



Consolidated Financial Statements,  
Supplementary Information and Report  
of Independent Certified Public  
Accountants

**Beebe Medical Center, Inc.**  
**d/b/a Beebe Healthcare**

June 30, 2019 and 2018



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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors  
Beebe Medical Center, Inc.  
d/b/a Beebe Healthcare

We have audited the accompanying consolidated financial statements of Beebe Medical Center, Inc., d/b/a Beebe Healthcare (“the System”), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and 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.

**Auditors’ 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 System’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 System’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 consolidated financial position of Beebe Medical Center, Inc. as of June 30, 2019 and 2018, and the results of its operations, changes in its net assets, and its 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 B to the consolidated financial statements, during the year ended June 30, 2019, the System adopted the following Accounting Standards Updates: 2014-09, *Revenue from Contracts with Customers*; 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*; and 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

**Supplementary information**

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information as of June 30, 2019, and for the year then ended is presented for the purpose of additional analysis, rather than to present the financial position, results of operations and changes in net assets, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures. These additional procedures include comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



Philadelphia, Pennsylvania  
November 14, 2019

Beebe Medical Center, Inc.

CONSOLIDATED BALANCE SHEETS

June 30,

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 77,246,699	\$ 65,214,085
Patient accounts receivable	52,904,919	44,059,962
Current portion of assets limited as to use	5,630,116	-
Prepaid expenses and other current assets	<u>18,982,347</u>	<u>18,117,968</u>
Total current assets	154,764,081	127,392,015
Assets limited as to use		
Board designated funds	84,077,275	78,831,114
Under bond indenture agreement	151,076,904	144,040
Collateral funds for line of credit	8,272,229	7,713,605
Donor-restricted funds	<u>25,691,364</u>	<u>16,925,197</u>
Subtotal	269,117,772	103,613,956
Other board designated assets - land	1,838,339	1,838,339
Donor-restricted pledges receivable, net	7,841,238	10,197,003
Assets held in charitable remainder trust	681,250	672,432
Beneficial interest in perpetual trust	<u>326,784</u>	<u>336,878</u>
Total assets limited as to use, less current portion	279,805,383	116,658,608
Property and equipment, net	162,470,450	143,569,850
Other assets	<u>12,827,912</u>	<u>11,413,139</u>
Total assets	<u>\$ 609,867,826</u>	<u>\$ 399,033,612</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 52,302,971	\$ 45,936,651
Estimated third-party payor settlements	7,407,087	7,169,716
Current portion of long-term debt	<u>3,261,753</u>	<u>3,593,150</u>
Total current liabilities	62,971,811	56,699,517
Accrued retirement benefits	55,582,718	50,475,182
Other liabilities	19,755,449	16,694,570
Long-term debt, less current portion	<u>219,501,474</u>	<u>44,339,089</u>
Total liabilities	357,811,452	168,208,358
Net assets		
Net assets without donor restrictions	219,448,862	204,427,346
Net assets with donor restrictions	<u>32,607,512</u>	<u>26,397,908</u>
Total net assets	<u>252,056,374</u>	<u>230,825,254</u>
Total liabilities and net assets	<u>\$ 609,867,826</u>	<u>\$ 399,033,612</u>

The accompanying notes are an integral part of these statements.

**Beebe Medical Center, Inc.**

**CONSOLIDATED STATEMENTS OF OPERATIONS  
AND CHANGES IN NET ASSETS**

**For the year ended June 30,**

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions		
Revenues		
Patient service revenue	\$ 442,274,765	\$ 414,609,487
Other revenues	5,545,870	4,274,684
Net assets released from restrictions used for operations	<u>19,903</u>	<u>805,898</u>
Total revenues	447,840,538	419,690,069
Expenses		
Salaries and benefits, physician fees, and contract labor	247,679,430	236,656,007
Medical, surgical, and patient-related supplies and services	98,300,811	87,608,831
Repairs, maintenance and utilities	16,732,360	16,319,925
Other	47,787,109	46,418,330
Depreciation and amortization	20,448,781	20,035,357
Interest	<u>1,191,831</u>	<u>1,328,688</u>
Total expenses	<u>432,140,322</u>	<u>408,367,138</u>
Income from operations	15,700,216	11,322,931
Nonoperating gains (losses)		
Contributions	293,425	267,684
Investment return, net	6,492,923	5,876,962
Other accrued retirement costs	<u>170,659</u>	<u>(4,106,861)</u>
Total nonoperating gains, net	<u>6,957,007</u>	<u>2,037,785</u>
Excess of revenues and gains over expenses and losses	22,657,223	13,360,716

*(Continues on following page.)*

**Beebe Medical Center, Inc.**

**CONSOLIDATED STATEMENTS OF OPERATIONS  
AND CHANGES IN NET ASSETS - CONTINUED**

**For the year ended June 30,**

	2019	2018
Excess of revenues and gains over expenses and losses <i>(continued from previous page)</i>	\$ 22,657,223	\$ 13,360,716
Other changes in net assets without donor restrictions		
Net assets released from restrictions used for property and equipment purchases	125,385	521,253
Other changes in accrued retirement benefits	(7,756,054)	27,965,248
Other	(5,038)	11,985
Increase in net assets without donor restrictions	15,021,516	41,859,202
Net assets with donor restrictions		
Contributions	5,691,725	13,964,693
Investment return, net	664,443	327,505
Change in value of beneficial interests in charitable remainder and perpetual trusts	(1,276)	9,081
Net assets released from restrictions used for:		
Property and equipment purchases	(125,385)	(521,253)
Operations	(19,903)	(805,898)
Increase in net assets with donor restrictions	6,209,604	12,974,128
Increase in net assets	21,231,120	54,833,330
Net assets, beginning of year	230,825,254	175,991,924
Net assets, end of year	\$ 252,056,374	\$ 230,825,254

The accompanying notes are an integral part of these statements.

**Beebe Medical Center, Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the year ended June 30,**

	2019	2018
Cash flows from operating activities		
Increase in net assets	\$ 21,231,120	\$ 54,833,330
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Other changes in accrued retirement benefits	7,756,054	(27,965,248)
Depreciation, amortization and other	20,445,090	20,273,719
Restricted contributions, net	(5,691,725)	(13,964,693)
Change in values of remainder trusts and beneficial interest in perpetual trust	1,276	(37,800)
Loss (gains) on disposition of property and equipment	296,861	(265,896)
Equity loss on unconsolidated joint venture	165,739	-
Net realized and unrealized gains on investments	(4,420,261)	(4,085,033)
Changes in operating assets and liabilities		
Patients accounts receivable	(8,844,957)	(2,117,666)
Prepaid expenses and other current assets	(864,379)	(4,330,230)
Accounts payable and other accrued expenses	4,177,087	6,214,737
Estimated third-party payor settlements	237,371	(4,350,455)
Other assets	(1,580,512)	(751,886)
Net cash provided by operating activities	32,908,764	23,452,879
Cash flows from investing activities		
Purchase of property and equipment	(37,120,049)	(19,998,075)
Net purchases of investments and assets limited as to use	(166,713,671)	(6,536,800)
Net cash used in investing activities	(203,833,720)	(26,534,875)
Cash flows from financing activities		
Proceeds from restricted contributions	8,047,490	5,470,202
Payments of long-term debt	(3,599,730)	(4,837,976)
Proceeds from issuance of long-term debt	179,937,451	-
Payments of deferred financing costs	(1,427,641)	-
Net cash provided by financing activities	182,957,570	632,226
Net increase (decrease) in cash and cash equivalents	12,032,614	(2,449,770)
Cash and cash equivalents		
Beginning of year	65,214,085	67,663,855
End of year	\$ 77,246,699	\$ 65,214,085
Supplemental noncash investing activities		
Change in property and equipment acquired through accounts payable	\$ 2,411,692	\$ (1,852,324)
Supplemental noncash financing activities		
Assets and liabilities acquired through capital lease obligations	\$ 114,501	\$ 1,997,588
Supplementary cash flow information		
Cash paid for interest, net of capitalized interest	\$ 1,384,583	\$ 1,303,254

The accompanying notes are an integral part of these statements.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**NOTE A - ORGANIZATION AND BASIS OF PRESENTATION**

***Organization***

Beebe Medical Center, Inc., d/b/a Beebe Healthcare (the "Medical Center") is a not-for-profit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is incorporated in Delaware. The Medical Center, located in Lewes, Delaware, is the sole member of the following affiliates: Delmarva Health Network, LLC ("DHN"), Beebe Physician Network, d/b/a Beebe Medical Group ("BPN"), and Beebe Medical Foundation (the "Foundation"), collectively, "the System." The System generally treats patients from Sussex County, Delaware and surrounding areas.

DHN, a Delaware Limited Liability Company, organized as a clinically integrated network, is treated as a disregarded entity for Federal tax purposes as its operations are covered under the Federal tax exemption of the Medical Center.

BPN is a not-for-profit tax-exempt corporation that operates a physician network providing integrated physician services in coordination with the Medical Center. BPN operates a hospitalist program, 12 primary care practices, 4 walk-in offices, 3 wellness centers and 13 specialty practices, and employs 72 physicians as of June 30, 2019.

The Foundation is a not-for-profit, tax-exempt corporation, which engages in fundraising activities solely for the benefit of the Medical Center.

The consolidated financial statements of Beebe Medical Center, Inc. include the Medical Center, DHN, BPN and the Foundation. All significant inter-company transactions and accounts have been eliminated.

***Basis of Presentation***

The accompanying consolidated financial statements and supplementary consolidating information have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Recently Adopted Accounting Pronouncements***

Effective July 1, 2018, the System adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606) ("ASU 2014-09"), using the full retrospective method of application to all contracts existing on July 1, 2017. The core principle of the standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of the standard had no impact on the System's current or historical financial position, results of operations or cash flows. Additionally, management does not anticipate that the standard will have an impact on the amount or timing of when the System recognizes revenue prospectively. However, in accordance with the standard, the System now recognizes its previously reported provision for bad debts, primarily related to its self-pay patient population, as a direct reduction to revenues as an implicit pricing concession, instead of separately as a discrete deduction to arrive at patient service revenue. The System's revenue recognition and accounts receivable policies are more fully described in Notes B and D.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Effective July 1, 2018, the System adopted FASB ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This standard makes targeted improvements to how entities: (1) account for equity investments; (2) present and disclose financial instruments; and (3) measure the valuation allowance on deferred tax assets related to available-for-sale debt securities. The standard has been applied retrospectively to all years presented and resulted in the presentation of unrealized gains and losses on investments as a component of excess of revenues and gains over expenses and losses within the consolidated statements of operations and changes in net assets for both the years ended June 30, 2019 and 2018.

Effective July 1, 2018, the System adopted FASB ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard makes certain improvements to the reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the previously required three classes, as well as the annual change in each of the two classes; (2) information about liquidity and the availability of resources; and (3) addressing the lack of consistency with expenses and investment return. The System's consolidated financial statements have been adjusted to reflect the new requirements. The standard has been applied retrospectively, to all years presented, except for functional expenses which is only presented for 2019.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions are used in the recording of patient accounts receivable and patient service revenue, useful lives of property and equipment, actuarial estimates for accrued retirement benefits, professional liability and workers' compensation costs, the asset retirement obligation and the reported fair values of certain of the assets and liabilities. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

Cash and cash equivalents include investments in highly-liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by board designation or donor restrictions or other arrangements under trust agreements.

***Prepaid Supplies***

Prepaid supplies are valued at cost using the first-in first-out costing method and represent approximately 6% and 5%, respectively, of total current assets at June 30, 2019 and 2018.

***Investments***

Investments in equity and debt securities, including mutual funds and exchange-traded funds, with readily-determinable fair values are measured at fair value. Fair values are based on quoted market prices. Investment income on assets limited as to use under bond indenture agreements is recorded as other revenue. All other investment income and realized and unrealized gains and losses on investments are recorded as nonoperating gains and losses, or as a change to donor restricted net assets, if such income is restricted by the donor.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is 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 consolidated financial statements.

***Assets Limited as to Use***

Assets limited as to use by the Board of Directors (the "Board") are resources that have been designated by the Board for specific purposes. Assets limited as to use under bond indenture agreements are held by a trustee for the purchase of property and equipment. Assets limited as to use for collateral funds are held in a separate account as collateral for the line of credit (Note J). Assets limited as to use externally restricted by donors are held until the donor restrictions have been met. Other board designated assets of \$1,838,339 at both June 30, 2019 and 2018 are comprised of the adjusted cost of land held for sale.

***Property and Equipment***

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method, with depreciation beginning the month the asset is put into service. Interest costs associated with the construction of certain property and equipment is capitalized and amortized over the life of the asset being depreciated. For the year ended June 30, 2019, \$3,715,517 of interest was capitalized, reduced by \$2,220,862 of interest income on bond proceeds held for future construction costs. There was no interest capitalized for the year ended June 30, 2018. The range for depreciation is as follows:

Land improvements	3 - 21 years
Buildings and fixed equipment	10 - 50 years
Moveable equipment	3 - 20 years

Capital leases are recognized as an asset and also as a liability for future payments to be made on the leased asset in the month the equipment is put into service. The lease is recognized on the consolidated statements of operations and changes in net assets through depreciation expense and interest expense associated with the lease payment. All of the capital leases are included in movable equipment.

Gifts of long-lived assets such as land, building or equipment are reported as support without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used and are recorded at fair value on the date of the gift. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and unspent gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

***Beneficial Interest in Perpetual Trust and Assets Held in Charitable Remainder Trust***

Beneficial interest in perpetual trust represents the System's beneficial interest in a perpetual trust, which is administered by an independent trustee and is reported as part of net asset with donor restrictions. The System has several charitable remainder trust arrangements with donors, the terms of which generally provide for an annual distribution to a donor beneficiary for their lifetime, after which the assets are distributed to the System. Assets held in charitable trusts have been recorded net of estimated present value of expected future cash flows to be paid to the beneficiary.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Deferred Financing Costs***

Deferred financing costs are amortized over the life of the related bond issue. Amortization of \$193,593 and \$56,027 for the years ended June 30, 2019 and 2018, respectively, was recognized and is presented as part of interest expense on the statements of operations and changes in net assets.

***Goodwill***

Other assets includes goodwill of \$3,104,085 at both June 30, 2019 and 2018.

The System performs an annual goodwill impairment assessment. Management has performed a goodwill step zero analysis in accordance with US GAAP. This approach does not require a calculation of the fair value of the System, rather a qualitative analysis of the operational and economic factors. If any of these assumptions change, the resulting decline in the estimated fair value could result in a material impairment charge to goodwill. No impairment charge is required at June 30, 2019, the date the assessment was performed.

***Investment in Premier, Inc.***

The System owns 172,074 Class B Common Shares of Premier, Inc., a publicly traded health care consulting and group purchasing organization. As part of the Amended and Restated Limited Partnership Agreement and Exchange Agreement between the System and Premier, Inc., the System has the right to exchange its Class B Common Shares for Class A Common shares of Premier, Inc. on a one-to-one basis vesting annually for a seven-year period beginning October 31, 2014. The System has not exchanged any Class B Common Shares to Class A Common Shares to date. The fair value of this vesting feature at June 30, 2019 and 2018 is \$4,928,189 and \$3,966,787, respectively, and is included in other assets.

***Medical Malpractice Insurance***

The System is insured for medical malpractice incidents through a claims-made policy. The provision for estimated medical malpractice claims includes actuarially determined estimates of the ultimate costs for both reported claims and incurred but not reported claims.

***Patient Service Revenue***

In accordance with ASU 2014-09, patient service revenue is reported at the amounts that reflect the consideration to which the System is expected to be entitled to in exchange for providing patient care for both the hospital and any employed physicians. These amounts are due from patients, third-party payors (including managed care organizations and government programs, i.e., Medicare and Medicaid), and others and they included variable consideration for retroactive adjustments due to settlement of future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Generally, patients and third-party payors are billed several days after the services are performed or shortly after discharge. Patient service revenue is recognized in the period in which the performance obligations are satisfied under contracts by transferring services to customers.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Performance obligations are determined based on the nature of the services provided. The System recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. The System believes that this method provides an appropriate depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations are satisfied over time related to patients receiving inpatient acute care services. The System measures performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. The System recognizes revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving physician outpatient services, when: (1) services are provided; and (2) when it is believed the patient does not require additional services.

***Other Revenues***

Other operating revenues consists mainly of income received from the operation of an employee cafeteria and deli, an adult daycare center, tuition for the school of nursing, property rentals, wellness clinics at local high schools and distributions from group purchasing organizations. Income is recognized as services are performed.

***Excess of Revenues and Gains over Expenses and Losses***

The consolidated statements of operations and changes in net assets include the excess of revenues and gains over expenses and losses. Other changes in net assets without donor restrictions excluded from excess of revenues and gains over expenses and losses, consistent with industry practice, include net assets released from restriction for property and equipment, and other changes in accrued retirement benefits.

***Net Assets with Donor Restrictions***

Net assets with donor restrictions are those whose use are limited by donors to fund the acquisition of specific property and equipment expansion projects (Beebe Capital Campaign) including donor-restricted pledges, and those that have been restricted by a donor to be maintained in perpetuity. Changes in net assets with donor restrictions include investment gains and losses, contributions, change in value of beneficial interests in charitable and remainder trusts, and net assets released from restrictions for property and equipment purchases or operations.

***Donor-Restricted Gifts***

Unconditional promises to give cash and other assets are reported at fair value at the date the promise to give is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from donor restrictions.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Donor-restricted pledges receivable at June 30, 2019 and 2018, follows:

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	\$ 318,230	\$ 382,956
One year to five years	8,928,422	11,476,865
	9,246,652	11,859,821
Less: unamortized discounts and allowance on pledges receivable	(1,405,414)	(1,662,818)
	\$ 7,841,238	\$ 10,197,003

Pledges receivable over more than one year are discounted using a discount rate of 4.5% applicable to the year in which the pledge was made.

On July 12, 2017, the System received a \$10,000,000 pledge from the Ma-Ran Foundation for the Beebe Capital Campaign. Payments of \$4,047,011 have been received through June 30, 2019. The remaining gross balance of \$5,952,989 is committed to be paid over the next three years.

***Fair Value Measurements***

US GAAP defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The System is required to provide additional disclosures as part of its consolidated financial statements.

US GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. US GAAP also establishes a fair value hierarchy that classifies the inputs to valuation techniques used to measure fair value into one of the following three levels:

- Level 1    Unadjusted quoted prices in active markets for identical assets, exchange-traded securities and mutual funds with quoted prices or liabilities.
- Level 2    Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3    Unobservable inputs derived from extrapolation or interpolation that cannot be substantiated by market data including other investment manager specific inputs such as projected cash flows.

***Tax Status***

The System follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The System does not believe its consolidated financial statements include any material uncertain tax positions. At June 30, 2019, the System's tax years ended June 30, 2016 through 2019 for the federal tax jurisdiction remain open.

***Reclassifications***

Certain amounts in the 2018 consolidated financial statements have been reclassified to be consistent with the 2019 presentation, primarily due to the recently adopted accounting pronouncements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Pending Accounting Pronouncement***

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. Early application is permitted. An entity is required to apply the amendments in the standard under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current US GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. The System is evaluating the impact of this new standard at this time.

**NOTE C - CHARITY CARE**

The System provides care to patients who meet certain criteria under its charity care policy at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, and the estimated cost of those services and supplies using a cost-to-charge ratio.

The cost of charity care provided is estimated at \$3,294,000 and \$2,876,000 for the years ended June 30, 2019 and 2018, respectively.

**NOTE D - PATIENT ACCOUNTS RECEIVABLE AND PATIENT SERVICE REVENUE**

***Patient Accounts Receivable***

Under the provisions of ASU 2014-09, when there is an unconditional right to payment, subject only to the passage of time, the right is treated as a receivable. Patient accounts receivable, including billed accounts and unbilled accounts, which have the unconditional right to payment, and estimated amounts due from third-party payers for retroactive adjustments, are recorded as receivables since the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. The estimated uncollectible amounts are generally considered implicit price concessions that are recorded as a direct reduction to patient accounts receivable rather than an allowance for doubtful accounts.

***Patient Service Revenue***

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. A summary of the payment arrangements of the third-party payors within which the System transacts a significant volume of business follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

**NOTE D - PATIENT ACCOUNTS RECEIVABLE AND PATIENT SERVICE REVENUE - Continued**

*Medicare and Medicaid*

Inpatient acute care services rendered to and defined capital costs related to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors based on a DRG (Diagnostic Classification Groupings). Outpatient payments are primarily based on a combination of prospectively determined ambulatory payment classifications and fee schedules referred to as APCs. Nursing education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology subject to certain limitations. The System is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary. The Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through June 30, 2016.

Delaware Health and Social Services has contracted with two managed care companies for the provision of health care services to Medicaid beneficiaries. The two managed care companies have, in turn, contracted with the System for the provision of physician, acute inpatient and outpatient services under which the System is generally paid based upon inpatient case rates, subject to outlier payments, outpatient and emergency as a percentage of the State of Delaware Medicaid rates, and physician services based on a fee schedule. All reimbursement rates are based on a percentage of the State of Delaware Medicaid reimbursement.

The transaction price related to patient service revenues is estimated using the expected value method taking into account any adjustments that may result from the final settlement of Medicare and Medicaid cost reports. Patient service revenue increased by \$214,777 and \$5,351,582 for the years ended June 30, 2019 and 2018, respectively, as a result of favorable adjustments and settlements to estimates previously recorded applicable to prior-year third-party cost reports.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation, and noncompliance could result in significant regulatory action, including fines and penalties. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The System believes that it is in compliance with applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subjected to future government review and interpretations as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid program.

*Commercial Insurance*

The System has contracted with Highmark Blue Cross of Delaware ("Highmark"), commercial insurers, carriers, and health maintenance organizations. The basis for payment to the System for covered inpatient, outpatient and physician services under these agreements includes discounted charges or fee schedules for certain outpatient services and physician services subject to co-pay and deductible provisions of policies. The basis for payment for inpatients is the Medicare DRG Methodology with modified DRG weights relative to the Highmark population. Uninsured patients are grouped as "self-pay" patients. The Company undertakes a standard process, based primarily on historical collection experience related to the uninsured portfolio, taking into consideration uninsured discounts, charity care discounts, and other implicit price concessions, to evaluate the payment terms for the uninsured portfolio and records revenue accordingly.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE D - PATIENT ACCOUNTS RECEIVABLE AND PATIENT SERVICE REVENUE - Continued**

The System determines estimates of contractual adjustments and discounts based on government regulations, contractual agreements, discount policies and historical experience, as applicable. The System determines its estimate of implicit price concessions using the expected value method based on historical collection experience within each class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups, rather than individually. The consolidated financial statement effects of using this practical expedient are not materially different from an individual contract approach.

The following table sets forth the patient service revenue by type of payor for the years ended June 30, 2019 and 2018:

	2019	2018
Medicare and Medicaid	52%	52%
Commercial insurance	45	45
Self-pay	3	3
	100%	100%

**NOTE E - LIQUIDITY AND AVAILABILITY OF RESOURCES**

As of June 30, 2019 and 2018, the modified days' cash on hand, defined by the System's bond agreements, was 140 and 135 days, respectively. Financial assets available for general expenditure within one year of the consolidated balance sheet date consist of the following at June 30, 2019 and 2018:

	2019	2018
Cash and cash equivalents	\$ 77,246,699	\$ 65,214,085
Patient accounts receivable	52,904,919	44,059,962
Assets limited as to use by Board of Trustees' designation	84,077,275	78,831,114
Available line of credit	2,705,401	2,392,000
	\$ 216,934,294	\$ 190,497,161

**NOTE F - INVESTMENTS**

The composition of investments classified as assets limited as to use, at June 30, 2019 and 2018, is set forth in the following table:

	2019	2018
Assets limited as to use		
Cash and cash equivalents	\$ 36,619,668	\$ 3,757,508
Domestic and foreign equities	111,623,206	99,856,448
Fixed income securities	126,505,014	-
	274,747,888	103,613,956
Less current portion	(5,630,116)	-
	\$ 269,117,772	\$ 103,613,956

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE F - INVESTMENTS - Continued**

The fair value hierarchy of assets limited as to use, investments, the assets held in charitable remainder trust, and the beneficial interest in perpetual trust at June 30, 2019 and 2018, classified by the market approach valuation technique, is as follows:

<u>June 30, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 36,916,274	\$ -	\$ -	\$ 36,916,274
Domestic and foreign equities	111,623,206	-	-	111,623,206
Fixed income securities	126,505,014	-	-	126,505,014
Assets held in charitable remainder trust	-	-	681,250	681,250
Beneficial interest in perpetual trust	-	-	326,784	326,784
	<u>\$ 275,044,494</u>	<u>\$ -</u>	<u>\$ 1,008,034</u>	<u>\$ 276,052,528</u>
 <u>June 30, 2018</u>				
<b>Assets</b>				
Cash and cash equivalents	\$ 3,757,508	\$ -	\$ -	\$ 3,757,508
Domestic and foreign equities	99,856,448	-	-	99,856,448
Assets held in charitable remainder trust	-	-	672,432	672,432
Beneficial interest in perpetual trust	-	-	336,878	336,878
	<u>\$ 103,613,956</u>	<u>\$ -</u>	<u>\$ 1,009,310</u>	<u>\$ 104,623,266</u>

The following is a comparative roll forward of the Level 3 assets held in charitable remainder trust and beneficial interest in perpetual trust for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Beginning of year balance	\$ 1,009,310	\$ 971,510
Net unrealized (loss) gain	<u>(1,276)</u>	<u>37,800</u>
Ending of year balance	<u>\$ 1,008,034</u>	<u>\$ 1,009,310</u>

Investment income and investment return, net, are comprised of the following for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
<b>Other revenues</b>		
Investment income	<u>\$ 14,257</u>	<u>\$ 5,214</u>
 <b>Nonoperating gains</b>		
Investment income	\$ 2,072,662	\$ 1,791,929
Net realized gains on sales of investments	1,594,613	2,346,629
Changes in unrealized gains and losses on investments	<u>2,825,648</u>	<u>1,738,404</u>
Investment return, net	<u>\$ 6,492,923</u>	<u>\$ 5,876,962</u>

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE G - PROPERTY AND EQUIPMENT**

A summary of property and equipment at June 30, 2019 and 2018 follows:

	2019	2018
Property and equipment		
Land	\$ 10,542,972	\$ 10,542,972
Land improvements	972,940	913,485
Building and fixed equipment	187,692,824	182,085,771
Moveable equipment	150,615,873	150,147,684
 Total property and equipment	 349,824,609	 343,689,912
Less: Accumulated depreciation and amortization	(226,696,511)	(216,252,628)
 Subtotal	 123,128,098	 127,437,284
 Construction in progress	 39,342,352	 16,132,566
 Total property and equipment, net	 \$162,470,450	 \$143,569,850
 Capital leases, included in property and equipment		
Moveable equipment	\$ 17,166,755	\$ 17,052,254
Less: Accumulated amortization	(14,765,337)	(13,302,856)
	 \$ 2,401,418	 \$ 3,749,398

Depreciation and amortization expense related to property and equipment for the years ended June 30, 2019 and 2018 was \$20,448,781 and \$20,035,357, respectively.

At June 30, 2019, the System is committed to construction costs and property and equipment purchases totaling approximately \$52,100,000.

**NOTE H - ENDOWMENTS**

The System's endowment includes approximately twenty individual donor-restricted endowment funds and eight funds designated by the Board to function as endowments. The net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

The System's interpretation of the State of Delaware enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") requires a not-for-profit organization to classify a portion of donor-restricted endowment fund of perpetual endurance as net assets with donor restrictions. The amount classified as with donor restrictions is the amount of the fund that must be retained in perpetuity in accordance with explicit donor stipulations or that the organization's board determines must be retained in perpetuity consistent with the relevant law.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE H - ENDOWMENTS - Continued**

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

- a. The duration and preservation of the fund.
- b. General economic conditions.
- c. The possible effect of inflation and deflation.
- d. The expected total return from income and appreciation of investments.
- e. Other resources of the organization.
- f. Investment policies of the organization.

Endowment funds are categorized in the following net asset classes as of June 30, 2019 and 2018:

	2019		2018	
	Board designated endowment funds	Donor-restricted endowment funds	Board designated endowment funds	Donor-restricted endowment funds
Net assets without donor restrictions	\$ 3,577,342	\$ -	\$ 3,421,929	\$ -
Net assets with donor restrictions	-	6,588,214	-	4,354,102
<b>Total endowment funds</b>	<b>\$ 3,577,342</b>	<b>\$ 6,588,214</b>	<b>\$ 3,421,929</b>	<b>\$ 4,354,102</b>

Changes in endowment funds by net asset classification for the year ended June 30, 2019 are summarized as follows:

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Endowment net assets, beginning of year	\$ 3,421,929	\$ 4,354,102	\$ 7,776,031
Contributions	27,350	2,011,296	2,038,646
Endowment match	3,228	-	3,228
Disbursed for designated purposes	(152,413)	(64,172)	(216,585)
Internal transfers	(50,478)	50,478	-
Investment return:			
Investment income	103,903	68,185	172,088
Realized and unrealized gains on endowment assets	224,839	169,012	393,851
Administrative expense	(1,016)	(687)	(1,703)
<b>Total investment return</b>	<b>327,726</b>	<b>236,510</b>	<b>564,236</b>
<b>Endowment net assets, end of year</b>	<b>\$ 3,577,342</b>	<b>\$ 6,588,214</b>	<b>\$ 10,165,556</b>

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE H - ENDOWMENTS - Continued**

Changes in endowment funds by net asset classification for the year ended June 30, 2018 are summarized as follows:

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Endowment net assets, beginning of year	\$ 3,171,053	\$ 4,080,219	\$ 7,251,272
Contributions	38,270	49,682	87,952
Endowment match	17,725	17,725	35,450
Disbursed for designated purposes	(139,749)	(83,731)	(223,480)
Internal transfers	(80,207)	80,207	-
Investment return:			
Investment income	90,145	53,158	143,303
Realized and unrealized gains on endowment assets	326,349	157,656	484,005
Administrative expense	(1,657)	(814)	(2,471)
Total investment return	414,837	210,000	624,837
Endowment net assets, end of year	<u>\$ 3,421,929</u>	<u>\$ 4,354,102</u>	<u>\$ 7,776,031</u>

***Return Objectives and Risk Parameters***

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor specified period, as well as board designated funds. Under this policy, the endowment assets are invested in a manner that is intended to produce results that meet or exceed investment returns of a blended portfolio of 64% equity/36% fixed income as measured by the Russell 3000 Index TR and MSCI All Country World ex-US TR for equities and the Barclays Capital Aggregate Bond Index for fixed income. The System expects its endowment funds, over the long term, to earn a total real return (inflation-adjusted return), net of investment fees that achieves at least the fund's spending rate and the total annualized net investment return from all investments and each asset class to meet or exceed the annualized return of the designated benchmark for rolling five-year periods. Actual returns in any given year may vary from this amount.

Endowment funds will also maintain sufficient liquidity to meet payment obligations and other expenses, while minimizing the risk of large losses.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate of return objectives, the System relies on a total return strategy in which the investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a well-diversified, multi-asset portfolio, which facilitates control of investment risk and affords reasonably predictable long-term investment returns. Significant diversification can be accomplished through asset allocation, portfolio structure, and the selection of different investment managers.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE I - RETIREMENT PLANS**

***Defined Benefit Plan***

The System has a noncontributory defined benefit pension plan (“Pension benefits”) covering a number of employees hired before January 1, 2014. The employees hired after January 1, 2014, are offered a defined contribution plan. The benefits are based on years of service and the employees’ compensation. The System makes contributions to the plan based upon actuarially determined amounts intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. The mortality table used for projecting the benefit obligations is the RP-2014 Generational Mortality Table with annual updates for projected improvements.

In addition, the System sponsors a defined benefit health care plan that provides postretirement health care benefits (“Other benefits”) to employees with at least 10 years of continuous service (working 1,000 hours in each year) and who are at least 55 years of age. During 2013, the other benefits plan was closed, and participants who were age 45 or older, with at least 10 years of service as of January 1, 2013, remained in the plan. The Other benefits plan offers new participants a subsidy of \$2,000 per year to enter into a Medicare supplemental plan, with 1% increases annually. Annual increases in the subsidy will be assessed periodically to ensure the System is offering a competitive benefit.

The following table summarizes information about the benefit plans at June 30, 2019 and 2018:

	Pension benefits		Other benefits	
	June 30,			
	2019	2018	2019	2018
Accumulated benefit obligation	\$ 109,147,954	\$ 96,203,349	\$ N/A	\$ N/A
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 104,626,853	\$ 106,604,444	\$ 23,209,658	\$ 41,638,714
Service cost	4,143,439	4,492,807	293,199	705,785
Interest cost	4,157,834	3,726,994	857,375	1,396,198
Plan participants’ contributions	-	-	231,988	191,579
Actuarial loss (gain) loss	7,573,235	(5,320,421)	360,127	(15,473,419)
Plan amendments	-	-	-	(3,318,227)
Benefits paid	(2,809,845)	(4,876,971)	(1,555,936)	(1,930,972)
Benefit obligation at end of year	117,691,516	104,626,853	23,396,411	23,209,658
Change in plan assets				
Fair value of the plan assets at beginning of year	75,996,330	70,003,789	-	-
Actual return on plan assets	5,363,175	4,869,512	-	-
Employer contributions	6,000,000	6,000,000	1,323,948	1,739,393
Plan participants’ contributions	-	-	231,988	191,579
Benefits paid	(2,809,845)	(4,876,971)	(1,555,936)	(1,930,972)
Fair value of the plan assets at end of year	84,549,660	75,996,330	-	-
Funded status at year end	\$ (33,141,856)	\$ (28,630,523)	\$ (23,396,411)	\$ (23,209,658)

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE I - RETIREMENT PLANS - Continued**

	Pension benefits		Other benefits	
	June 30,			
	2019	2018	2019	2018
Net amounts recognized in the consolidated balance sheets consist of:				
Current liabilities, as accounts payable and accrued expenses	\$ -	\$ -	\$ (1,346,000)	\$ (1,710,000)
Noncurrent liabilities	<u>(33,141,856)</u>	<u>(28,630,523)</u>	<u>(22,050,411)</u>	<u>(21,499,658)</u>
Accrued retirement benefits	<u>\$ (33,141,856)</u>	<u>\$ (28,630,523)</u>	<u>\$ (23,396,411)</u>	<u>\$ (23,209,658)</u>
Amounts recognized in net assets without donor restrictions but not yet recognized in net periodic benefit costs consist of:				
Net actuarial loss (gain)	\$ 31,728,484	\$ 25,909,586	\$ 8,508	\$ (351,619)
Prior service credit	<u>-</u>	<u>-</u>	<u>(1,741,198)</u>	<u>(3,318,227)</u>
	<u>\$ 31,728,484</u>	<u>\$ 25,909,586</u>	<u>\$ (1,732,690)</u>	<u>\$ (3,669,846)</u>
Components of net periodic benefit cost:				
Components recognized in salaries, benefits, physician fees and contract labor:				
Service cost	\$ 4,143,439	\$ 4,492,807	\$ 293,199	\$ 705,785
Components recognized in nonoperating gains (losses):				
Interest cost	4,157,834	3,726,994	857,375	1,396,198
Expected return on plan assets	(5,474,851)	(5,065,771)	-	-
Amortization of prior service credit	-	-	(1,577,029)	(109,262)
Amortization of actuarial loss	1,866,012	2,509,936	-	1,648,766
	<u>548,995</u>	<u>1,171,159</u>	<u>(719,654)</u>	<u>2,935,702</u>
Net periodic benefit cost (credit)	4,692,434	5,663,966	(426,455)	3,641,487
Other changes in benefit obligations recognized in other changes in net assets without donor restrictions:				
Net gain	5,818,898	(7,634,098)	360,127	(17,122,185)
Prior service credit (cost)	<u>-</u>	<u>-</u>	<u>1,577,029</u>	<u>(3,208,965)</u>
	<u>5,818,898</u>	<u>(7,634,098)</u>	<u>1,937,156</u>	<u>(20,331,150)</u>
Total recognized in net benefit cost (credit) and other changes in benefit obligations recognized in other changes in net assets without donor restrictions	<u>\$ 10,511,332</u>	<u>\$ (1,970,132)</u>	<u>\$ 1,510,701</u>	<u>\$ (16,689,663)</u>

At June 30, 2019, the expected estimated amount from net assets without donor restrictions into net periodic benefit cost for the next year is:

	Pension benefits	Other benefits
Net actuarial loss	<u>\$ 2,460,000</u>	<u>\$ (1,577,000)</u>

Beebe Medical Center, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE I - RETIREMENT PLANS - Continued

Assumptions used in the accounting for benefit obligations were as follows at June 30, 2019 and 2018:

	Pension benefits		Other benefits	
	June 30,			
	2019	2018	2019	2018
Weighted-average assumptions used to determine benefit obligations were:				
Discount rate	3.74%	4.24%	3.50%	4.16%
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Measurement date	June 30	June 30	June 30	June 30
Weighted-average assumptions used to determine net periodic benefit costs were:				
Discount rate	4.24%	3.93%	4.16%	3.88%
Expected long-term return on plan assets	7.00%	7.00%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A
			Other benefits	
			2019	2018
Trend rate of increase per capita cost of covered health care benefits:				
Initial trend			6.50%	7.00%
Ultimate trend			5.00%	5.00%

The ultimate trend rate will be reached in 2023.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other benefits. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	1% increase	1% (decrease)
Incremental effect on total service and interest cost components of benefit cost	\$ 27,932	\$ (25,970)
Incremental effect on postretirement benefit obligation	308,003	(291,148)

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE I - RETIREMENT PLANS - Continued**

***Fair Value of the Plan Assets***

The table below presents the fair values of the pension assets by level within the fair value hierarchy at June 30, 2019 and 2018:

	Level 1	Level 2	Level 3	Total
<u>June 30, 2019</u>				
Assets				
Cash and cash equivalents	\$ 1,614,136	\$ -	\$ -	\$ 1,614,136
Fixed income	28,036,492	-	-	28,036,492
Domestic and foreign equities	54,899,032	-	-	54,899,032
	<u>\$ 84,549,660</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 84,549,660</u>
<u>June 30, 2018</u>				
Assets				
Cash and cash equivalents	\$ 827,149	\$ -	\$ -	\$ 827,149
Fixed income	26,044,738	-	-	26,044,738
Domestic and foreign equities	49,124,443	-	-	49,124,443
	<u>\$ 75,996,330</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,996,330</u>

***Investment Strategies***

The investment objectives of the defined benefit plan are to maintain the purchasing power of the assets and future contributions, to maintain the ability to pay all benefits and expense obligations when due, to maximize returns within prudent levels of risk, and to control the cost of administering the defined benefit plan and managing investments. Assets are diversified throughout a multitude of asset classes. The Investment Committee, as sub-committee of the Board of Directors, has established the following basic asset allocation parameters:

Cash and cash equivalents	0% - 5%
Fixed income	34% - 44%
Equity portfolio	55% - 65%

Certain types of investments are generally prohibited (e.g., private placements, commodities, real estate, derivatives and options, short and margin transactions). Professional investment managers manage the plan's investment, and investment objectives include stability, capital preservation and diversification, rate of return, investment quality, liquidity and turnover. Investment consultants report quarterly to the Finance and Investment Committees. In selecting the expected long-term rate of return on assets, the System considered the asset allocation policy and the expected returns likely to be earned over the life of the defined benefit plan.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE I - RETIREMENT PLANS - Continued**

The Pension benefits' weighted average asset allocation at June 30, 2019 and 2018, by asset category, follows:

	Target allocation	Pension benefits	
		2019	2018
Plan asset allocation			
Cash and cash equivalents	0% - 5%	2%	1%
Bond portfolio:			
Fixed income	34% - 44%	33	34
Equity portfolio:			
Domestic and foreign equities	55% - 65%	65	65
Total		100%	100%

**Cash Flows**

The System expects to contribute approximately \$6,000,000 in Pension benefits and \$1,346,000 related to Other benefits, respectively, for contributions to the plans during the year ending June 30, 2020.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be made in the next ten years:

	Pension benefits	Other benefits
2020	\$ 3,325,970	\$ 1,346,000
2021	3,680,732	1,400,000
2022	3,981,173	1,466,000
2023	4,348,275	1,500,000
2024	4,754,065	1,491,000
2025-2029	29,110,472	7,558,000

**Defined Contribution Plan**

The System offers a defined contribution retirement plan (the "Plan"), and all employees are eligible at date of hire. The System matches 50% of the first 4% of eligible compensation and provides for 100% vesting immediately. Loans are permitted with this Plan. The System provides for a discretionary employer contribution for all employees, exclusive of the Beebe Medical Group, who are hired after December 31, 2013 and have one year of service. The employer contribution is based on eligible salary and years of vested service, and is 2% of eligible salary for participants with 10 years or less of vested service, 3% of eligible salary for participants with more than 10 years but less than 21 years of vested service, and 4% of eligible salary for participants with more than 20 years of vested service. The Plan provides for 100% vesting of the discretionary employer contributions after three years of vested service. Loans are not permitted on the discretionary employer contributions. The System's expense for the Plan for the years ended June 30, 2019 and 2018 was \$3,523,509 and \$3,129,490, respectively.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE J - LONG-TERM DEBT**

A summary of long-term debt at June 30, 2019 and 2018 follows:

	2019	2018
Delaware Health Facilities Authority Revenue Bonds, Series 2018 including unamortized premium of \$9,798,736 at June 30, 2019	\$ 179,668,736	\$ -
Delaware Health Facilities Authority Revenue Bonds, Series 2015A including unamortized premium of \$212,108 and \$251,700 at June 30, 2019 and 2018, respectively	12,437,108	13,361,700
Delaware Health Facilities Authority Variable Rate Revenue Bonds, Series 2014A	26,755,000	27,660,000
Delaware Health Facilities Authority Revenue Bonds, Series 2014B	4,105,000	4,800,000
Obligations under capital leases, at imputed interest rates of 1.00% to 8.34%	1,667,451	2,667,680
	224,633,295	48,489,380
Less: Unamortized deferred financing costs, net	(1,870,068)	(557,141)
Current portion	(3,261,753)	(3,593,150)
	\$219,501,474	\$ 44,339,089

On December 20, 2018, Delaware Health Facilities Authority (the "Authority") and the Medical Center issued Beebe Medical Center Revenue Bonds Series 2018 (the "2018 Bonds") with a principal value of \$169,870,000. The 2018 Bonds include serial bonds bearing interest at rates ranging from 4.25% to 5.00%, with maturities annually beginning June 1, 2022 through 2038, with principal payments ranging from \$685,000 to \$12,670,000. The 2018 Bonds were issued to: (1) finance the costs of acquiring, constructing and equipping certain capital improvements of the System; (2) pay a portion of the interest accruing on the Series 2018 Bonds during construction of the 2018 Project; and (3) pay the issuance costs related to the Series 2018 Bonds. The 2018 Bonds maturing on and after June 1, 2029, shall be subject to redemption prior to maturity at the option of the Authority, at the direction of the Medical Center, in whole or in part at any time on and after December 1, 2028 in such order of maturity as the Authority may choose at the direction of the Medical Center and, within a maturity by lot as selected by the Trustee, upon payment of a redemption price equal to 100% of the principal amount of the Series 2018 Bonds to be redeemed, plus accrued interest to the redemption date.

On September 3, 2015, the Authority and the Medical Center issued Beebe Medical Center Revenue Bonds Series 2015A (the "2015A Bonds") with a principal value of \$15,820,000. The 2015A Bonds include serial bonds bearing interest at rates ranging from 3.00% to 5.00%, with maturities annually through June 1, 2030, with principal payment ranging from \$850,000 to \$1,335,000. The 2015A Bonds were issued to: (1) refund for savings the outstanding par amount of, plus accrued interest on the Series 2005A Bonds; and (2) pay a portion of the issuance costs related. The 2015A Bonds are subject to optional redemption prior to maturity, at the direction of the Medical Center, as a whole or in part by lot, on or after June 1, 2025 at a price of 100% of principal amount plus accrued interest.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE J - LONG-TERM DEBT - Continued**

On June 1, 2014, the Authority and the Medical Center issued Beebe Medical Center Variable Rate Revenue Bonds Series 2014A (the "2014A Bonds") with a maximum principal value of \$31,020,000 and Beebe Medical Center Revenue Bonds Series 2014B (the "2014B Bonds") with a principal value of \$9,670,000. As of June 30, 2017, the Medical Center had drawn all of the funds available. The 2014A Bonds were issued to: (1) redeem the outstanding principal amount of the Authority's Variable Rate Refunding Revenue Bonds, Beebe Medical Center Project, Series 2002; and (2) to finance capital expenditures. The 2014B Bonds were issued to redeem the outstanding \$12,740,000 of the Authority's Revenue Refunding Bonds, Beebe Medical Center Project Series 2004A. The 2014A Bonds and the 2014B Bonds were a direct placement with PNC, NA; both have an expiration date of June 2, 2021, and are subject to a mandatory redemption.

The 2014A Bonds bear interest at 75.5% of one-month LIBOR plus 0.81%, which was 2.59% and 2.32% on June 30, 2019 and 2018, respectively. The 2014A Bonds mature in June 2040. The 2014B Bonds bear interest at a fixed rate of 2.02% and mature in June 2024. Neither bond series has a mandatory sinking fund; however, both are subject to optional redemption prior to the stated maturity, at the direction of the Medical Center, at a redemption price equal to 100% of principal plus accrued interest.

The Medical Center has granted the Authority a security interest in certain real and personal property and granted the Trustee (The Bank of New York Trust) a security interest in its gross revenue. The payments required by the Medical Center are assigned and pledged by the Authority to the Trustee to secure the payment of the bonds.

The agreements require the Medical Center to meet various financial and non-financial covenants, with the most restrictive requiring the Medical Center to maintain 75 days of operating cash as of the end of each semi-annual period ending June 30 and December 31, and to generate "net income available for debt service," as defined therein, of 110% of maximum annual debt service for each of the years ended June 30, 2019 and 2018. Additionally, summary financial information is required quarterly. The Medical Center was in compliance with such financial covenants at June 30, 2019, however, was not in compliance with the following financial covenant as of June 30, 2018:

The System's affiliate, BPN, since its inception has required the Medical Center to fund its ongoing operations. Under a Trust Indenture dated as of April 1, 1990, between the Trustee and the Authority and the Loan, Mortgage and Security Agreement dated as of April 1, 1990 between the Authority and the Medical Center (each as amended and supplemented, the "Bond Documents") the disposition of property by the Medical Center, including the disposition of cash and marketable securities, is subject to the satisfaction of specific conditions (the "Existing Disposition of Assets Test"). Such payments to BPN could have been deemed transfers in violation of the Existing Disposition of Assets Test. The bondholders, as beneficial owners of the outstanding bonds: (i) have been assigned substantially all of the rights of the Authority (including rights related to the Existing Disposition of Assets Test); and (ii) have the right to direct the Trustee, under the Bond Documents. The Medical Center obtained a waiver dated November 21, 2018, from the holder of the majority of the outstanding bonds as required by the Bond Documents for such deemed noncompliance for all affected reporting periods. With the execution of the 2018 Bonds, the Trust Indenture was revised to exclude payments to BPN in assessing compliance under the Existing Disposition of Assets Test.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE J - LONG-TERM DEBT - Continued**

Scheduled principal repayments on long-term debt are as follows:

	Series 2018 Bonds	Series 2015A Bonds	Series 2014A Bonds	Series 2014B Bonds	Obligations under capital leases
Year ending June 30,					
2020	\$ -	\$ 925,000	\$ 930,000	\$ 735,000	\$ 671,753
2021	-	970,000	960,000	775,000	470,660
2022	585,000	995,000	990,000	820,000	431,481
2023	890,000	1,025,000	1,020,000	865,000	159,128
2024	1,005,000	1,060,000	1,050,000	910,000	17,798
Thereafter	167,390,000	7,250,000	21,805,000	-	-
	<u>169,870,000</u>	<u>12,225,000</u>	<u>26,755,000</u>	<u>4,105,000</u>	<u>1,750,820</u>
Less: amount representing interest under capital lease obligations	-	-	-	-	(83,369)
	<u>\$169,870,000</u>	<u>\$12,225,000</u>	<u>\$26,755,000</u>	<u>\$ 4,105,000</u>	<u>\$ 1,667,451</u>

The fair value of the long-term debt, exclusive of obligations under capital leases, was approximately \$238,290,000 and \$45,635,000 at June 30, 2019 and 2018, respectively. Fair value of the long-term debt is based on current traded value, excluding accrued interest. As such, management has classified this as Level 2 within the fair value hierarchy.

The Medical Center has a \$5,000,000 line of credit with a bank, which expires June 30, 2022. At June 30, 2019 and 2018, \$2,294,599 and \$2,608,000, respectively, has been used as a letter of credit for the Medical Center's workers' compensation insurance program and for the wastewater and sewer facilities at the South Coastal site. The letter of credit is collateralized by specific investments held by the Medical Center that are classified as assets limited as to use on the consolidated balance sheets. The stand-by letters of credit automatically renew each year at various dates throughout the year.

**NOTE K - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions will be available for the following purposes at June 30, 2019 and 2018:

	2019	2018
Subject to expenditure for specific purpose or time:		
Capital purposes	\$ 23,576,443	\$ 19,527,569
Health care services	4,767,287	4,372,679
	<u>28,343,730</u>	<u>23,900,248</u>
Investments to be held in perpetuity, the income from which is expendable to support health care services	4,263,782	2,497,660
Total	<u>\$ 32,607,512</u>	<u>\$ 26,397,908</u>

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE L - INSURANCE PROGRAMS**

The System carries claims-made professional liability insurance in the amount of \$1,000,000 per claim and \$3,000,000 annual aggregate through a commercial policy, which includes umbrella coverage at \$10,000,000 per claim and \$10,000,000 annual aggregate. The System is subject to a \$500,000 limit per claim and a \$3,500,000 annual aggregate deductible under this policy. The System carries umbrella coverage with two different insurance companies up to \$10,000,000 per occurrence and in the aggregate with a commercial policy plus an excess coverage up to \$10,000,000 with one and \$20,000,000 with the other. The umbrella and excess policies provide coverage for malpractice and general liability, auto, workers' compensation and helipad.

The System has workers' compensation coverage with an insurance company on an occurrence basis. The policy provides coverage in accordance with the workers' compensation laws of the State of Delaware and is subject to a self-retention limit of \$400,000 per claim and \$4,300,000 in the annual aggregate.

The System recorded estimated claims payable based on actuarial reports, and has provided for future claims and recorded estimated receivables against those claims at June 30, 2019 and 2018 as follows:

	Professional		Workers' Compensation	
	2019	2018	2019	2018
Receivables:				
Prepaid and other current assets	\$ 1,381,706	\$ 494,444	\$ 108,434	\$ 127,403
Other assets	2,235,069	1,019,660	2,428,334	3,322,607
	3,616,775	1,514,104	2,536,768	3,450,010
Payables:				
Accounts payable and accrued expenses	2,574,825	1,647,311	1,060,484	1,256,223
Other liabilities	7,148,081	5,828,693	4,595,939	5,743,015
	9,722,906	7,476,004	5,656,423	6,999,238
Gross undiscounted liability				
	\$ 6,106,131	\$ 5,961,900	\$ 3,119,655	\$ 3,549,228

**NOTE M - CONCENTRATIONS OF CREDIT RISK**

The System grants credit without collateral to patients, most of whom are local residents and are insured under third-party agreements. The mix of patient accounts receivable at June 30, 2019 and 2018, was as follows:

	2019	2018
Medicare	41%	35%
Medicaid	18	23
Commercial	40	39
Patients	1	3
	100%	100%

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE M - CONCENTRATIONS OF CREDIT RISK - Continued**

In addition, the System invests its cash and cash equivalents primarily with banks and financial institutions. These deposits may be in excess of federally insured limits. Management believes that the credit risk related to these deposits is minimal.

**NOTE N - FUNCTIONAL EXPENSES**

The System provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended June 30, 2019 and 2018, are as follows:

<u>Year ended June 30, 2019</u>	<u>Health Care</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Salaries, benefits, contract labor and physician fees	\$ 220,938,993	\$ 1,071,266	\$ 25,669,171	\$ 247,679,430
Medical, surgical, and patient related supplies and services	98,202,157	33,914	64,740	98,300,811
Repairs, maintenance and utilities	14,538,252	-	2,194,108	16,732,360
Other	23,914,064	121,077	23,751,968	47,787,109
Depreciation and amortization	12,151,235	802	8,296,744	20,448,781
Interest	1,179,582	-	12,249	1,191,831
 Total	 <u>\$ 370,924,283</u>	 <u>\$ 1,227,059</u>	 <u>\$ 59,988,980</u>	 <u>\$ 432,140,322</u>
 <u>Year ended June 30, 2018</u>				
 Total	 <u>\$ 351,768,787</u>	 <u>\$ 1,094,045</u>	 <u>\$ 55,504,306</u>	 <u>\$ 408,367,138</u>

Expenses are charged directly to the functions above except for key employee salaries and benefits, which are allocated based on estimated time performing activities for each respective function.

**NOTE O - COMMITMENTS AND CONTINGENCIES**

***General Litigation***

The System is a defendant in various civil actions seeking damages for alleged medical malpractice or other civil litigation. These actions are being defended by the System's insurance carriers or counsel selected by the System. Counsel to the System in those matters and management are of the opinion that failure of the System to prevail in these various actions will not materially adversely affect the financial position of the System.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE O - COMMITMENTS AND CONTINGENCIES - Continued**

***Operating Leases***

The System leases property and equipment through lease agreements expiring on various dates through the year 2029. Certain of these leases contain options to extend the lease terms. Lease expense for the years ended June 30, 2019 and 2018 was \$3,756,216 and \$3,690,240, respectively, and amounts paid to related parties (Note Q) were \$666,829 and \$586,049, respectively. Future minimum lease payments, excluding options to extend lease payments, are as follows for the years ending June 30:

	Related parties	External	Total
2020	\$ 654,929	\$ 2,999,252	\$ 3,654,181
2021	670,805	2,828,788	3,499,593
2022	677,184	2,838,933	3,516,117
2023	682,905	2,778,707	3,461,612
2024	692,382	2,843,587	3,535,969

**NOTE P - ASSET RETIREMENT OBLIGATIONS**

The Medical Center's asset retirement obligation is attributed to a 2005 study on the existence and removal of asbestos material in several older buildings still in use.

The following is a reconciliation of the asset retirement obligation, which is included in other liabilities on the consolidated balance sheets as of June 30, 2019 and 2018:

	2019	2018
Asset retirement obligation at beginning of year	\$ 3,983,169	\$ 3,800,835
Accretion expense, included in other expenses	189,902	182,334
Asset retirement obligation at end of year	\$ 4,173,071	\$ 3,983,169

**NOTE Q - RELATED-PARTY TRANSACTIONS**

The Medical Center and each of its affiliates have Boards of Directors that are comprised of community members and 21 physicians in 2019 and 20 physicians in 2018 who are related parties. Payments to community members, primarily for property rentals and other services for the years ended June 30, 2019 and 2018 were \$914,521 and \$776,464, respectively. The System has arrangements with many physicians to compensate them for Medical Director and Leadership responsibilities, practice guarantees, pay-for-call (emergency department) and fees for professional services rendered that are included in the salaries and benefits, physician fees and contract labor expense line. During the years ended June 30, 2019 and 2018, amounts paid to related-party physicians aggregated \$4,574,584 and \$4,020,249, respectively. Amounts received from a related-party physician group was \$508,000 for each year ended June 30, 2019 and 2018. At June 30, 2019, there were no amounts receivable from related-party physicians and payables to related-party physicians were \$449,830. At June 30, 2018 amounts receivable from related-party physicians aggregated \$508,000 and payables to related-party physicians were \$194,308. These receivables are reflected as prepaid expenses and other current assets under current assets and the payables are reflected as accounts payable and accrued expenses under current liabilities.

**Beebe Medical Center, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2019 and 2018**

**NOTE R - SUBSEQUENT EVENTS**

The System evaluated its June 30, 2019 consolidated financial statements for subsequent events through November 14, 2019, the date the consolidated financial statements were available to be issued. The System is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

**Beebe Medical Center, Inc.**

**CONSOLIDATING BALANCE SHEET**

**June 30, 2019**

	Beebe Medical Center, Inc.	Delmarva Health Network	Beebe Medical Group	Beebe Medical Foundation	Consolidating Entries	Consolidated Totals
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 69,859,121	\$ 669,733	\$ 5,851,318	\$ 866,527	\$ -	\$ 77,246,699
Patient accounts receivable	50,965,260	-	1,939,659	-	-	52,904,919
Current portion of assets limited as to use	5,630,116	-	-	-	-	5,630,116
Prepaid expenses and other current assets	<u>18,306,039</u>	<u>134,394</u>	<u>483,039</u>	<u>58,875</u>	<u>-</u>	<u>18,982,347</u>
Total current assets	144,760,536	804,127	8,274,016	925,402	-	154,764,081
Assets limited as to use						
Board designated funds	80,710,578	-	-	3,366,697	-	84,077,275
Beneficial interest in Foundation net assets without donor restrictions	4,020,708	-	-	-	(4,020,708)	-
Under bond indenture agreement	151,076,904	-	-	-	-	151,076,904
Collateral funds for line of credit	8,272,229	-	-	-	-	8,272,229
Donor-restricted funds	<u>3,323</u>	<u>-</u>	<u>-</u>	<u>25,688,041</u>	<u>-</u>	<u>25,691,364</u>
Subtotal	244,083,742	-	-	29,054,738	(4,020,708)	269,117,772
Beneficial interest in Foundation net assets with donor restrictions	33,529,280	-	-	-	(33,529,280)	-
Other board designated assets - land	1,838,339	-	-	-	-	1,838,339
Donor-restricted pledges receivable, net	-	-	-	7,841,238	-	7,841,238
Assets held in charitable remainder trust	681,250	-	-	-	-	681,250
Beneficial interest in perpetual trust	<u>326,784</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>326,784</u>
Total assets limited as to use, less current portion	280,459,395	-	-	36,895,976	(37,549,988)	279,805,383
Property and equipment, net	158,944,385	-	3,522,600	3,465	-	162,470,450
Due from affiliates	5,370,093	-	-	-	(5,370,093)	-
Other assets	<u>12,827,912</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,827,912</u>
Total assets	<u>\$ 602,362,321</u>	<u>\$ 804,127</u>	<u>\$ 11,796,616</u>	<u>\$ 37,824,843</u>	<u>\$ (42,920,081)</u>	<u>\$ 609,867,826</u>
<b>LIABILITIES AND NET ASSETS</b>						
Current liabilities						
Accounts payable and accrued expenses	44,796,913	\$ 234,889	\$ 7,131,333	\$ 139,836	\$ -	\$ 52,302,971
Estimated third-party payor settlements	7,407,087	-	-	-	-	7,407,087
Current portion of long-term debt	<u>3,261,753</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,261,753</u>
Total current liabilities	55,465,753	234,889	7,131,333	139,836	-	62,971,811
Accrued retirement benefits	55,582,718	-	-	-	-	55,582,718
Due to affiliates	-	95,209	198,339,181	135,019	(198,569,409)	-
Other liabilities	19,756,002	-	-	-	(553)	19,755,449
Long-term debt, less current portion	<u>219,501,474</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>219,501,474</u>
Total liabilities	350,305,947	330,098	205,470,514	274,855	(198,569,962)	357,811,452
Net assets						
Net assets without donor restrictions	219,448,862	474,029	(193,673,898)	4,020,708	189,179,161	219,448,862
Net assets with donor restrictions	<u>32,607,512</u>	<u>-</u>	<u>-</u>	<u>33,529,280</u>	<u>(33,529,280)</u>	<u>32,607,512</u>
Total net assets	<u>252,056,374</u>	<u>474,029</u>	<u>(193,673,898)</u>	<u>37,549,988</u>	<u>155,649,881</u>	<u>252,056,374</u>
Total liabilities and net assets	<u>\$ 602,362,321</u>	<u>\$ 804,127</u>	<u>\$ 11,796,616</u>	<u>\$ 37,824,843</u>	<u>\$ (42,920,081)</u>	<u>\$ 609,867,826</u>

Beebe Medical Center, Inc.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

For the year ended June 30, 2019

	Beebe Medical Center, Inc.	Delmarva Health Network	Beebe Medical Group	Beebe Medical Foundation	Consolidating Entries	Consolidated Totals
Net assets without donor restrictions						
Revenues						
Patient service revenue	\$ 405,622,925	\$ -	\$ 36,651,840	\$ -	\$ -	\$ 442,274,765
Other revenues	4,376,890	353,777	6,228,759	-	(5,413,556)	5,545,870
Net assets released from restrictions used for operations	19,903	-	-	-	-	19,903
Total revenues	410,019,718	353,777	42,880,599	-	(5,413,556)	447,840,538
Expenses						
Salaries and benefits, physician fees, and contract labor	193,657,018	164,130	58,134,579	1,137,259	(5,413,556)	247,679,430
Medical, surgical, and patient-related supplies and services	95,761,135	-	2,505,762	33,914	-	98,300,811
Repairs, maintenance and utilities	15,946,938	-	785,422	-	-	16,732,360
Other	38,453,679	494,099	8,718,254	121,077	-	47,787,109
Depreciation and amortization	19,843,475	-	604,504	802	-	20,448,781
Interest	1,191,831	-	-	-	-	1,191,831
Total expenses	364,854,076	658,229	70,748,521	1,293,052	(5,413,556)	432,140,322
Income (loss) from operations	45,165,642	(304,452)	(27,867,922)	(1,293,052)	-	15,700,216
Nonoperating gains (losses)						
Contributions	-	-	-	293,425	-	293,425
Investment return, net	6,014,069	-	-	478,854	-	6,492,923
Equity losses and gains in consolidated affiliates	(27,555,888)	-	-	-	27,555,888	-
Other accrued retirement costs	170,659	-	-	-	-	170,659
Contribution (to) from Foundation	(1,137,259)	-	-	1,137,259	-	-
Total nonoperating (losses) gains, net	(22,508,419)	-	-	1,909,538	27,555,888	6,957,007
Excess of (deficiency in) revenues and gains over expenses and losses	22,657,223	(304,452)	(27,867,922)	616,486	27,555,888	22,657,223
Other changes in net assets without donor restrictions						
Net assets released from restrictions used for property and equipment purchases	125,385	-	-	-	-	125,385
Other changes in accrued retirement benefits	(7,756,054)	-	-	-	-	(7,756,054)
Change in interest in Foundation net assets without donor restrictions	(159,243)	-	-	-	159,243	-
Transfers to/from funds, with donor restrictions	160,285	-	-	(160,285)	-	-
Other	(6,080)	680,477	-	1,042	(680,477)	(5,038)
Increase (decrease) in net assets without donor restrictions	15,021,516	376,025	(27,867,922)	457,243	27,034,654	15,021,516
Net assets with donor restrictions						
Contributions	-	-	-	5,691,725	-	5,691,725
Investment return, net	-	-	-	664,443	-	664,443
Change in value of beneficial interests in charitable remainder and perpetual trusts	(1,276)	-	-	-	-	(1,276)
Net assets released from restrictions used for:						
Property and equipment purchases	(125,385)	-	-	-	-	(125,385)
Operations	(19,903)	-	-	-	-	(19,903)
Change in interest in Foundation net assets with donor restrictions	6,356,168	-	-	-	(6,356,168)	-
Increase in net assets with donor restrictions	6,209,604	-	-	6,356,168	(6,356,168)	6,209,604
Increase (decrease) in net assets	21,231,120	376,025	(27,867,922)	6,813,411	20,678,486	21,231,120
Net assets, beginning of year	230,825,254	98,004	(165,805,976)	30,736,577	134,971,395	230,825,254
Net assets, end of year	\$ 252,056,374	\$ 474,029	\$ (193,673,898)	\$ 37,549,988	\$ 155,649,881	\$ 252,056,374