from the level at December 31, 2016.

Note 5 - Assets Limited as to Use

The composition of assets limited as to use at December 31, 2017 and 2016 is set forth in the following table:

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| Internally designated for capital acquisition and professional liability self-insurance trust: | | |
| Money market accounts | \$ 1,009,290 | \$ 535,378 |
| Common stock | 279,174 | 291,353 |
| Common collective trust funds | 280,969,238 | 179,220,176 |
| Corporate bonds | <u>1,670,567</u> | <u>1,649,611</u> |
| Total | 283,928,269 | 181,696,518 |
| Held by trustee under indenture agreement for certain bond indebtedness principal and interest payments - | | |
| Money market accounts | <u>35,024,962</u> | <u>11,791,751</u> |
| Total assets limited as to use | <u>\$ 318,953,231</u> | <u>\$ 193,488,269</u> |

Unrestricted investment income and gains for assets limited as to use, cash equivalents, and other investments are composed of the following for the years ended December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Interest income | \$ 9,323,017 | \$ 136,056 |
| Net realized gains on sales of securities | 4,947,660 | 2,016,706 |
| Net unrealized gains on securities | <u>13,029,731</u> | <u>8,510,081</u> |
| Total income | <u>\$ 27,300,408</u> | <u>\$ 10,662,843</u> |

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 6 - Property and Equipment

The costs of property, plant, and equipment and depreciable lives are summarized as follows:

| | 2017 | 2016 | Depreciable Life - Years |
|----------------------------|-----------------------|-----------------------|-----------------------------|
| Land | \$ 3,485,204 | \$ 3,485,204 | - |
| Land improvements | 8,195,501 | 7,432,502 | 5-25 |
| Buildings and improvements | 188,955,951 | 186,409,639 | 5-40 |
| Equipment | 209,458,599 | 204,309,807 | 5-20 |
| Construction in progress | 8,973,952 | 2,838,094 | - |
| Total cost | 419,069,207 | 404,475,246 | |
| Accumulated depreciation | 272,113,321 | 260,375,888 | |
| Net property and equipment | <u>\$ 146,955,886</u> | <u>\$ 144,099,358</u> | |

Depreciation on property and equipment totaled approximately \$23,841,000 and \$21,867,000 in 2017 and 2016, respectively.

Construction in progress consists primarily of costs incurred for the emergency and main lobby expansion and renovation. Remaining costs to complete the project are approximately \$23,600,000 as of December 31, 2017.

Note 7 - Infeasible Right-of-use Asset

During 2009, SOHCN received an award from the Federal Communications Commission (FCC) to develop a sustainable broadband healthcare network open to all providers in the southern Ohio service area. The award from the FCC was for a total of \$15,765,417, which represented approximately 85 percent of the total contract value of the broadband fiber to be installed, with the remaining 15 percent being a required contribution from the System. At the same time, SOHCN entered into a contract with a broadband partner for that partner to install and maintain the broadband fiber network. The agreement stipulated that the broadband partner would own the fiber, but SOHCN would have an infeasible right of use of the asset for the next 40 years. All funds from the FCC are to be paid directly to the broadband partner upon approval of fiber construction by the System. During 2011, the broadband partner began installing the fiber with a total cost of \$15,562,000 as of December 31, 2011. The asset will be amortized over its estimated useful life of 24 years; amortization commenced in November 2011, with amortization expense totaling \$771,871 for both years ended December 31, 2017 and 2016.

Note 8 - Estimated Third-party Settlements

Approximately 48 percent of the System's revenue from patient services is received from the Medicare and Medicaid programs. The System has agreements with these payors that provide for reimbursement to the System at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the System's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors is as follows:

Note 8 - Estimated Third-party Settlements (Continued)

Medicare

For Adena Health System, inpatient acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient capital costs are paid at prospectively determined rates per discharge. Most outpatient services and outpatient-defined capital costs related to Medicare beneficiaries are paid based on an ambulatory payment classification system (prospectively determined). Outpatient services for therapies and laboratory services are reimbursed on an established fee screen methodology. For Greenfield Area Medical Center and Adena Pike Community Hospital, the facilities will receive reasonable cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.

The professional services supplied by the employed physicians are reimbursed on an applicable fee schedule. These fee schedules are updated as regulations require or as contracts are negotiated in the case of some of Adena's Medicare Advantage plans.

Medicaid

For hospitals, inpatient acute-care services rendered to Medicaid program beneficiaries and capital costs are paid at prospectively determined rates per discharge. The hospitals are reimbursed for outpatient services on an established fee-for-service methodology.

The professional services supplied by the employed physicians are reimbursed on an applicable fee schedule. These fee schedules are updated as regulations require or as contracts are negotiated in the case of some of Adena's Medicaid Managed Care Plans.

Final reimbursement under these programs is subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a significant effect on the accompanying consolidated financial statements.

The Medicaid payment system in Ohio is a prospective one, whereby rates for the following state fiscal year beginning on July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant change in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

Effective January 1, 2014, the State of Ohio extended Medicaid to more low-income patients, which resulted in patients previously classified as self-pay being eligible for Medicaid. The provision for bad debts recorded in 2017 and 2016 was significantly affected by this program.

Commercial

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

The professional services supplied by the employed physicians are reimbursed on an applicable fee schedule. These fee schedules are updated from time to time as negotiated.

Note 9 - Medical Malpractice Claims

Based on the nature of its operations, the System is, at times, subject to pending or threatened legal actions which arise in the normal course of its activities.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 9 - Medical Malpractice Claims (Continued)

The System has been insured with various providers. The System added coverage for integrated (employed) physicians to its policy in 1998, sharing primary limits of \$1,000,000 per incident and \$3,000,000 annual aggregate. Beginning with the 2000-2001 policy year, the physicians were covered under a separate occurrence policy with individual limits for each physician of \$1,000,000 per occurrence and \$3,000,000 annual aggregate. The coverages for the System and physicians were occurrence-based until 2005, at which time the System became insured on a claims-made basis.

The System's medical malpractice coverage was renewed with a \$250,000 deductible per claim on February 22, 2005, and the deductible increased to \$500,000 per claim as of February 22, 2006. In addition, as of October 1, 2008, the System modified the physician coverages to include a deductible of \$500,000 per claim.

On January 1, 2011, the System implemented a self-insured medical malpractice trust with shared retention limits for all medical providers of \$1,000,000 per incident and \$3,000,000 in the aggregate, annually. Excess policies in the amount of up to \$20,000,000 in insurance coverage annually are layered on top of the System's self-insured retention.

At December 31, 2017, the System's management accrued its best estimate of the costs for claims arising prior to December 31, 2017. Based on changes to generally accepted accounting principles, system management has estimated the ultimate costs, if any, to settle these claims through an actuarial valuation and has accordingly allowed for them in the accrual for professional liability claims of approximately \$11,700,000 and \$10,900,000 for the years ended December 31, 2017 and 2016, respectively. These amounts are recorded in other accrued liabilities and other liabilities on the consolidated balance sheet.

In addition, the System has estimated a receivable from its insurance carrier for payment of claims in excess of self-insured retention. The receivable is estimated at \$2,700,000 and \$1,900,000 for the years ended December 31, 2017 and 2016, respectively. These amounts are included in other current assets and other noncurrent assets on the consolidated balance sheet. The System is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits.

Note 10 - Self-insurance

The System is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$275,000 and \$250,000 per employee annually in 2017 and 2016, respectively, or total claims in excess of approximately \$38,037,000 and \$33,223,000 in 2017 and 2016, respectively. Claims and expenses charged to operations when incurred were approximately \$29,215,000 and \$26,973,000 for the years ended December 31, 2017 and 2016, respectively. The System has recorded a receivable of \$0 for claims paid exceeding the self-insured retention due from its insurance carrier at both December 31, 2017 and 2016.

Adena Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 11 - Long-term Debt

A summary of long-term debt obligations at December 31, 2017 and 2016 is as follows:

| | 2017 | 2016 |
|--|-----------------------|-----------------------|
| City of Chillicothe, Ohio, Hospital Facilities Revenue Refunding and Improvement Bonds 2017 (maturing in December 2047) | \$ 145,570,000 | \$ - |
| PNC Bank Term Loan (maturing in July 2020) | 6,417,287 | - |
| County of Ross, Ohio, Hospital Facilities Revenue Bonds 2010 (maturing in December 2037) | 24,924,558 | 25,870,559 |
| County of Ross, Ohio, Hospital Facilities Revenue Bonds 2008. Bonds refinanced as of June 2017 through Series 2017 bonds | - | 130,575,000 |
| County of Ross, Ohio, Hospital Facilities Revenue Bonds 1998 (maturing in December 2023) | 2,900,000 | 3,310,000 |
| Capital lease obligations for equipment purchases | 1,509,668 | 1,867,748 |
| Unamortized premium | 15,266,571 | - |
| Total | 196,588,084 | 161,623,307 |
| Less current portion | 4,253,245 | 4,366,413 |
| Less deferred bond issue costs | 1,993,413 | 2,859,302 |
| Long-term portion | <u>\$ 190,341,426</u> | <u>\$ 154,397,592</u> |

In June 2017, the System entered into an agreement with the City of Chillicothe, Ohio (Chillicothe), in which Chillicothe issued \$145,570,000 of Hospital Facilities Revenue Refunding and Improvement Bonds (the "Series 2017 Bonds"). The Series 2017 Bonds were issued for the purpose of refinancing previously issued debt and financing the acquisition, construction, renovation, improvement, expansion, and equipping of certain of its healthcare facilities. The debt matures in increasing annual principal payments beginning in 2021 through 2047. The interest rate per year ranges from 4.00 percent to 5.00 percent over the life of the bonds.

In June 2017, the System entered into an agreement with PNC Bank, National Association (PNC Bank), in which PNC Bank issued \$7,405,000 through a term loan (the "PNC Bank Term Loan"). The PNC Bank Term Loan was issued for the purpose of repaying existing indebtedness of the System. The debt matures in monthly principal payments beginning in 2017 through 2020. The interest rate per year is fixed at 2.61 percent.

In September 2010, the County of Ross, Ohio issued \$30,000,000 Adjustable Rate Demand Hospital Facilities Revenue Bonds, Series 2010 (Adena Health System Project) (the "Series 2010 Bonds"). The Series 2010 Bonds are a private placement in which PNC Bank purchased the Series 2010 Bonds and agreed to hold the Series 2010 Bonds until at least September 1, 2020. The Series 2010 Bonds were issued for the purpose of financing the construction of a cancer center and the renovation and equipping of certain other facilities. The debt has a final maturity date of September 1, 2037 and provides for the repayment of principal in increasing monthly principal payments beginning in 2012 through September 1, 2020, at which time the Series 2010 Bonds are subject to mandatory tender. As long as the interest rate remains at the initial fixed rate (bank rate) and no event of default occurs under the indenture, then the bonds cannot be redeemed by the bondholder until September 1, 2020; however, the System has an option to redeem bonds prior to September 1, 2020, subject to a prepayment premium.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 11 - Long-term Debt (Continued)

If the System chooses to change the interest rate in accordance with the provisions of the indenture, then the bonds may be redeemable upon such conversion of rate as well. As long as there are no changes in the initial bank rate or early redemptions, then on and after September 1, 2020, the principal of the Series 2010 Bonds will be amortized pursuant to an agreement between the System and the new holder of the Series 2010 Bonds. While the interest rate of the bonds is adjustable based on various indices over the term of the bonds, PNC Bank has agreed to fix the rate at 2.97 percent until September 1, 2020, after which time the rate will become a variable rate to be negotiated between the System and the debt holder, unless the System chooses to change the interest rate in accordance with the indenture before September 1, 2020.

In July 2008, the System entered into an advance refunding plan with the County of Ross, Ohio (Ross County), in which Ross County issued \$142,970,000 of Hospital Facilities Revenue Refunding and Improvement Bonds (the "Series 2008 Bonds"). The Series 2008 Bonds were issued for the purpose of refinancing previously issued debt and financing the acquisition, construction, renovation, and equipping of certain facilities. The debt matures in increasing semiannual principal payments beginning in 2009 through 2038. The interest rate per year ranges from 4.70 percent to 5.75 percent over the life of the bonds. The System has obtained bond insurance over the life of the bonds for a portion of the Series 2008 Bonds. The bonds were refinanced in June 2017, and a loss on refunding was recorded in other nonoperating income of \$10,414,632.

In September 1998, the System entered into an agreement with Ross County in which Ross County issued \$8,175,000 of Hospital Facilities Revenue Bonds (the "Series 1998 Bonds") to (1) pay the costs of acquisition and construction of various improvements to the System, including the 60,000 square foot expansion of a medical office building to provide additional physicians' offices and hospital services and renovation of the women's and maternity unit, (2) pay the cost of acquisition and installation of certain movable equipment and a management information system, and (3) pay certain eligible expenses associated with the issuance of the Series 1998 Bonds. The bonds are secured by an irrevocable letter of credit issued by PNC Bank. The bonds are remarketed weekly and bear interest at variable market rates (1.73 percent and 0.73 percent at December 31, 2017 and 2016, respectively). Should the remarketing agent fail to remarket the bonds, funds would be drawn on the letter of credit to pay the bonds. The System is under no obligation to repay draws on the letter of credit until the 368th day after the occurrence of such draw. The letter of credit expires on October 15, 2019, at which time the System would become liable for draws on the letter of credit, if any.

Interest expense on all indebtedness totaled approximately \$6,941,000 in 2017 and \$8,398,000 in 2016. Cash paid for interest amounted to approximately \$6,989,000 and \$8,411,000 for 2017 and 2016, respectively.

In connection with the Series 1998, 2008, 2010, and 2017 Bonds, Chillicothe, as lessee, and the System, as lessor, entered into a master lease agreement for the System's premises. Chillicothe, as lessor, then entered into a sublease agreement with the System, as lessee, for the System's premises. The lease agreements expire on December 1, 2047, the mandatory retirement date of the Series 2017 Bonds. Under the terms of the lease and the indenture of trust related to the bonds, the System has pledged to Chillicothe a security interest in all present and future gross receipts, as defined. After final payment of the bonds, the System's facilities will be surrendered back to the System. Accordingly, such premises, together with the bond proceeds and bond indebtedness, are included in the accompanying consolidated financial statements as assets and liabilities of the System.

Adena Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 11 - Long-term Debt (Continued)

The terms of the lease and the indenture of trust between Chillicothe, the System, and the trustee provide for the establishment and maintenance of certain funds under the control of the trustee into which the System is to make regular payments sufficient to cover principal and interest on the Series 1998, 2008, 2010, and 2017 Bonds. The balances of these funds as of December 31, 2017 and 2016 are reflected in the accompanying consolidated financial statements as assets limited as to use. In addition, the System is required to comply with certain financial and other restrictive covenants related to these bonds. For the year ended December 31, 2017, the maximum annual debt service is \$12,175,275.

Scheduled future minimum repayments on long-term debt and principal payments on capital lease obligations are as follows:

| Years Ending December 31 | Bonds | Capital Lease Obligations |
|-----------------------------|-----------------------|------------------------------|
| 2018 | \$ 3,833,414 | \$ 419,831 |
| 2019 | 3,947,317 | 428,934 |
| 2020 | 2,977,316 | 438,234 |
| 2021 | 3,422,516 | 222,669 |
| 2022 | 3,560,348 | - |
| Thereafter | 162,070,934 | - |
| Total | <u>\$ 179,811,845</u> | <u>\$ 1,509,668</u> |

Total interest payments on capital leases for the years 2018-2021 are \$162,308.

The cost of equipment under capital lease is \$8,944,000 and \$9,044,000 as of December 31, 2017 and 2016, respectively. Accumulated amortization on the equipment totaled approximately \$7,551,000 and \$7,132,000 as of December 31, 2017 and 2016, respectively.

Note 12 - Defined Benefit Plan

The System sponsors a defined benefit pension plan.

In January 2004, the board of directors of the System voted to freeze almost all employees' participation in the future accrual of benefits under the existing defined benefit plan, effective July 1, 2004. Approximately 100 employees who had obtained five years of service and were at least 55 years of age were allowed to continue with the existing plan. At the time the plan was frozen, employees vested in the plan earned a rate of return based on the 30-year United States Treasury rates.

Effective June 5, 2017, the System has approved a plan to freeze benefit accruals and terminate the defined benefit pension plan. Upon termination of the defined benefit pension plan, participants will become fully vested in their accrued benefits.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 12 - Defined Benefit Plan (Continued)

| | Pension Benefits | |
|--|------------------|---------------|
| | 2017 | 2016 |
| Obligations and funded status: | | |
| Benefit obligation at beginning of year | \$ 49,123,076 | \$ 48,800,360 |
| Service cost | 37,446 | 49,084 |
| Interest cost | 1,593,232 | 1,710,182 |
| Plan settlements | (3,593,773) | (2,269,397) |
| Benefits paid | (942,354) | (903,459) |
| Actuarial losses | 6,950,599 | 1,756,326 |
| Expenses | (1,081,222) | (20,020) |
| Benefit obligation at end of year | 52,087,004 | 49,123,076 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | 50,294,752 | 48,200,070 |
| Actual return on plan assets | 4,211,171 | 5,287,558 |
| Plan settlements | (3,593,773) | (2,269,397) |
| Benefits paid | (942,354) | (903,459) |
| Expenses | (1,081,222) | (20,020) |
| Fair value of plan assets at end of year | 48,888,574 | 50,294,752 |
| Funded status at end of year | \$ (3,198,430) | \$ 1,171,676 |

Amounts reducing unrestricted net assets which have not been included in net periodic benefit costs, reported outside the performance indicator, are as follows:

| | Pension Benefits | |
|--------------------|------------------|----------------|
| | 2017 | 2016 |
| Net loss | \$ (13,225,358) | \$ (9,722,651) |
| Prior service cost | (28,005) | (36,464) |
| Total | \$ (13,253,363) | \$ (9,759,115) |

Information for pension plans with an accumulated benefit obligation in excess of plan assets is as follows:

| | Pension Benefits | |
|--------------------------------|------------------|---------------|
| | 2017 | 2016 |
| Projected benefit obligation | \$ 52,087,004 | \$ 49,123,076 |
| Accumulated benefit obligation | 52,087,004 | 49,123,076 |
| Fair value of plan assets | 48,888,574 | 50,294,752 |

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 12 - Defined Benefit Plan (Continued)

| | Pension Benefits | |
|--|------------------|-------------|
| | 2017 | 2016 |
| Net Periodic Benefit Cost, Employer Contributions, Participant Contributions, and Benefits Paid | | |
| Net periodic benefit cost | \$ 875,858 | \$ 141,634 |
| Benefits paid | 942,354 | 903,459 |
| Net Periodic Benefit Cost | | |
| Service cost | 37,446 | 49,084 |
| Interest cost | 1,593,232 | 1,710,182 |
| Expected return on plan assets | (2,365,445) | (2,809,877) |
| Amortization of prior service cost | 8,459 | 8,459 |
| Settlement loss recognized | 911,850 | 449,614 |
| Amortization of net loss | 690,316 | 734,172 |
| Total recognized in net periodic benefit cost | \$ 875,858 | \$ 141,634 |

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized into net periodic benefit cost over the next fiscal year are \$989,235.

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

| | Pension Benefits | |
|---------------|------------------|--------|
| | 2017 | 2016 |
| Discount rate | 2.30 % | 4.14 % |

The weighted-average assumption rate of compensation increase is not applicable for 2017 and 3.00 percent for 2016.

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31 are as follows:

| | Pension Benefits | |
|--|------------------|--------|
| | 2017 | 2016 |
| Discount rate | 4.14 % | 4.54 % |
| Expected long-term return on plan assets | 5.00 | 6.00 |
| Rate of compensation increase | 3.00 | 3.00 |

The overall expected rate of return on plan assets represents a weighted-average composite rate based on the historical rates of returns of the respective asset classes.

The following assumption changes have been made:

- The disclosure liability as of December 31, 2017 is calculated as the expected plan termination liability measured at the expected distribution date of September 1, 2018 and discounted back to the valuation date using an interest rate of 2.30 percent.
- The expected plan termination liability measured at September 1, 2018 is calculated assuming 80 percent of all active and deferred vested participants elect to take a lump sum at termination and the remaining 20 percent of active and deferred vested participants are assumed to have liabilities settled through an annuity contract, along with all retirees and beneficiaries in pay status. Liabilities for participants expected to elect a lump sum at termination are equal to the final lump-sum benefit payable at September 1, 2018.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 12 - Defined Benefit Plan (Continued)

- Cash balance interest rate is updated to reflect the five-year average of rates at the plan termination date: 2.86 percent for the period from January 1, 2017 through September 30, 2017 and 3.14 percent after October 1, 2017.
- Mortality for healthy participants was updated to use the RP-2014 generational mortality table backed off to 2006 and projected using scale MP-2015.
- Annuity conversion rates were updated to reflect the five-year average of rates at the plan termination date: mortality as prescribed under PPA for the 2018 plan year and segment interest rates of 1.43 percent, 4.01 percent, and 5.04 percent.
- A provision was added to value lump-sum options for participants with prior plan benefits frozen as of December 31, 1997. The factors used to convert prior plan benefits into lump sums use 417(e) assumptions under the plan for lump-sum distributions in 2018: the prescribed mortality table under PPA for the 2018 plan year and segment interest rates of 2.20 percent, 3.57 percent, and 4.24 percent.
- Market-related value of assets was set equal to the market value of assets as of December 31, 2017 to reflect the assets available for distribution at plan termination.
- The expected return on assets assumption for 2018 is estimated to be 0.99 percent. This takes into account a one-year return assumption with offsets for investment and administrative expenses associated with the amended plan termination.

Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the System, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and assures timely payment of retirement benefits.

The System's overall investment strategy is to achieve a mix of approximately 50 percent of investments in fixed-income securities and 50 percent in equity securities in both 2017 and 2016, respectively.

The fair values of the System's pension plan assets at December 31, 2017 and 2016 by major asset classes are as follows:

| | Fair Value Measurements at December 31, 2017 | | | |
|----------------------------|--|---|---|------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Short-term investments (a) | \$ 229,698 | \$ - | \$ - | \$ 229,698 |

| | Fair Value Measurements at December 31, 2016 | | | |
|----------------------------|--|---|---|------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Short-term investments (a) | \$ 228,298 | \$ - | \$ - | \$ 228,298 |

Note 12 - Defined Benefit Plan (Continued)

- (a) This class invests primarily in fixed-income securities, including, but not limited to, bonds, notes, or other investments, such as government securities, commercial paper, certificates of deposit, master notes, or variable amount notes with the objective of providing high-current income consistent with the preservation of capital and the maintenance of liquidity. Short-term investments are valued at \$1.00/unit, which approximates fair value.

The tables above present information about the pension plan assets measured at fair value at December 31, 2017 and 2016 and the valuation techniques used by the System to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the plan has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

Investments in Entities that Calculate Net Asset Value per Share

The System has investments in common collective trust funds of \$48,658,876 and \$50,066,454 at December 31, 2017 and 2016, respectively. The System holds shares or interests in common collective trust funds at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the common collective trust funds.

The equity securities represent investments in actively managed common collective trust funds that invest primarily in equity securities, which may include common stocks, options, and futures. Investments are valued at the net asset value per share multiplied by the number of shares held as of the measurement date.

The fixed-income funds represent investments in actively managed common collective trust funds that invest in a variety of fixed-income investments, which may include corporate bonds, both U.S. and non-U.S. municipal securities, interest rate swaps, options, and futures. Investments are valued at the net asset value per share multiplied by the number of shares held as of the measurement date.

The investments measured at net asset value per share (or its equivalent) of the common collective trust funds do not have unfunded commitments or redemption periods.

Cash Flow

Contributions

The System made no contributions during the year ended December 31, 2017; it expects to contribute amounts that will allow the System to terminate the plan in 2018 if approval is received and termination is exercised.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 12 - Defined Benefit Plan (Continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| <u>Years Ending</u> | <u>Pension Benefits</u> |
|---------------------|-------------------------|
| 2018 | \$ 52,882,641 |
| 2019 | - |
| 2020 | - |
| 2021 | - |
| 2022 | - |
| 2023-2027 | - |

Note 13 - Retirement Plans

The System maintains a contributory defined contribution plan 403(b) and a retirement savings plan 401(a) for qualified employees who meet certain service requirements.

The System's contributions to the retirement savings plan 401(a) are board determined and can range from 3 percent to 6 percent of participants' base compensation. The related matching program currently funds 50 percent of employees' contributions, from the related 403(b) plan, up to a maximum of 6 percent of the employee's gross compensation. For the years ended December 31, 2017 and 2016, the retirement savings expense and the related match aggregated approximately \$7,967,000 and \$7,377,000, respectively.

Note 14 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|------------------------------|---------------------|---------------------|
| Building and equipment | \$ 3,073,826 | \$ 1,551,695 |
| Indigent care | 1,257,038 | 1,136,314 |
| Supplies | 477,513 | 407,342 |
| Healthcare education | 788,094 | 716,122 |
| Research | 37,030 | 36,996 |
| Community benefit | 325,616 | 342,955 |
| Total temporarily restricted | <u>\$ 5,959,117</u> | <u>\$ 4,191,424</u> |

Permanently restricted net assets at December 31, 2017 and 2016 are restricted to the following:

| | <u>2017</u> | <u>2016</u> |
|--|-------------|-------------|
| Investments to be held in perpetuity, the income from which is expendable to support the purchase of equipment or supplies | \$ 179,200 | \$ 179,200 |

During 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of health education and purchase of equipment in the amount of \$343,716 and \$483,898, respectively.

Note 15 - Operating Leases

The System is obligated under operating leases primarily for medical office space and various medical equipment. Total rent expense under these leases was \$5,211,000 and \$5,819,000 for the years ended December 31, 2017 and 2016, respectively.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 15 - Operating Leases (Continued)

The following is a schedule of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year.

Future minimum annual commitments under these operating leases are as follows:

| Years Ending | Amount |
|--------------|----------------------|
| 2018 | \$ 6,280,382 |
| 2019 | 6,277,150 |
| 2020 | 5,900,168 |
| 2021 | 5,394,410 |
| 2022 | 4,666,713 |
| Thereafter | <u>13,675,213</u> |
| Total | <u>\$ 42,194,036</u> |

Note 16 - Functional Expenses

The System is a general acute-care facility that provides inpatient and outpatient healthcare services to patients in Ross County and the surrounding vicinity. Expenses related to providing these services for the years ended December 31, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|----------------------------|-----------------------|-----------------------|
| Healthcare services | \$ 405,328,725 | \$ 402,884,959 |
| General and administrative | <u>48,025,752</u> | <u>28,373,316</u> |
| Total | <u>\$ 453,354,477</u> | <u>\$ 431,258,275</u> |

Note 17 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the System's assets measured at fair value on a recurring basis at December 31, 2017 and 2016 and the valuation techniques used by the System to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the System has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 17 - Fair Value Measurements (Continued)

| Assets Measured at Fair Value on a Recurring Basis at December 31, 2017 | | | | |
|---|---|---|---|------------------------------|
| | Quoted Prices in | | | Balance at December 31, 2017 |
| | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Assets limited as to use: | | | | |
| Money market accounts | \$ 36,034,252 | \$ - | \$ - | \$ 36,034,252 |
| Common stock | 279,174 | - | - | 279,174 |
| Corporate bonds (a) | - | 1,670,567 | - | 1,670,567 |
| Investments valued at fair value | <u>\$ 36,313,426</u> | <u>\$ 1,670,567</u> | <u>\$ -</u> | <u>\$ 37,983,993</u> |

| Assets Measured at Fair Value on a Recurring Basis at December 31, 2016 | | | | |
|---|---|---|---|------------------------------|
| | Quoted Prices in | | | Balance at December 31, 2016 |
| | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Assets limited as to use: | | | | |
| Money market accounts | \$ 12,327,129 | \$ - | \$ - | \$ 12,327,129 |
| Common stock | 291,353 | - | - | 291,353 |
| Corporate bonds (a) | - | 1,649,611 | - | 1,649,611 |
| Investments valued at fair value | <u>\$ 12,618,482</u> | <u>\$ 1,649,611</u> | <u>\$ -</u> | <u>\$ 14,268,093</u> |

(a) This class invests primarily in fixed-income corporate bond securities with a maturity of less than one year. The fair value of this investment has been estimated using quoted prices from the System's custodian bank.

The System has the ability to conduct transactions related to these funds at any time. The System's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. There were no transfers between levels for the years ended December 31, 2017 and 2016.

Investments in Entities that Calculate Net Asset Value per Share

The System has investments in common collective trust funds of \$280,969,238 and \$179,220,176 at December 31, 2017 and 2016, respectively. The System holds shares or interests in common collective trust funds at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the common collective trust funds.

The fixed-income funds invest primarily in U.S. dollar-denominated investment-grade and government securities, U.S. high yield, non-U.S. bonds, and TIPS. The fair value of this investment has been estimated using the net asset value per share of the investment.

The large-cap funds invest primarily in common stock of large-cap and small- to mid-sized companies in the U.S. The fair value of this investment has been estimated using the net asset value per share of the investment.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 17 - Fair Value Measurements (Continued)

The emerging market funds invest in companies operating in developed and emerging markets outside the U.S. The fair value of this investment has been estimated using the net asset value per share of the investment.

The investments measured at net asset value per share (or its equivalent) of the common collective trust funds do not have unfunded commitments or redemption periods.

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Directors
Adena Health System and Subsidiaries

We have audited the consolidated financial statements of Adena Health System and Subsidiaries as of and for the years ended December 31, 2017 and 2016 and have issued our report thereon dated March 21, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and consolidating statement of operations are presented for the purpose of additional analysis rather than to present the financial position, changes in net assets, and cash flows of the individual companies and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2017 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2017 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2017 consolidated financial statements as a whole.

Plante & Moran, PLLC

March 21, 2018

Adena Health System and Subsidiaries

Consolidating Balance Sheet

December 31, 2017

| | Adena Health System and Adena Medical Group | Greenfield Area Medical Center | Adena Health Foundation | Southern Ohio Health Care Network | Adena Home Care | Adena Health Plan | Adena Pharmacy | Adena Pike Community Hospital | Eliminating Entries | Total |
|---|--|-----------------------------------|----------------------------|---|---------------------|----------------------|-------------------|-------------------------------------|------------------------|-----------------------|
| Assets | | | | | | | | | | |
| Current Assets | | | | | | | | | | |
| Cash and cash equivalents | \$ 24,828,938 | \$ 263,127 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,727,478 | \$ - | \$ 28,819,543 |
| Patient accounts receivable - Net | 59,003,627 | 2,173,656 | - | - | 742,777 | - | 244,752 | 2,057,943 | - | 64,222,755 |
| Inventory | 5,169,414 | 242,265 | - | - | 597,803 | - | 454,794 | 246,176 | - | 6,710,452 |
| Other current assets | 3,735,524 | - | 5,747 | - | - | - | - | 6,129 | - | 3,747,400 |
| Estimated third-party payor settlements | 1,698,241 | 169,350 | - | - | - | - | - | (967,072) | - | 900,519 |
| Prepaid expenses and other | 3,943,720 | - | - | - | - | - | - | - | - | 3,943,720 |
| Other current assets - Intercompany | - | - | 643,576 | - | - | - | - | - | (643,576) | - |
| Total current assets | 98,379,464 | 2,848,398 | 649,323 | - | 1,340,580 | - | 699,546 | 5,070,654 | (643,576) | 108,344,389 |
| Assets Limited as to Use | 312,557,286 | 1,336,598 | 5,059,347 | - | - | - | - | - | - | 318,953,231 |
| Property and Equipment - Net | 135,271,047 | 3,780,175 | - | - | - | - | 45,809 | 7,858,855 | - | 146,955,886 |
| Indefeasible Right-of-use Asset | - | - | - | 13,885,684 | - | - | - | - | - | 13,885,684 |
| Other Assets | | | | | | | | | | |
| Notes and grants receivable | 3,554,898 | - | - | - | - | - | - | - | - | 3,554,898 |
| Other noncurrent assets | 13,240,773 | - | 128,199 | - | - | - | - | 1,855,000 | - | 15,223,972 |
| Total other assets | 16,795,671 | - | 128,199 | - | - | - | - | 1,855,000 | - | 18,778,870 |
| Total assets | \$ 563,003,468 | \$ 7,965,171 | \$ 5,836,869 | \$ 13,885,684 | \$ 1,340,580 | \$ - | \$ 745,355 | \$ 14,784,509 | \$ (643,576) | \$ 606,918,060 |

Adena Health System and Subsidiaries

Consolidating Balance Sheet (Continued)

December 31, 2017

| | Adena Health System and Adena Medical Group | Greenfield Area Medical Center | Adena Health Foundation | Southern Ohio Health Care Network | Adena Home Care | Adena Health Plan | Adena Pharmacy | Adena Pike Community Hospital | Eliminating Entries | Total |
|--|--|-----------------------------------|----------------------------|---|---------------------|----------------------|-------------------|-------------------------------------|------------------------|-----------------------|
| Liabilities and Net Assets (Deficit) | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | |
| Accounts payable | \$ 22,917,780 | \$ 274,916 | \$ 658 | \$ 8,998 | \$ 41,329 | \$ - | \$ 750 | \$ 160,463 | \$ - | \$ 23,404,894 |
| Current portion of long-term debt | 4,253,245 | - | - | - | - | - | - | - | - | 4,253,245 |
| Intercompany liabilities | 643,576 | - | - | - | - | - | - | - | (643,576) | - |
| Accrued liabilities and other: | | | | | | | | | | |
| Accrued compensation | 29,650,096 | 584,168 | 14,094 | - | 366,937 | 17,324 | 61,713 | 601,507 | - | 31,295,839 |
| Deferred compensation | 5,648,000 | - | - | - | - | - | - | - | - | 5,648,000 |
| Accrued interest | 684,580 | - | - | - | - | - | - | - | - | 684,580 |
| Other accrued liabilities | 2,096,755 | - | - | - | - | - | - | - | - | 2,096,755 |
| Total current liabilities | 65,894,032 | 859,084 | 14,752 | 8,998 | 408,266 | 17,324 | 62,463 | 761,970 | (643,576) | 67,383,313 |
| Long-term Debt and Capital Lease Obligations - Net of current portion | 190,341,426 | - | - | - | - | - | - | - | - | 190,341,426 |
| Defined Benefit Plan Liability | 3,198,430 | - | - | - | - | - | - | - | - | 3,198,430 |
| Other Liabilities | 20,414,405 | - | - | - | - | - | - | - | - | 20,414,405 |
| Total liabilities | 279,848,293 | 859,084 | 14,752 | 8,998 | 408,266 | 17,324 | 62,463 | 761,970 | (643,576) | 281,337,574 |
| Net Assets (Deficit) | | | | | | | | | | |
| Unrestricted | 281,195,322 | 5,750,688 | 3,008,713 | 13,876,686 | 932,314 | (17,324) | 682,892 | 14,012,878 | - | 319,442,169 |
| Temporarily restricted | 1,959,853 | 1,176,199 | 2,813,404 | - | - | - | - | 9,661 | - | 5,959,117 |
| Permanently restricted | - | 179,200 | - | - | - | - | - | - | - | 179,200 |
| Total net assets (deficit) | 283,155,175 | 7,106,087 | 5,822,117 | 13,876,686 | 932,314 | (17,324) | 682,892 | 14,022,539 | - | 325,580,486 |
| Total liabilities and net assets (deficit) | \$ 563,003,468 | \$ 7,965,171 | \$ 5,836,869 | \$ 13,885,684 | \$ 1,340,580 | \$ - | \$ 745,355 | \$ 14,784,509 | \$ (643,576) | \$ 606,918,060 |

Adena Health System and Subsidiaries

Consolidating Statement of Operations

Year Ended December 31, 2017

| | Adena Health System and Adena Medical Group | Greenfield Area Medical Center | Adena Health Foundation | Southern Ohio Health Care Network | Adena Home Care | Adena Health Plan | Adena Pharmacy | Adena Pike Community Hospital | Eliminating Entries | Total |
|--|---|--------------------------------|-------------------------|-----------------------------------|---------------------|-------------------|------------------|-------------------------------|---------------------|----------------------|
| Unrestricted Revenue, Gains, and Other Support | | | | | | | | | | |
| Net patient service revenue | \$ 439,178,368 | \$ 14,958,476 | \$ - | \$ - | \$ 7,026,052 | \$ - | \$ - | \$ 15,456,262 | \$ (254,568) | \$ 476,364,590 |
| Provision for bad debts | (11,764,624) | (1,225,777) | - | - | 2,515 | - | - | (969,114) | - | (13,957,000) |
| Net patient service revenue less provision for bad debts | 427,413,744 | 13,732,699 | - | - | 7,028,567 | - | - | 14,487,148 | (254,568) | 462,407,590 |
| Other operating revenue | 5,225,205 | 55,468 | 434,775 | 78,049 | 2,694 | - | 5,425,929 | 97,851 | (3,349,721) | 7,970,250 |
| Net assets released from restrictions | 218,868 | - | - | - | - | - | - | - | - | 218,868 |
| Total unrestricted revenue, gains, and other support | 432,857,817 | 13,788,167 | 434,775 | 78,049 | 7,031,261 | - | 5,425,929 | 14,584,999 | (3,604,289) | 470,596,708 |
| Expenses | | | | | | | | | | |
| Salaries and wages | 193,225,369 | 6,028,843 | 190,060 | - | 4,120,121 | 154,620 | 570,132 | 6,351,965 | - | 210,641,110 |
| Employee benefits and payroll taxes | 48,972,012 | 2,029,481 | 64,381 | - | 1,331,570 | 54,849 | 191,306 | 2,181,815 | (2,486,600) | 52,338,814 |
| Operating supplies and expenses | 66,690,842 | 1,111,995 | 18,481 | 98 | 1,006,015 | 397 | 4,259,551 | 1,489,878 | - | 74,577,257 |
| Professional services and consultant fees | 4,239,999 | 355,643 | - | - | 35,004 | 88,449 | - | 20,004 | (932,418) | 3,806,681 |
| Purchased services | 42,003,290 | 1,336,106 | 69,003 | 111,837 | 679,443 | 53,302 | 2,512 | 1,135,013 | - | 45,390,506 |
| Insurance | 1,767,294 | 47,534 | - | - | 21,415 | - | - | 47,657 | - | 1,883,900 |
| Utilities | 4,274,778 | 130,631 | - | - | - | - | - | 360,982 | - | 4,766,391 |
| Travel/Education | 2,440,311 | 59,700 | 2,394 | - | 335,575 | 2,758 | 41,284 | 54,075 | - | 2,936,097 |
| Repair, maintenance, and rental | 19,285,509 | 484,650 | - | - | 204,362 | - | 34,167 | 565,930 | (185,271) | 20,389,347 |
| Assessments | 4,424,971 | 275,116 | - | - | - | - | - | 327,879 | - | 5,027,966 |
| Depreciation and amortization | 22,728,139 | 416,213 | - | 771,871 | - | - | 6,174 | 732,580 | - | 24,654,977 |
| Interest expense | 6,941,431 | - | - | - | - | - | - | - | - | 6,941,431 |
| Corporate cost allocation | (9,876,528) | 3,288,444 | 90,456 | - | 2,427,552 | 92,496 | 269,232 | 3,708,348 | - | - |
| Total expenses | 407,117,417 | 15,564,356 | 434,775 | 883,806 | 10,161,057 | 446,871 | 5,374,358 | 16,976,126 | (3,604,289) | 453,354,477 |
| Operating Income (Loss) | 25,740,400 | (1,776,189) | - | (805,757) | (3,129,796) | (446,871) | 51,571 | (2,391,127) | - | 17,242,231 |
| Nonoperating Income (Loss) | | | | | | | | | | |
| Interest income and net realized gains | 14,078,797 | 33 | 147,062 | - | - | - | - | 44,785 | - | 14,270,677 |
| Unrealized gains on trading securities | 12,820,987 | - | 208,744 | - | - | - | - | - | - | 13,029,731 |
| Benefit plan expense | (838,418) | - | - | - | - | - | - | - | - | (838,418) |
| Other (loss) income | (10,401,207) | - | (399,150) | - | - | - | - | 3,199 | - | (10,797,158) |
| Total nonoperating income (loss) | 15,660,159 | 33 | (43,344) | - | - | - | - | 47,984 | - | 15,664,832 |
| Excess of Revenue Over (Under) Expenses | 41,400,559 | (1,776,156) | (43,344) | (805,757) | (3,129,796) | (446,871) | 51,571 | (2,343,143) | - | 32,907,063 |
| Net Assets Released from Restriction for Purchase of Capital Assets | 99,848 | 25,000 | - | - | - | - | - | - | - | 124,848 |
| Transfer (to) from Affiliate | (9,766,707) | 1,524,010 | - | 34,886 | 2,943,661 | 437,202 | (3,596) | 4,830,544 | - | - |
| Pension-related Changes Other than Net Periodic Cost | (3,494,248) | - | - | - | - | - | - | - | - | (3,494,248) |
| Increase (Decrease) in Unrestricted Net Assets | <u>\$ 28,239,452</u> | <u>\$ (227,146)</u> | <u>\$ (43,344)</u> | <u>\$ (770,871)</u> | <u>\$ (186,135)</u> | <u>\$ (9,669)</u> | <u>\$ 47,975</u> | <u>\$ 2,487,401</u> | <u>\$ -</u> | <u>\$ 29,537,663</u> |

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
Adena Health System and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Adena Health System and Subsidiaries (the "System"), which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated March 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of Directors
Adena Health System and Subsidiaries

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

March 21, 2018