

Baxter Regional Health System

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2018 and 2017



Baxter Regional Health System
December 31, 2018 and 2017

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Independent Auditor's Report

Board of Directors
Baxter Regional Health System
Mountain Home, Arkansas

We have audited the accompanying consolidated financial statements of Baxter Regional Health System (the System) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, 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 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. Those standards require that we plan and perform the audit 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 Baxter Regional Health System and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in *Note 1* to the consolidated financial statements, in 2018, the System adopted new accounting guidance regarding recognition of revenue with customers (Topic 606) and Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Little Rock, Arkansas
April 24, 2019

Baxter Regional Health System
Consolidated Balance Sheets
December 31, 2018 and 2017

Assets

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash	\$ 23,165,495	\$ 11,669,111
Short-term investments	9,978,874	13,761,566
Assets limited as to use – current	1,725,346	1,720,341
Patient accounts receivable	21,041,918	22,944,585
Supplies	7,966,406	6,998,805
Prepaid expenses and other	2,152,328	1,352,207
Contributions receivable – current	238,409	220,266
	<u>66,268,776</u>	<u>58,666,881</u>
Assets Limited as to Use		
Internally designated for capital improvements	38,075,935	44,245,713
Externally restricted by donors	12,399,083	14,263,906
Held by trustee under indenture agreement	6,800,100	6,741,131
Other	200,000	200,000
	<u>57,475,118</u>	<u>65,450,750</u>
Less amount required to meet current obligations	<u>1,725,346</u>	<u>1,720,341</u>
	<u>55,749,772</u>	<u>63,730,409</u>
Investments in and Advances to Equity Investees	<u>147,363</u>	<u>61,250</u>
Property and Equipment, at Cost		
Land and land improvements	7,891,788	7,742,352
Buildings and leasehold improvements	81,833,572	77,776,987
Equipment	131,566,012	131,062,533
Construction in progress	2,677,006	517,793
	<u>223,968,378</u>	<u>217,099,665</u>
Less accumulated depreciation	<u>156,643,620</u>	<u>153,499,081</u>
	<u>67,324,758</u>	<u>63,600,584</u>
Other Assets		
Long-term investments	273,667	167,590
Contributions receivable	449,306	296,653
Other	133,399	123,504
	<u>856,372</u>	<u>587,747</u>
Total assets	<u>\$ 190,347,041</u>	<u>\$ 186,646,871</u>

Liabilities and Net Assets

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Current maturities of long-term debt	\$ 3,815,287	\$ 6,350,229
Accounts payable	12,461,355	9,221,325
Accrued expenses	11,822,675	10,220,023
Accrued interest	664,373	708,454
Estimated amounts due to third-party payors	<u>4,181,738</u>	<u>4,859,843</u>
Total current liabilities	32,945,428	31,359,874
Long-term Debt	<u>55,271,994</u>	<u>50,996,286</u>
Total liabilities	<u>88,217,422</u>	<u>82,356,160</u>
Net Assets		
Without donor restrictions		
Baxter Regional Health System	89,954,446	90,035,458
Noncontrolling interest	<u>282,815</u>	<u>192,517</u>
Total net assets without donor restrictions	90,237,261	90,227,975
With donor restrictions	<u>11,892,358</u>	<u>14,062,736</u>
Total net assets	<u>102,129,619</u>	<u>104,290,711</u>
Total liabilities and net assets	<u>\$ 190,347,041</u>	<u>\$ 186,646,871</u>

Baxter Regional Health System
Consolidated Statements of Operations
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues, Gains and Other Support Without Donor Restrictions		
Patient service revenue	\$ 226,646,740	\$ 200,335,105
Other	2,173,983	2,774,326
Contributions received	2,038,340	1,238,075
Net assets released from restrictions used for operations	436,384	544,183
Total revenues, gains and other support without donor restrictions	231,295,447	204,891,689
Expenses and Losses		
Salaries and wages	90,868,967	81,636,656
Employee benefits	24,230,408	20,733,473
Professional fees	15,685,948	14,579,296
Supplies and other	86,020,773	75,724,650
Depreciation	9,534,326	9,347,754
Interest	1,713,830	1,710,201
Total expenses and losses	228,054,252	203,732,030
Operating Income	3,241,195	1,159,659
Other Income (Expenses)		
Investment return, net	5,085,044	2,956,014
Gain on investment in equity investees	-	46,982
Other, net	(102,344)	(83,755)
Total other income	4,982,700	2,919,241
Excess of Revenues over Expenses	8,223,895	4,078,900
Investment return – Change in unrealized gains and losses on other-than-trading securities	(9,456,925)	3,154,894
Net assets released from restriction for purchase of property and equipment	876,026	-
Contributions of or for purchase of property and equipment	366,290	24,954
Increase in Net Assets Without Donor Restrictions	\$ 9,286	\$ 7,258,748

Baxter Regional Health System
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net Assets Without Donor Restrictions		
Excess of revenues over expenses	\$ 8,223,895	\$ 4,078,900
Investment return – change in unrealized gains and losses on other-than-trading securities	(9,456,925)	3,154,894
Net assets released from restriction for purchase of property and equipment	876,026	-
Contributions of or for purchase of property and equipment	<u>366,290</u>	<u>24,954</u>
Increase in net assets without donor restrictions	<u>9,286</u>	<u>7,258,748</u>
Net Assets with Donor Restrictions		
Contributions received	87,146	888,615
Investment return, net	(945,114)	1,170,898
Net assets released from restriction	<u>(1,312,410)</u>	<u>(544,183)</u>
Increase (decrease) in net assets with donor restrictions	<u>(2,170,378)</u>	<u>1,515,330</u>
Change in Net Assets	(2,161,092)	8,774,078
Net Assets, Beginning of Year	<u>104,290,711</u>	<u>95,516,633</u>
Net Assets, End of Year	<u>\$ 102,129,619</u>	<u>\$ 104,290,711</u>

Baxter Regional Health System
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ (2,161,092)	\$ 8,774,078
Items not requiring (providing) cash		
Depreciation and amortization	9,037,432	8,673,024
Net realized and unrealized (gains) losses on investments	7,329,894	(5,397,390)
Contributions of or for purchase of property and equipment	(366,290)	(24,954)
Undistributed (earnings) losses of equity investees	-	(46,982)
(Gain) loss on disposal of property and equipment	43,086	(6,292)
Changes in		
Patient accounts receivable	1,902,667	(1,894,963)
Estimated amounts due to/from third-party payors	(678,105)	809,865
Accounts payable and accrued expenses	3,687,850	2,204,039
Other current assets and liabilities	(1,948,413)	(1,083,211)
	<u>16,847,029</u>	<u>12,007,214</u>
Investing Activities		
Purchase of investments	(9,396,957)	(6,836,609)
Proceeds from disposition of investments	13,719,310	5,522,189
Purchase of property and equipment	(12,331,406)	(7,947,384)
Distributions from (advances to) equity investees	(86,113)	45,741
Proceeds from sale of property and equipment	20,136	480,154
	<u>(8,075,030)</u>	<u>(8,735,909)</u>
Financing Activities		
Proceeds from contributions for purchase of property and equipment	366,290	24,954
Proceeds from issuance of long-term debt	6,638,445	2,387,160
Principal payments on long-term debt	(4,280,350)	(4,196,611)
	<u>2,724,385</u>	<u>(1,784,497)</u>
Increase in Cash	11,496,384	1,486,808
Cash, Beginning of Year	<u>11,669,111</u>	<u>10,182,303</u>
Cash, End of Year	<u>\$ 23,165,495</u>	<u>\$ 11,669,111</u>
Supplemental Cash Flows Information		
Interest paid	\$ 2,373,971	\$ 2,416,498
Capital additions included in accounts payable and accrued expenses	\$ 1,512,283	\$ 401,532

Baxter Regional Health System
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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

Nature of Operations and Principles of Consolidation

Baxter Regional Health System (the System) is an Arkansas not-for-profit charitable corporation as described in Section 501(c)(3) of the Internal Revenue Code. The System primarily earns revenue by providing health care services, including acute, psychiatric, clinical, hospice and home health services to patients in Baxter and Marion Counties, located in Arkansas, as well as its secondary service area of Ozark County, Missouri, and Izard and Fulton Counties, located in Arkansas.

Organization	Primary Business Activity	Tax Status
Baxter Regional Health System (the System)	Parent holding company	Not-for-profit 501(c)(3)
Baxter County Regional Hospital, Inc. d/b/a Baxter Regional Medical Center (the Medical Center)	Acute-care hospital	Not-for-profit 501(c)(3); the System is sole member
Hospital Development Foundation, Inc. d/b/a Baxter Regional Hospital Foundation (the Foundation)	Solicit contributions for the benefit of the System and its nonprofit subsidiaries	Not-for-profit 501(c)(3); the System is sole member
Hospice of the Ozarks, Inc. (Hospice)	Hospice services	Not-for-profit 501(c)(3); the Medical Center is sole member
The BRMC Hometown Clinics, LLC (the Clinics)	Operation of physician clinics	Taxable LLC; 100% owned by the System
BRMC Pain Center, LLC (the Pain Center)	Real estate holding company	Taxable LLC; 51% owned by the System
Baxter Physician Partners, LLC (BPP, converted from Baxter Regional Health System Clinically Integrated Network, LLC (BRCIN) d/b/a Baxter Physician Partners, effective January 1, 2017)	Integrated network of providers to improve the quality of health for patients in the network's service area	Taxable LLC; 100% owned by the System

Baxter Regional Health System
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Organization	Primary Business Activity	Tax Status
BRMC Cancer Diagnostic Center, LLC (the Cancer Diagnostic Center)	Real estate holding company	Taxable LLC; 51% owned by the System

Use of Estimates

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

Noncontrolling Interest

Noncontrolling interest represents the 49% interest in the Pain Center and the Cancer Diagnostic Center owned by outside investors. Losses attributable to the noncontrolling interest are allocated to the noncontrolling interest even if the carrying amount of the noncontrolling interest is reduced below zero.

Baxter Regional Health System
Notes to Consolidated Financial Statements
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Changes in consolidated net assets attributable to the controlling financial interest of the System and the noncontrolling interest are:

	<u>Total</u>	<u>Controlling Interest</u>	<u>Noncontrolling Interest</u>
Balance, January 1, 2017	\$ 95,516,633	\$ 95,373,939	\$ 142,694
Excess of revenues over expenses	4,078,900	4,029,077	49,823
Investment return – change in unrealized gains and losses on other-than-trading securities	3,154,894	3,154,894	-
Contributions of or for purchase of property and equipment	24,954	24,954	-
Change in net assets with donor restriction	<u>1,515,330</u>	<u>1,515,330</u>	<u>-</u>
Change in net assets	<u>8,774,078</u>	<u>8,724,255</u>	<u>49,823</u>
Balance, December 31, 2017	<u>104,290,711</u>	<u>104,098,194</u>	<u>192,517</u>
Excess of revenues over expenses	8,223,895	8,133,597	90,298
Investment return – change in unrealized gains and losses on other-than-trading securities	(9,456,925)	(9,456,925)	-
Net assets released from restriction for purchase of property and equipment	876,026	876,026	-
Contributions of or for purchase of property and equipment	366,290	366,290	-
Change in net assets with donor restriction	<u>(2,170,378)</u>	<u>(2,170,378)</u>	<u>-</u>
Change in net assets	<u>(2,161,092)</u>	<u>(2,251,390)</u>	<u>90,298</u>
Balance, December 31, 2018	<u>\$ 102,129,619</u>	<u>\$ 101,846,804</u>	<u>\$ 282,815</u>

Cash and Cash Equivalents

The System considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents in investments consisted primarily of sweep accounts with brokers.

At December 31, 2018, the System’s cash accounts exceeded federally insured limits by approximately \$20,140,000.

Baxter Regional Health System
Notes to Consolidated Financial Statements
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Investments and Investment Return

Investments in equity securities having a readily determinable fair value and investments in all debt securities are carried at fair value. The investment in equity investees is reported on the equity method of accounting. Other investments including real estate held by the Medical Center are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Real estate held by the Foundation is carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expense.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of operations and changes in net assets as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use primarily include (1) assets set aside by the board of directors (the Board) for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes; (2) assets restricted by donors; and (3) assets held by trustees. Amounts required to meet current liabilities of the System are included in current assets.

Patient Accounts Receivable

Patient accounts receivable reflects the outstanding amount of consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, the System bills third-party payors directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

Supplies

The System states supply inventories at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Baxter Regional Health System
Notes to Consolidated Financial Statements
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The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	5–25 years
Buildings and leasehold improvements	15–40 years
Equipment	3–20 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Long-Lived Asset Impairment

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

No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Debt Issuance Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt into interest expense using the effective interest method. Amounts amortized in 2018 and 2017 were approximately \$92,000 and \$99,000, respectively.

Net Assets

Net assets revenues, gains, and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Baxter Regional Health System
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Patient Service Revenue

Patient service revenue is recognized as the System satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care.

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policies and implicit price concessions provided to uninsured patients.

The System determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. The System determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

Charity Care

The System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the System does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as patient service revenue. Charity care is discussed more fully in *Note 12*.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation.

Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions.

Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Baxter Regional Health System
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Unconditional gifts expected to be collected within one year are reported at their net realizable value.

Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional. Donor-restricted conditional gifts in which the condition and restriction are met in the period the gift is received are reported as revenue and net assets without donor restrictions.

Professional Liability Claims

The System recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 7*.

Self-Insured Employee Health Claims

The System has elected to self-insure certain costs related to its employee health program. Costs resulting from noninsured losses are charged to income when incurred. An estimated accrual is made for claims incurred but not paid at year-end. Total expense for employee health insurance claims for the years ended December 31, 2018 and 2017, was \$14,113,759 and \$12,064,245, respectively. The System has purchased insurance that limits its exposure for individual claims up to \$400,000.

Self-Insured Workers' Compensation Trust

The System has a self-insured workers' compensation trust for its employees. Claims against the trust are administered by an independent risk management firm. Claims are recorded as an expense as they are paid. An annual estimated provision is accrued for both reported claims and claims incurred but not reported. Funds maintained to pay future claims are included in the System's consolidated financial statements.

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Notes to Consolidated Financial Statements
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Income Taxes

The System, the Medical Center, the Foundation and the Hospice have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. As such, they are required to file IRS Form 990 on an annual basis. These entities are subject to federal income tax on any unrelated business taxable income.

The Pain Center and Cancer Diagnostic Center are organized as Arkansas limited liability companies and treated as partnerships for income tax purposes. Taxable income or losses are reported to the individual members for inclusion in their respective tax returns.

The Clinics and BPP are treated as disregarded entities and included in the parent Form 990 return. The System files tax returns in the U.S. federal jurisdiction.

No provision for federal or state income taxes is included in the System's consolidated financial statements.

Excess of Revenues over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in net assets without donor restrictions that are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments in other-than-trading securities, permanent transfers to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, were to be used for the purpose of acquiring such assets).

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period beginning date.

Subsequent Events

Subsequent events have been evaluated through April 24, 2019, which is the date the consolidated financial statements were issued.

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Change in Accounting Principle

On January 1, 2018, the System adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), using a full retrospective method of adoption to all contracts with patients at January 1, 2017. The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers or patients in an amount that reflects the consideration to which the System expects to be entitled in exchange for those goods or services. The amount to which the System expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient services to its patients. Adoption of ASU 2014-09 resulted in changes in presentation of the consolidated financial statements and related disclosures in the notes to the consolidated financial statements.

Because contracts are generally completed within a year, the System used the actual transaction price rather than estimating variable consideration amounts for contracts completed during the year ended December 31, 2017.

Prior to the adoption of ASU 2014-09, the majority of the provision for doubtful accounts related to patients without insurance, as well as patient responsibility balances for co-pays, co-insurance and deductibles for patients with insurance. Under ASU 2014-09, the estimated amounts due from patients for which the System does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the System's estimation of the transaction price or revenue recorded.

The adoption had no impact on operating income, overall change in net assets or net cash provided by operating activities. The adoption did impact the classification of provider assessment fees paid under the state Medicaid program, which is further discussed in *Note 2*. Previously classified as a deduction from revenue, those fees are classified as an operating expense upon adoption.

	December 31, 2017		
	As Previously Reported	As Adjusted	Adoption Impact
Revenues, Gains and Other Support Without Donor Restrictions			
Patient service revenue	\$ 197,915,245	\$ 200,335,105	\$ 2,419,860
Total revenues, gains and other support without donor restrictions	<u>202,471,829</u>	<u>204,891,689</u>	<u>2,419,860</u>
Expenses and Losses			
Supplies and other	<u>73,304,790</u>	<u>75,724,650</u>	<u>2,419,860</u>
Total expenses and losses	<u>201,312,170</u>	<u>203,732,030</u>	<u>2,419,860</u>

Baxter Regional Health System

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

In 2018, the System adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

Balance Sheet

- The balance sheet distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.
- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from the previously required classification as unrestricted net assets.

Statement of Operations

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the balance sheet.
- Amounts and purposes of governing board designations and appropriations of net assets without donor restrictions as of the end of the period are disclosed.
- Expenses are reported by both nature and function.

This change had no impact on previously reported total change in net assets.

Note 2: Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

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Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on charges accumulated over the period of service. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Generally, performance obligations satisfied over time relate to patients in the System receiving inpatient acute care services or patients receiving services in its outpatient centers or in their homes (home care).

The System measures the performance obligation from inpatient admission, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the System does not believe it is required to provide additional goods related to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period.

The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions which consist of contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare—Inpatient acute care, hospice, psychiatric and rehabilitation services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare administrative contractor.

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Medicaid—Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology subject to certain cost limitations. Outpatient services rendered to Medicaid beneficiaries are paid based on a fee schedule. The System is reimbursed for inpatient services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid administrative contractor.

Based on its status as a private hospital, the System participates in the Arkansas Medicaid provider assessment program. This program assesses a fee of no more than 5.5% of patient service revenue of private hospitals and allocates the proceeds to supplement Medicaid payments.

The federal government matches the assessment amount at a rate of approximately 3-to-1, and these amounts are allocated to private hospitals in Arkansas based on each hospital's share of total Medicaid patients. Assessment fees under this program for the years ended December 31, 2018 and 2017, were approximately \$3.5 million and \$2.4 million, respectively. Amounts recorded for the provider assessment revenues under this program for the years ended December 31, 2018 and 2017, were approximately \$7.4 million and \$5.1 million, respectively.

Other—Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information, or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2018 or 2017.

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Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions.

The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as co-pays and deductibles.

The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The System has determined that the nature, amount, timing and uncertainty of revenue and cash flows are primarily affected by factors including payors and service lines. Tables providing details of these factors are presented below.

The composition of patient service revenue by primary payor for years ended December 31, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 115,112,076	\$ 98,397,654
Medicaid	12,817,173	10,716,952
Other third-party payors	96,459,391	89,322,247
Self-pay	<u>2,258,100</u>	<u>1,898,252</u>
Total	<u>\$ 226,646,740</u>	<u>\$ 200,335,105</u>

Revenue from patients' deductibles and coinsurance is included in the categories presented above based on the primary payor.

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The composition of patient service revenue based on service lines for years ended December 31, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Service lines		
Acute care	\$ 194,530,623	\$ 170,424,826
Post-acute care	14,680,316	14,379,125
Physician clinics	<u>17,435,801</u>	<u>15,531,154</u>
Total	<u>\$ 226,646,740</u>	<u>\$ 200,335,105</u>

Revenue is recognized as health care services are transferred over time. Revenue recognized at a point in time, such as for retail pharmacy, is not material.

Financing Component

The System has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Note 3: Concentration of Credit Risk

The System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2018 and 2017, is:

	<u>2018</u>	<u>2017</u>
Medicare	44 %	38 %
Medicaid	3	3
Other third-party payors	43	49
Patients	<u>10</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>

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Note 4: Investments and Investment Return

Investments are reported in the consolidated balance sheets in the following captions and consist of the following:

	<u>2018</u>	<u>2017</u>
Assets limited as to use:		
Internally designated for capital improvements		
Cash and cash equivalents	\$ 2,888,858	\$ 3,482,345
Equity securities	5,219,060	22,177,378
Equity exchange-traded funds	18,928,023	4,825,614
Corporate debt securities	9,938,357	10,980,610
Preferred stock	438,381	2,041,114
Real estate	250,000	250,000
Interest receivable	41,217	38,102
Other	372,039	450,550
	<u>38,075,935</u>	<u>44,245,713</u>
Externally restricted by donors ⁽¹⁾		
Cash and cash equivalents	332,542	769,661
Certificates of deposit	311,899	558,512
Equity mutual funds	119,723	126,439
Equity exchange-traded funds	7,813,168	612,083
Corporate debt securities	654,442	632,004
Real estate	2,388,388	2,388,388
Equity securities	279,591	8,063,474
Other	499,330	573,922
	<u>12,399,083</u>	<u>13,724,483</u>
Held by trustee under indenture agreement		
Mortgage-backed securities	5,048,112	4,994,308
U.S. Treasury obligations fund	1,725,346	1,720,341
Interest receivable	26,642	26,482
	<u>6,800,100</u>	<u>6,741,131</u>
Other		
Certificates of deposit	200,000	200,000

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	<u>2018</u>	<u>2017</u>
Other investments:		
Certificates of deposit	\$ 105,473	\$ 134,561
Equity securities	7,312,848	10,073,557
Corporate debt securities	1,890,715	2,537,553
Preferred stock	748,505	1,123,485
Real estate	195,000	60,000
	<u>10,252,541</u>	<u>13,929,156</u>
Less long-term investments	<u>273,667</u>	<u>167,590</u>
Short-term investments	<u>9,978,874</u>	<u>13,761,566</u>
Total System investments	<u>\$ 67,727,659</u>	<u>\$ 78,840,483</u>

⁽¹⁾ Excludes contributions receivable. See *Note 5*.

Total investment return is comprised of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 2,012,899	\$ 1,884,416
Realized and unrealized gains (losses) on other-than-trading securities	<u>(7,329,894)</u>	<u>5,397,390</u>
	<u>\$ (5,316,995)</u>	<u>\$ 7,281,806</u>

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

	<u>2018</u>	<u>2017</u>
Net assets without donor restrictions		
Other nonoperating income	\$ 5,085,044	\$ 2,956,014
Change in unrealized gains (losses) on other-than-trading securities	<u>(9,456,925)</u>	<u>3,154,894</u>
Net assets with donor restrictions	<u>(945,114)</u>	<u>1,170,898</u>
	<u>\$ (5,316,995)</u>	<u>\$ 7,281,806</u>

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At December 31, 2018, and 2017, the System's real estate investments included real estate located in various locations in north central Arkansas and southern Missouri with a carrying value of \$2,833,388 and \$2,698,388, respectively. The System has a practice of periodically challenging the value of its holdings and updating these values when conditions arise that indicate the valuation could be materially affected.

Certain investments in debt and marketable equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2018 and 2017, was \$44,283,455 and \$18,586,915, respectively, which was approximately 65% and 23%, respectively, of the System's investment portfolio.

Management believes the declines in fair value for these securities are temporary.

The System routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in excess of revenues over expenses in the period the other-than-temporary impairment is identified. At December 31, 2018, no amounts were recognized as other-than-temporary impairment losses.

The following tables show the System's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and 2017:

Description of Securities	December 31, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities	\$ 9,530,728	\$ 373,690	\$ 2,026,709	\$ 90,923	\$11,557,437	\$ 464,613
Equity securities	32,018,904	5,154,924	707,114	96,696	32,726,018	5,251,620
Total temporarily impaired securities	<u>\$41,549,632</u>	<u>\$ 5,528,614</u>	<u>\$ 2,733,823</u>	<u>\$ 187,619</u>	<u>\$44,283,455</u>	<u>\$ 5,716,233</u>

Description of Securities	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities	\$ 8,577,275	\$ 92,507	\$ 1,582,210	\$ 31,216	\$10,159,485	\$ 123,723
Equity securities	5,282,904	833,345	3,144,526	624,180	8,427,430	1,457,525
Total temporarily impaired securities	<u>\$13,860,179</u>	<u>\$ 925,852</u>	<u>\$ 4,726,736</u>	<u>\$ 655,396</u>	<u>\$18,586,915</u>	<u>\$ 1,581,248</u>

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Note 5: Contributions Receivable

As a result of the Foundation's fundraising activities, the System has recognized contributions receivable, some of which have been restricted by donors. At December 31, 2018 and 2017, total contributions receivable were \$687,715 and \$1,056,342, respectively. Contributions with donor restrictions amounting to \$0 and \$539,423 at December 31, 2018 and 2017, respectively, are reflected on the accompanying consolidated balance sheets as assets limited as to use – externally restricted by donors. At December 31, 2018 and 2017, \$238,409 and \$220,266, respectively, of contributions receivable were due in one year. Management has assessed any discount as not material.

Note 6: Investments in and Advances to Equity Investees

The investments in and advances to equity investees relate to a 25% ownership of Arkansas Community Hospital Network – Shared Services Organization, LLC and a 50% ownership of Baxter Regional PHO, LTD., which provides medical credentialing services to the System.

Note 7: Professional Liability Claims

The System is self-insured for the first \$100,000 per occurrence and \$300,000 in aggregate for medical malpractice risks. The System purchases commercial insurance coverage above the self-insurance limits for the next \$1,000,000 per occurrence and \$3,000,000 in aggregate of medical malpractice risks.

This commercial coverage is provided under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered.

Based on the System's claims experience, an accrual had been made for the System's estimated medical malpractice costs, including costs associated with litigating or settling claims under its malpractice insurance policy, amounting to \$300,000 as of December 31, 2018 and 2017. It is reasonably possible that this estimate could change materially in the near term.

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Note 8: Long-term Debt

	<u>2018</u>	<u>2017</u>
Revenue refunding bonds (A)	\$ 43,710,000	\$ 46,760,000
Line of credit (B)	5,888,797	2,288,493
Note payable (C)	2,090,658	2,188,822
Note payable (D)	1,623,601	-
Note payable (E)	1,003,900	1,048,299
Note payable (F)	701,258	-
Capital lease obligation (G)	690,293	-
Note payable (H)	203,154	286,331
Note payable (I)	49,021	72,527
Installment note payable (J)	-	910,139
Note payable (K)	-	47,975
	<u>55,960,682</u>	<u>53,602,586</u>
Less unamortized debt issuance costs	(470,960)	(563,095)
Less current maturities	(3,815,287)	(6,350,229)
Plus bond premium	<u>3,597,559</u>	<u>4,307,024</u>
	<u>\$ 55,271,994</u>	<u>\$ 50,996,286</u>

- (A) The 2016 Revenue Refunding Bonds (the 2016 Bonds) consist of Tax-exempt Hospital Revenue Bonds Series 2016A in the original amount of \$44,925,000 and Series 2016B in the original amount of \$4,785,000; issued for the purpose, together with funds in bond fund and debt service reserve funds, of refunding \$52,095,000 of existing revenue bonds and advance refunding \$5,095,000 of existing revenue bonds; and bearing interest at rates ranging from 2% to 5%. The 2016 Bonds are payable in annual installments including mandatory sinking fund redemption through September 1, 2032. Interest is due semiannually on March 1 and September 1. The System is required to make monthly deposits into the debt service funds of approximately \$430,000.

All of the 2016 Bonds still outstanding may be redeemed at the System's option on or after September 1, 2026, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date of redemption. The 2016 Bonds are obligations of the Medical Center, but are guaranteed by the System. Unamortized debt issuance costs were \$470,960 and \$563,095 at December 31, 2018 and 2017, respectively. The effective interest rate was 3.33% and 0.20% for the years ended December 31, 2018 and 2017, respectively.

Baxter County (the County) issued the 2016 Bonds on behalf of the Medical Center. The 2016 Bonds are secured by a mortgage on the hospital facility, the gross receipts of the Hospital and the assets restricted under the trust agreement. The 2016 Bonds were not guaranteed by the County.

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The trust agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as assets limited as to use held by trustee in the consolidated financial statements. The trust agreement also requires the Medical Center to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 115% and restrictions on incurrence of additional debt and transfers of assets.

- (B) Originally due May 9, 2019, a \$12,500,000 revolving line of credit, unsecured, which provides for interest at 3.24%. Draws on this line are for the purpose of capital improvements. On April 15, 2019, the line was refinanced into a 15-year loan due April 9, 2034, with monthly payments of \$88,018 including interest of 3.24%; secured by certain property and equipment.
- (C) Due October 1, 2018; 59 monthly payments of \$14,532 including interest of 2.99% and one balloon payment of \$2,108,361; secured by the Pain Center building and land and guaranteed by the System.
- (D) Due on demand, but if no demand, monthly payments of \$10,219 through June 1, 2023, with a balloon payment of \$1,368,416 at maturity; includes interest of 4.25% collateralized by certain property. The lender has formally acknowledged that the due-on-demand debt will not be called during the term of the notes as long as the regular monthly payments continue to be made on a timely basis. Therefore, at December 31, 2018 and 2017, the debt has been classified in accordance with its original stated maturity.
- (E) Due on demand, but if no demand, monthly payments of \$6,073 including interest of 2.75% are due through April 1, 2021; with a balloon payment of \$900,868 then due; secured by the Cancer Diagnostic Center building and land. The lender has formally acknowledged that the due-on-demand debt will not be called during the term of the notes as long as the regular monthly payments continue to be made on a timely basis. Therefore, at December 31, 2018 and 2017, the debt has been classified in accordance with its original stated maturity.
- (F) Due on demand, but if no demand, one single payment is due on January 31, 2020, with maximum available draw of \$1,615,000 and interest at 4.25%. As of December 31, 2018, \$701,258 was outstanding; collateralized by certain property. The lender has formally acknowledged that the due-on-demand debt will not be called during the term of the notes as long as the regular monthly payments continue to be made on a timely basis. Therefore, at December 31, 2018 and 2017, the debt has been classified in accordance with its original stated maturity.
- (G) Interest at 7.45%, due through December 2023; collateralized by certain equipment.
- (H) Due on demand, but if no demand, monthly payments of \$7,500 including interest of 2.75% are due through April 1, 2021; secured by the Cancer Diagnostic Center, equipment. The lender has formally acknowledged that the due-on-demand debt will not be called during the term of the notes as long as the regular monthly payments continue to be made on a timely basis.

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Therefore, at December 31, 2018 and 2017, the debt has been classified in accordance with its original stated maturity.

- (I) Due December 21, 2020; monthly payments are \$2,113 including interest of 2.99%; secured by certain Pain Center equipment.
- (J) Due November 29, 2018; to Banc of America Public Capital Corp; monthly payments are approximately \$84,000 including interest of 2.24%. The proceeds were used for the purchase of certain specified capital equipment that is required to serve as collateral. Note was paid in full in 2018.
- (K) Due October 1, 2018; monthly payments are \$4,900 including interest of 2.99%; secured by the Pain Center equipment. Note was paid in full in 2018.

Property and equipment include the following property under capital leases:

	2018	2017
Equipment	\$ 690,293	\$ 2,304,702
Less accumulated depreciation	-	2,304,702
	\$ 690,293	\$ 0

Aggregate annual maturities and sinking fund requirements of long-term debt at December 31, 2018, are:

2019	\$ 3,815,287
2020	4,831,926
2021	4,242,200
2022	4,678,152
2023	7,762,857
Thereafter	30,630,260
	\$ 55,960,682

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Note 9: Net Assets with Donor Restrictions

Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose		
Purchase of property and equipment	\$ 189,292	\$ 1,064,375
Scholarships	<u>544,515</u>	<u>653,723</u>
	<u>733,807</u>	<u>1,718,098</u>
Subject to passage of time		
For periods after December 31, 2018 and 2017	<u>2,016,512</u>	<u>2,316,624</u>
Endowments		
Subject to spending policy and appropriations		
Investments to be held in perpetuity, the income is expendable to support:		
Scholarships	6,750,724	7,443,450
Indigent care	217,342	248,529
Community health needs	<u>2,173,973</u>	<u>2,336,035</u>
	<u>9,142,039</u>	<u>10,028,014</u>
	<u>\$ 11,892,358</u>	<u>\$ 14,062,736</u>

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Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.

	2018	2017
Purposed restrictions accomplished		
Purchase of property and equipment	\$ 876,026	\$ -
Scholarships	395,480	382,425
Community health needs	40,613	22,136
Indigent care	291	1,618
	1,312,410	406,179
Time restrictions expired		
Death of annuity beneficiary	-	138,004
Total restrictions released	\$ 1,312,410	\$ 544,183

Note 10: Net Assets Without Donor Restrictions

The System's governing board has designated \$38,075,935 and \$44,245,713 at December 31, 2018 and 2017, respectively, from net assets without donor restrictions for future capital improvements, as well as \$170,211 and \$185,089 in 2018 and 2017, respectively, for endowment funds for the Hospital's Women's Health Education Center.

Note 11: Endowment

The System's endowment consists of approximately eight individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The System is subject to State of Arkansas Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions.

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The System's governing body has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the System considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The System has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

In addition, in accordance with SPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the System and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the System
7. Investment policies of the System

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The composition of net assets by type of endowment fund at December 31, 2018 and 2017, was:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 170,211	\$ -	\$ 170,211
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	7,339,186	7,339,186
Accumulated investment gains	-	1,802,853	1,802,853
Total endowment funds	<u>\$ 170,211</u>	<u>\$ 9,142,039</u>	<u>\$ 9,312,250</u>
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 185,089	\$ -	\$ 185,089
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	7,466,901	7,466,901
Accumulated investment gains	-	2,688,828	2,688,828
Total endowment funds	<u>\$ 185,089</u>	<u>\$ 10,155,729</u>	<u>\$ 10,340,818</u>

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Changes in endowment net assets for the years ended December 31, 2018 and 2017, were:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 185,089	\$ 10,155,729	\$ 10,340,818
Investment return, net	(14,878)	(482,658)	(497,536)
Contributions	-	20,000	20,000
Appropriation of endowment assets for expenditure	-	(551,032)	(551,032)
Endowment net assets, end of year	<u>\$ 170,211</u>	<u>\$ 9,142,039</u>	<u>\$ 9,312,250</u>
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 215,119	\$ 9,719,087	\$ 9,934,206
Investment return, net	16,698	829,123	845,821
Appropriation of endowment assets for expenditure	(46,728)	(392,481)	(439,209)
Endowment net assets, end of year	<u>\$ 185,089</u>	<u>\$ 10,155,729</u>	<u>\$ 10,340,818</u>

From time to time, fair value of assets associated with individual donor-restricted endowment funds may fall below the level the System is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA (underwater endowments). There were no underwater endowments at December 31, 2018 and 2017.

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the System must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. The System expects its endowment funds to provide an average rate of return of approximately 8% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the System relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The System targets a diversified asset allocation that places a greater emphasis on certificates of deposit and mutual fund investments to achieve its long-term return objectives within prudent risk constraints.

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The System has various spending policies that govern expenditures of investment returns on endowment funds. Spending policies for donor-restricted endowments are based on the purpose restrictions placed on any proceeds from endowment funds and generally specify a fixed amount of spending each year. Spending policies related to board-designated endowment funds vary based on the goals set for each endowment fund, but are generally designed to support the endowment's short-term goals while allowing sufficient reinvestment to appreciate each fund.

Note 12: Charity Care

In support of its mission, the System voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported in patient service revenue. In addition, the System provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts that are less than established charges for the services provided to the recipients, and many times the payments are less than the cost of rendering the services provided. Uncompensated charges relating to these services were \$3,259,068 and \$3,670,049 for the years ended December 31, 2018 and 2017, respectively. Management estimates that cost relating to these services was approximately \$980,000 and \$1,150,000 for the years ended December 31, 2018 and 2017, respectively, using a Medicare-based reasonable cost methodology.

In addition to uncompensated charges, the System also commits significant time and resources to endeavors and critical services that meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments, prenatal education and care, community educational services and various support groups.

Baxter Regional Health System
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Note 13: Functional Expenses

The System provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative and fundraising functional expense classifications based on the cost report breakout of depreciation expense to overhead departments and health care services. The following tables present the natural classification of expenses by function as follows:

	2018			
	Health Care Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 85,505,656	\$ 5,245,468	\$ 117,842	\$ 90,868,966
Employee benefits	22,824,147	1,406,262	-	24,230,409
Professional fees	13,741,982	1,943,966	-	15,685,948
Supplies and other	79,769,075	6,155,339	96,359	86,020,773
Depreciation	9,534,326	-	-	9,534,326
Interest	1,283,019	430,811	-	1,713,830
Total expenses	<u>\$ 212,658,205</u>	<u>\$ 15,181,846</u>	<u>\$ 214,201</u>	<u>\$ 228,054,252</u>

	2017			
	Health Care Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 76,742,115	\$ 4,788,672	\$ 105,869	\$ 81,636,656
Employee benefits	19,510,691	1,222,782	-	20,733,473
Professional fees	12,918,550	1,660,746	-	14,579,296
Supplies and other	69,483,449	6,141,504	99,697	75,724,650
Depreciation	9,347,754	-	-	9,347,754
Interest	1,270,927	439,274	-	1,710,201
Total expenses	<u>\$ 189,273,486</u>	<u>\$ 14,252,978</u>	<u>\$ 205,566</u>	<u>\$ 203,732,030</u>

Baxter Regional Health System
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Note 14: Liquidity and Availability

The System's financial assets available within one year of the balance sheet date for general expenditure are:

	<u>2018</u>	<u>2017</u>
Financial assets at year-end		
Cash	\$ 23,165,495	\$ 11,669,111
Short-term investments	9,978,874	13,761,566
Patient accounts receivable	21,041,918	22,944,585
Contributions receivable – current	238,409	220,266
Assets limited as to use	57,475,118	65,450,750
Long-term investments	273,667	167,590
Contributions receivable	449,306	296,653
	<u>112,622,787</u>	<u>114,510,521</u>
Less amounts not available to meet general expenditures within one year		
Board designated with liquidity horizons greater than one year	38,075,935	44,245,713
Donor restricted	12,399,083	14,263,906
Funds held by trustees	6,800,100	6,741,131
Long-term investments	273,667	167,590
Contributions receivable	449,306	296,653
Other restricted funds	200,000	200,000
	<u>58,198,091</u>	<u>65,914,993</u>
Financial assets not available to meet general expenditures within one year		
	<u>58,198,091</u>	<u>65,914,993</u>
Financial assets available to meet general expenditures within one year	<u>\$ 54,424,696</u>	<u>\$ 48,595,528</u>

The System has certain board-designated assets limited to use which are available for general expenditures within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above for financial assets to meet general expenditures within one year. The System has other assets limited to use for debt services. In addition, certain other board-designated assets are designated for future capital expenditures and an operating reserve. These assets limited to use, which are more fully described in *Notes 1, 4 and 14*, are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

As part of the System's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the System invests cash in excess of daily requirements in short-term investments.

Baxter Regional Health System
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Note 15: Operating Leases

The System leases equipment under various lease agreements. Total rent and lease expense was \$1,058,792 and \$2,007,780 for the years ended December 31, 2018 and 2017, respectively.

Note 16: Pension Plan

The System has a defined contribution pension plan covering substantially all employees. An employee who chooses to participate in the plan must make a minimum contribution of 2% of their salary during their first through third year of service, 2.5% during their fourth through fifth year of service and 3% after five years of service in order to receive a matching contribution from the System.

The System's matching contribution is 3%, 3.5% and 4% of the participant's salary during each of these time periods, respectively. Employees are 100% vested in the portion of their account accumulated from their contributions to the plan. Employees become fully vested in matching contributions after three years of service. Total pension expense, net of forfeitures utilized, for the years ended December 31, 2018 and 2017, was \$2,201,138 and \$2,043,682, respectively.

Note 17: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

Baxter Regional Health System
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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Equity mutual funds	\$ 119,723	\$ 119,723	\$ -	\$ -
Equity securities	12,811,499	12,811,499	-	-
Equity exchange-traded funds	26,741,191	26,741,191	-	-
Preferred stock	1,186,886	1,186,886	-	-
U.S. Treasury obligations	1,725,346	1,725,346	-	-
Mortgage-backed securities	5,048,112	-	5,048,112	-
Corporate debt securities	12,483,514	-	12,483,514	-
Other	871,369	372,039	-	499,330
Real estate held by the Foundation	2,583,388	-	-	2,583,388
Total	\$ 63,571,028	\$ 42,956,684	\$ 17,531,626	\$ 3,082,718
December 31, 2017				
Equity mutual funds	\$ 126,439	\$ 126,439	\$ -	\$ -
Equity securities	40,314,409	40,314,409	-	-
Equity exchange-traded funds	5,437,697	5,437,697	-	-
Preferred stocks	3,164,599	3,164,599	-	-
U.S. Treasury obligations	1,720,341	1,720,341	-	-
Mortgage-backed securities	4,994,308	-	4,994,308	-
Corporate debt securities	14,150,167	-	14,150,167	-
Other	1,024,472	450,550	-	573,922
Real estate held by the Foundation	2,448,388	-	-	2,448,388
Total	\$ 73,380,820	\$ 51,214,035	\$ 19,144,475	\$ 3,022,310

Baxter Regional Health System
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

The following is a reconciliation of investments carried at fair value and the System's total investments:

	<u>2018</u>	<u>2017</u>
Financial instruments carried at fair value	\$ 63,571,028	\$ 73,380,820
Financial instruments not carried at fair value:		
Cash and cash equivalents	3,221,400	4,252,006
Real estate held by the Medical Center	250,000	250,000
Certificates of deposit	617,372	893,073
Interest receivable	<u>67,859</u>	<u>64,584</u>
 Total System investments	 <u>\$ 67,727,659</u>	 <u>\$ 78,840,483</u>

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3. See the table below for inputs and valuation techniques used for Level 3 securities.

Level 3 Valuation Process

Fair value determinations for Level 3 measurements of securities are the responsibility of the controller's office. The controller's office contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. The controller's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Baxter Regional Health System
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Fair value determinations for Level 3 measurements of real estate held by the Foundation and beneficial interests in charitable remainder trusts are the responsibility of the controller's office. The controller's office contracts with a certified appraiser to generate fair value estimates for real estate upon purchases or when conditions indicate that previous measurements may no longer be reasonable. Management evaluates these conditions no less frequently than annually. The controller's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States. The controller's office determines the fair value estimates of beneficial interests in charitable remainder trusts based on a discounted cash flow model.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 3,022,310	\$ 3,340,019
Purchases	135,000	21,405
Sales	-	(384,000)
Total unrealized gains and (losses) included in change in net assets	<u>(74,592)</u>	<u>44,886</u>
Balance, end of year	<u>\$ 3,082,718</u>	<u>\$ 3,022,310</u>

Baxter Regional Health System
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring (Level 3) fair value measurements:

	Fair Value at 12/31/2018	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Beneficial interest in charitable remainder trusts	\$ 499,330	Discounted cash flow	Life expectancy of the beneficiary Expected rate of return	1.0–4.9 years (3.9 years) 2.0–2.1% (2.05%)
Real estate	\$ 2,583,388	Estimated based on comparable real estate transactions	Comparable real estate transactions	Various

	Fair Value at 12/31/2017	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Beneficial interest in charitable remainder trusts	\$ 573,922	Discounted cash flow	Life expectancy of the beneficiary Expected rate of return	0.8–5.9 years (3.4 years) 1.6–1.7% (1.65%)
Real estate	\$ 2,448,388	Estimated based on comparable real estate transactions	Comparable real estate transactions	Various

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Beneficial Interest in Charitable Remainder Trusts

The significant unobservable inputs used in the fair value measurement of the System’s beneficial interest in charitable remainder trusts are life expectancy of the beneficiaries and expected rates of return. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Those inputs are not interrelated.

Real Estate

The significant unobservable input used in the fair value measurement of the System’s real estate investment is comparable real estate transactions. Significant increases (decreases) in this input would result in a significantly higher (lower) fair value measurement.

Baxter Regional Health System
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Note 18: Significant Estimates and Concentrations

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

Professional Liability Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *7*.

Admitting Physicians

The System is served by an admitting physician group whose patients comprise approximately 11% of the System's inpatient admissions.

Litigation

In the normal course of business, the System is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the System's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The System evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters.

As of December 31, 2018 and 2017, the System did not record an estimated loss. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Investments

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Variable Consideration

Estimates of variable consideration in determining the transaction price for patient service revenue are described in *Notes 1* and *2*.

Baxter Regional Health System
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Note 19: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) has and will continue to substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system including many provisions that change payments from Medicare, Medicaid and insurance companies. A significant component of PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, have been substantially decreased. Each state's participation in an expanded Medicaid program is optional. The state of Arkansas has enacted a form of Medicaid expansion which uses the expansion funding to purchase private insurance policies on the health care exchanges for qualifying beneficiaries beginning January 1, 2014, originally called the Arkansas Private Option and now termed Arkansas Works.

Arkansas Works has been subject to annual reauthorization. In April 2016, Arkansas legislature reauthorized the Medicaid expansion with certain modifications through December 31, 2021, subject to annual budgetary reappropriation.

Note 20: Future Change in Accounting Principle

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019. The System is evaluating the effect the standard will have on the consolidated financial statements; however, the standard is expected to have a material effect on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

Baxter Regional Health System
Consolidating Schedule – Balance Sheet Information
December 31, 2018

Assets	Baxter County Regional Hospital, Inc.	Hospice of the Ozarks, Inc.	Hospital Development Foundation, Inc.	Baxter Regional Health System
Current Assets				
Cash	\$ 18,861,426	\$ 2,784,329	\$ 989,464	\$ 76,149
Short-term investments	-	9,140,468	838,406	-
Assets limited as to use – current	1,725,346	-	-	-
Patient accounts receivable	20,484,360	274,890	-	-
Supplies	7,966,406	-	-	-
Prepaid expenses and other	2,065,319	-	2,000	-
Contributions receivable – current	-	-	238,409	-
Due from affiliates	1,445,194	-	-	162,409
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	52,548,051	12,199,687	2,068,279	238,558
Assets Limited as to Use				
Internally designated for capital improvements	37,958,429	117,506	-	-
Externally restricted by donors	196,751	-	12,202,332	-
Held by trustee under indenture agreement	6,800,100	-	-	-
Other	200,000	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	45,155,280	117,506	12,202,332	0
Less amount required to meet current obligations	1,725,346	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	43,429,934	117,506	12,202,332	0
Investments in and Advances to Equity Investees				
	93,000	-	-	54,363
Property and Equipment, at Cost				
Land and land improvements	6,245,719	100,315	20,000	515,754
Buildings and leasehold improvements	74,834,519	2,094,777	-	2,145,168
Equipment	128,335,498	1,603,232	29,359	743,831
Construction in progress	1,029,919	588,570	-	1,058,517
	<hr/>	<hr/>	<hr/>	<hr/>
	210,445,655	4,386,894	49,359	4,463,270
Less accumulated depreciation	152,740,210	2,442,839	29,359	497,982
	<hr/>	<hr/>	<hr/>	<hr/>
	57,705,445	1,944,055	20,000	3,965,288
Other Assets				
Long-term investments	-	-	273,667	-
Contributions receivable	-	-	449,306	-
Other	29,515	55,983	47,901	-
	<hr/>	<hr/>	<hr/>	<hr/>
	29,515	55,983	770,874	0
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 153,805,945	\$ 14,317,231	\$ 15,061,485	\$ 4,258,209

	BRMC Hometown Clinics, Inc.	BRMC Pain Center, LLC	Baxter Physician Partners, LLC	BRMC Cancer Diagnostic Center	Eliminations	Consolidated
\$	70,888	\$ 156,917	\$ 133,300	\$ 93,022	\$ -	\$ 23,165,495
	-	-	-	-	-	9,978,874
	-	-	-	-	-	1,725,346
	282,668	-	-	-	-	21,041,918
	-	-	-	-	-	7,966,406
	-	136	84,873	-	-	2,152,328
	-	-	-	-	-	238,409
	-	-	19,337	-	(1,626,940)	0
	<u>353,556</u>	<u>157,053</u>	<u>237,510</u>	<u>93,022</u>	<u>(1,626,940)</u>	<u>66,268,776</u>
	-	-	-	-	-	38,075,935
	-	-	-	-	-	12,399,083
	-	-	-	-	-	6,800,100
	-	-	-	-	-	200,000
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>57,475,118</u>
	-	-	-	-	-	1,725,346
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>55,749,772</u>
	-	-	-	-	-	147,363
	-	630,000	-	380,000	-	7,891,788
	-	2,019,108	-	740,000	-	81,833,572
	28,406	389,686	-	436,000	-	131,566,012
	-	-	-	-	-	2,677,006
	<u>28,406</u>	<u>3,038,794</u>	<u>0</u>	<u>1,556,000</u>	<u>0</u>	<u>223,968,378</u>
	13,745	624,890	-	294,595	-	156,643,620
	<u>14,661</u>	<u>2,413,904</u>	<u>0</u>	<u>1,261,405</u>	<u>0</u>	<u>67,324,758</u>
	-	-	-	-	-	273,667
	-	-	-	-	-	449,306
	-	-	-	-	-	133,399
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>856,372</u>
\$	<u>368,217</u>	<u>\$ 2,570,957</u>	<u>\$ 237,510</u>	<u>\$ 1,354,427</u>	<u>\$ (1,626,940)</u>	<u>\$ 190,347,041</u>

Baxter Regional Health System
Consolidating Schedule – Balance Sheet Information (Continued)
December 31, 2018

Liabilities and Net Assets	Baxter County Regional Hospital, Inc.	Hospice of the Ozarks, Inc.	Hospital Development Foundation, Inc.	Baxter Regional Health System
Current Liabilities				
Current maturities of long-term debt	\$ 3,507,950	\$ -	\$ -	\$ 54,707
Accounts payable	11,586,180	69,319	507,627	236,138
Accrued expenses	11,754,675	-	-	-
Accrued interest	664,373	-	-	-
Estimated amounts due to third-party payors	4,181,738	-	-	-
Due to affiliate	-	217,710	36,114	1,097,709
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	31,694,916	287,029	543,741	1,388,554
	<hr/>	<hr/>	<hr/>	<hr/>
Long-term Debt	49,907,740	-	-	2,270,152
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	81,602,656	287,029	543,741	3,658,706
	<hr/>	<hr/>	<hr/>	<hr/>
Net Assets				
Without donor restrictions				
Baxter Regional Health System	72,006,525	14,030,202	2,822,150	599,503
Noncontrolling interest	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets without donor restrictions	72,006,525	14,030,202	2,822,150	599,503
	<hr/>	<hr/>	<hr/>	<hr/>
With donor restrictions	196,764	-	11,695,594	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	72,203,289	14,030,202	14,517,744	599,503
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	\$ 153,805,945	\$ 14,317,231	\$ 15,061,485	\$ 4,258,209
	<hr/>	<hr/>	<hr/>	<hr/>

BRMC Hometown Clinics, Inc.	BRMC Pain Center, LLC	Baxter Physician Partners, LLC	BRMC Cancer Diagnostic Center	Eliminations	Consolidated
\$ -	\$ 124,839	\$ -	\$ 127,791	\$ -	\$ 3,815,287
9,387	1,480	51,224	-	-	12,461,355
-	-	68,000	-	-	11,822,675
-	-	-	-	-	664,373
-	-	-	-	-	4,181,738
162,407	-	113,000	-	(1,626,940)	0
171,794	126,319	232,224	127,791	(1,626,940)	32,945,428
-	2,014,839	-	1,079,263	-	55,271,994
171,794	2,141,158	232,224	1,207,054	(1,626,940)	88,217,422
196,423	219,197	5,286	75,160	-	89,954,446
-	210,602	-	72,213	-	282,815
196,423	429,799	5,286	147,373	0	90,237,261
-	-	-	-	-	11,892,358
196,423	429,799	5,286	147,373	0	102,129,619
\$ 368,217	\$ 2,570,957	\$ 237,510	\$ 1,354,427	\$ (1,626,940)	\$ 190,347,041

Baxter Regional Health System
Consolidating Schedule – Statement of Operations Information
Year Ended December 31, 2018

	Baxter County Regional Hospital, Inc.	Hospice of the Ozarks, Inc.	Hospital Development Foundation, Inc.	Baxter Regional Health System
Revenues, Gains and Other Support				
Without Donor Restrictions				
Patient service revenue	\$ 221,533,888	\$ 3,654,047	\$ -	\$ -
Other	1,817,680	-	-	146,601
Contributions received	1,131,111	582,863	1,465,792	-
Net assets released from restrictions used for operations	-	-	436,384	-
Total revenues, gains and other support without donor restrictions	<u>224,482,679</u>	<u>4,236,910</u>	<u>1,902,176</u>	<u>146,601</u>
Expenses and Losses				
Salaries and wages	86,960,316	2,012,959	175,275	-
Employee benefits	23,502,347	517,461	38,982	-
Professional fees	15,368,589	85,321	-	4,454
Supplies and other	83,605,174	1,187,490	1,855,587	62,963
Depreciation and amortization	8,994,787	116,332	-	234,772
Interest	1,567,725	-	-	34,918
Total expenses and losses	<u>219,998,938</u>	<u>3,919,563</u>	<u>2,069,844</u>	<u>337,107</u>
Operating Income (Loss)	<u>4,483,741</u>	<u>317,347</u>	<u>(167,668)</u>	<u>(190,506)</u>
Other Income (Expense)				
Investment return, net	3,956,111	1,053,858	166,689	-
Other, net	(102,344)	-	-	-
Total other income (expense)	<u>3,853,767</u>	<u>1,053,858</u>	<u>166,689</u>	<u>0</u>
Excess (Deficiency) of Revenues over Expenses	8,337,508	1,371,205	(979)	(190,506)
Investment return – change in unrealized gains and losses on other-than-trading securities	(6,887,496)	(2,288,099)	(281,330)	-
Contributions from Hospital Development Foundation, Inc. for purchase of property and equipment	973,484	-	(973,484)	-
Contributions of or for purchase of property and equipment	-	26,000	340,290	-
Net assets released from restriction for purchase of property and equipment	-	-	876,026	-
Transfers (to) from affiliates	(1,939,556)	-	-	-
Increase (Decrease) in Net Assets Without Donor Restrictions	<u>\$ 483,940</u>	<u>\$ (890,894)</u>	<u>\$ (39,477)</u>	<u>\$ (190,506)</u>

	BRMC Hometown Clinics, Inc.	BRMC Pain Center, LLC	Baxter Physician Partners, LLC	BRMC Cancer Diagnostic Center	Eliminations	Consolidated
\$	1,458,805	\$ -	\$ -	\$ -	\$ -	\$ 226,646,740
	-	404,820	877,963	214,082	(1,287,163)	2,173,983
	-	-	-	-	(1,141,426)	2,038,340
	-	-	-	-	-	436,384
	<u>1,458,805</u>	<u>404,820</u>	<u>877,963</u>	<u>214,082</u>	<u>(2,428,589)</u>	<u>231,295,447</u>
	1,438,835	-	281,582	-	-	90,868,967
	99,142	-	72,476	-	-	24,230,408
	22,239	3,245	200,175	1,925	-	15,685,948
	793,185	106,531	323,730	28,654	(1,942,541)	86,020,773
	5,355	84,556	-	98,524	-	9,534,326
	-	75,912	-	35,275	-	1,713,830
	<u>2,358,756</u>	<u>270,244</u>	<u>877,963</u>	<u>164,378</u>	<u>(1,942,541)</u>	<u>228,054,252</u>
	<u>(899,951)</u>	<u>134,576</u>	<u>0</u>	<u>49,704</u>	<u>(486,048)</u>	<u>3,241,195</u>
	8	-	-	-	(91,622)	5,085,044
	-	-	-	-	-	(102,344)
	<u>8</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(91,622)</u>	<u>4,982,700</u>
	(899,943)	134,576	0	49,704	(577,670)	8,223,895
	-	-	-	-	-	(9,456,925)
	-	-	-	-	-	0
	-	-	-	-	-	366,290
	-	-	-	-	-	876,026
	<u>1,361,886</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>577,670</u>	<u>0</u>
\$	<u>461,943</u>	\$ <u>134,576</u>	\$ <u>0</u>	\$ <u>49,704</u>	\$ <u>0</u>	\$ <u>9,286</u>

Baxter Regional Health System
Consolidating Schedule – Statement of Changes in Net Assets Information
Year Ended December 31, 2018

	Baxter County Regional Hospital, Inc.	Hospice of the Ozarks, Inc.	Hospital Development Foundation, Inc.	Baxter Regional Health System
Net Assets Without Donor Restrictions				
Excess (deficiency) of revenues over expenses	\$ 8,337,508	\$ 1,371,205	\$ (979)	\$ (190,506)
Contributions from Hospital Development Foundation, Inc. for property acquisition	973,484	-	(973,484)	-
Investment return – change in unrealized gains and losses on other-than-trading securities	(6,887,496)	(2,288,099)	(281,330)	-
Net assets released from restriction for purchase of property and equipment	-	-	876,026	-
Contributions of or for acquisition of property and equipment	-	26,000	340,290	-
Transfers (to) from affiliates	(1,939,556)	-	-	-
	<u>483,940</u>	<u>(890,894)</u>	<u>(39,477)</u>	<u>(190,506)</u>
Net Assets with Donor Restrictions				
Contributions received	-	-	87,146	-
Investment return, net	962	-	(946,076)	-
Net assets released from restriction	-	-	(1,312,410)	-
	<u>962</u>	<u>0</u>	<u>(2,171,340)</u>	<u>0</u>
Change in Net Assets	484,902	(890,894)	(2,210,817)	(190,506)
Net Assets, Beginning of Year	<u>71,718,387</u>	<u>14,921,096</u>	<u>16,728,561</u>	<u>790,009</u>
Net Assets, End of Year	<u>\$ 72,203,289</u>	<u>\$ 14,030,202</u>	<u>\$ 14,517,744</u>	<u>\$ 599,503</u>

BRMC Hometown Clinics, Inc.	BRMC Pain Center, LLC	Baxter Physician Partners, LLC	BRMC Cancer Diagnostic Center, LLC	Eliminations	Consolidated
\$ (899,943)	\$ 134,576	\$ -	\$ 49,704	\$ (577,670)	\$ 8,223,895
-	-	-	-	-	0
-	-	-	-	-	(9,456,925)
-	-	-	-	-	876,026
-	-	-	-	-	366,290
1,361,886	-	-	-	577,670	0
<u>461,943</u>	<u>134,576</u>	<u>0</u>	<u>49,704</u>	<u>-</u>	<u>9,286</u>
-	-	-	-	-	87,146
-	-	-	-	-	(945,114)
-	-	-	-	-	(1,312,410)
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,170,378)</u>
461,943	134,576	0	49,704	0	(2,161,092)
<u>(265,520)</u>	<u>295,223</u>	<u>5,286</u>	<u>97,669</u>	<u>-</u>	<u>104,290,711</u>
<u>\$ 196,423</u>	<u>\$ 429,799</u>	<u>\$ 5,286</u>	<u>\$ 147,373</u>	<u>\$ 0</u>	<u>\$ 102,129,619</u>