



REPORT OF INDEPENDENT AUDITORS  
AND CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY CONSOLIDATING SCHEDULES

**BENEFIS HEALTH SYSTEM, INC.  
AND AFFILIATES**

December 31, 2017 and 2016



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## **Report of Independent Auditors**

To the Board of Directors  
Benefis Health System, Inc. and Affiliates

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Benefis Health System, Inc. and Affiliates, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

***Opinion***

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

***Other Matter***

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise Benefis Health System, Inc. and Affiliates' consolidated financial statements. The supplementary consolidating schedules are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary consolidating schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary consolidating schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in dark ink, appearing to read "PwC" or similar, with a stylized flourish.

Everett, Washington  
March 12, 2018

## Benefis Health System, Inc. and Affiliates Consolidated Balance Sheets

### ASSETS

	December 31,	
	2017	2016
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 46,424,686	\$ 69,342,955
Current portion of assets limited as to use	13,592,424	5,611,804
Receivables		
Patient and resident, net of estimated uncollectibles of \$18,435,000 and \$23,473,000 in 2017 and 2016, respectively	64,656,855	62,522,581
Other	4,647,438	4,622,643
Supplies	10,505,825	10,198,077
Other	3,636,424	3,375,155
Total current assets	143,463,652	155,673,215
<b>ASSETS LIMITED AS TO USE, net of current portion</b>		
By board	231,854,710	159,423,287
Held by trustees	10,248,140	20,314,513
Restricted	39,826,618	36,778,354
Total assets limited as to use, net of current portion	281,929,468	216,516,154
PROPERTY AND EQUIPMENT, net	275,676,833	272,296,871
OTHER ASSETS	17,003,032	18,663,317
Total assets	\$ 718,072,985	\$ 663,149,557
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 11,610,388	\$ 11,390,115
Accrued compensation and benefits	24,134,161	21,010,904
Estimated third-party payor settlements	4,345,845	4,312,090
Other accrued liabilities	8,219,185	6,424,351
Current portion of long-term debt	7,708,799	2,089,572
Total current liabilities	56,018,378	45,227,032
LONG-TERM DEBT, net of current portion	200,412,580	207,077,986
OTHER LONG-TERM LIABILITIES	24,532,877	23,503,346
Total liabilities	280,963,835	275,808,364
<b>NET ASSETS</b>		
Unrestricted		
Benefis Health System	409,268,602	361,553,168
Noncontrolling interest in subsidiary	62,881	(8,595)
Total unrestricted net assets	409,331,483	361,544,573
Temporarily restricted	10,456,125	9,060,169
Permanently restricted	17,321,542	16,736,451
Total net assets	437,109,150	387,341,193
Total liabilities and net assets	\$ 718,072,985	\$ 663,149,557

See accompanying notes.

## Benefis Health System, Inc. and Affiliates

### Consolidated Statements of Operations

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	Years Ended December 31,	
	2017	2016
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Net patient and resident service revenue	\$ 426,472,399	\$ 398,168,584
Provision for bad debts	(9,365,218)	(11,159,481)
Net patient service revenue less provision for bad debts	417,107,181	387,009,103
Other operating revenue	23,499,110	26,190,059
Total unrestricted revenues, gains, and other support	440,606,291	413,199,162
OPERATING EXPENSES		
Salaries and wages	198,217,521	177,441,253
Employee benefits	41,101,954	38,103,195
Professional fees	17,317,556	22,174,590
Supplies	78,609,148	71,735,419
Purchased services	29,993,153	27,628,513
Depreciation	22,505,218	23,579,393
Interest	8,378,486	9,457,912
Other	19,002,993	19,371,998
Total operating expenses	415,126,029	389,492,273
OPERATING INCOME	25,480,262	23,706,889
LOSS ON BOND REFUNDING	-	(9,455,253)
OTHER INCOME	10,131,857	1,629,755
EXCESS OF REVENUES OVER EXPENSES	\$ 35,612,119	\$ 15,881,391

## Benefis Health System, Inc. and Affiliates Consolidated Statements of Changes in Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
BALANCE, December 31, 2015	\$ 338,471,423	\$ 7,542,435	\$ 16,328,344	\$ 362,342,202
Excess of revenues over expenses	15,881,391	-	-	15,881,391
Contributions	-	1,222,710	847,326	2,070,036
Interest income	-	496,349	-	496,349
Change in unrealized gains and losses on investments	5,455,118	830,284	-	6,285,402
Special events, net	-	249,843	-	249,843
Net assets released from restriction and reclassifications	916,999	(1,281,452)	(439,219)	(803,672)
Gain on interest rate swap agreement	1,082,282	-	-	1,082,282
Distributions to noncontrolling members	(262,640)	-	-	(262,640)
Change in net assets	23,073,150	1,517,734	408,107	24,998,991
BALANCE, December 31, 2016	361,544,573	9,060,169	16,736,451	387,341,193
Excess of revenues over expenses	35,612,119	-	-	35,612,119
Contributions	-	1,545,120	575,258	2,120,378
Interest income	-	616,797	-	616,797
Change in unrealized gains and losses on investments	11,751,592	1,809,637	-	13,561,229
Special events, net	-	233,518	-	233,518
Net assets released from restriction and reclassifications	-	(2,809,116)	9,833	(2,799,283)
Gain on interest rate swap agreement	631,449	-	-	631,449
Distributions to noncontrolling members	(208,250)	-	-	(208,250)
Change in net assets	47,786,910	1,395,956	585,091	49,767,957
BALANCE, December 31, 2017	\$ 409,331,483	\$ 10,456,125	\$ 17,321,542	\$ 437,109,150

# Benefis Health System, Inc. and Affiliates

## Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 49,767,957	\$ 24,998,991
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	22,505,218	23,579,393
Amortization of bond premium and debt issuance costs	(600,500)	42,709
Provision for bad debts	9,365,218	11,159,481
Loss on disposal of property and equipment	188,931	21,775
Net realized and unrealized gains on investments	(21,105,756)	(5,776,064)
Restricted contributions received	(2,120,378)	(2,070,036)
Gain on interest rate swap agreement	(631,449)	(1,082,282)
Loss on investment recognized on the equity method	4,215,818	22,404
Distributions to noncontrolling interest	208,250	262,640
Loss on bond refunding	-	9,455,253
Changes in certain current assets and liabilities	(7,683,532)	(12,760,189)
Changes in other long-term assets	(2,555,533)	(3,420,800)
Changes in other long-term liabilities	1,660,980	779,455
	<u>53,215,224</u>	<u>45,212,730</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments limited as to use	168,723,632	119,227,050
Purchase of investments limited as to use	(221,011,810)	(149,785,079)
Purchase and construction of property and equipment	(25,311,764)	(16,058,140)
	<u>(77,599,942)</u>	<u>(46,616,169)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Restricted contributions received	2,120,378	2,070,036
Proceeds from long-term debt	1,345,851	-
Repayment of long-term debt	(1,951,446)	(5,797,782)
Bond refunding proceeds and other financing activities, net	159,916	9,262,877
Distributions to noncontrolling interest	(208,250)	(262,640)
	<u>1,466,449</u>	<u>5,272,491</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(22,918,269)	3,869,052
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>69,342,955</u>	<u>65,473,903</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 46,424,686</u>	<u>\$ 69,342,955</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest, net of amounts capitalized of \$110,095 in 2017 and \$145,790 in 2016	<u>\$ 7,206,028</u>	<u>\$ 12,287,438</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Change in property and equipment included in accounts payable	<u>\$ 762,347</u>	<u>\$ (107,494)</u>

## **Benefis Health System, Inc. and Affiliates**

### **Notes to Consolidated Financial Statements**

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#### **Note 1 – Organization and Principles of Consolidation**

Benefis Health System, Inc. (Benefis) is organized as a Montana nonprofit organization and is operated in a manner that is fully consistent with federal tax-exempt status, pursuant to Section 501(c)(3) of the Internal Revenue Code (IRC). Benefis activity is included in the supplementary consolidating schedules in the Benefis Health System Administration columns.

Benefis Hospitals, Inc., a 569 licensed bed facility consisting of a 332-bed acute care hospital; a 146-bed long-term care facility; a 71-bed assisted living facility; and a 20-bed hospice located in Great Falls, Montana, provides health care and other related services, including long-term care, cancer services, cardiac services, and women and children's services. Benefis' service area covers 38,000 square miles in north central Montana. Benefis Hospitals, Inc., is organized as a Montana nonprofit organization and is exempt from federal income taxes under Section 501(c)(3) of the IRC, and its sole member is Benefis.

Benefis Spectrum Medical, Inc. (Spectrum) provides home oxygen and home care services, rents and sells durable medical equipment, and sells medical supplies and pharmaceuticals. Spectrum also provides consulting, and transportation services. Spectrum was incorporated under the laws of Montana and is wholly owned by Benefis. As of January 1, 2007, Spectrum was reorganized as a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the IRC, and its sole member is Benefis.

Great Falls Athletic Club, LLC, dba The Peak Health & Wellness Center (The Peak) operates a health club facility in Great Falls, Montana. The Peak is organized as a Montana limited liability company, of which 51% is owned by Benefis. For tax purposes, any income or loss is passed through to Benefis.

Benefis Healthcare Employee Health Plan Trust (the Health Trust) provides health benefits for certain incurred medical and dental expenses of Benefis employees. It is subject to the provision of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The Health Trust is exempt for tax purposes under IRC Section 501(c)(9).

Benefis Medical Group, Inc. (BMG) provides physician income security by facilitating employment of physicians and/or providing income guarantees. The sole member of BMG is Benefis. BMG is organized as a Montana nonprofit organization and is exempt from federal income taxes under Section 501(c)(3) of the IRC.

Benefis Sletten Hi-Line Cancer Center, LLC (BSHCC) owns medical oncology and radiation oncology assets at an outpatient facility located in Havre, Montana. BSHCC is organized as a Montana single-member limited liability company whose sole member owner is Benefis. For tax purposes, any income or loss is passed through to Benefis. In 2017 and 2016, no services were provided to patients.

Benefis Health System Foundation, Inc. (the Foundation) was organized in 1998 as a not-for-profit organization for the charitable purpose of enabling the provision of health care services to the community by raising funds for and on behalf of Benefis, other health care-related not-for-profit organizations, and individuals in need. On December 13, 2011, the Foundation amended its Articles of Incorporation, appointing Benefis as the sole member and giving full control of the Foundation to Benefis. The Foundation is organized as a Montana nonprofit organization and is exempt from federal income taxes under Section 501(c)(3) of the IRC.

# Benefis Health System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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### Note 1 – Organization and Principles of Consolidation (continued)

Benefis Community Hospitals, Inc. (BCH) was organized in 2015 for the purpose of providing medical care and to serve as an economic pillar in rural Montana communities by supporting the role of Critical Access Hospitals. In May 2015, the Organization acquired the existing assets and liabilities of Teton Memorial Hospital and began operating as Benefis Teton Medical Center. On September 28, 2017, BCH's application to the Montana Department of Public Health and Human Services to operate as a 25 bed critical access hospital was approved. On August 18, 2017 BCH's application to the Internal Revenue Service (IRS) for 501(c)(3) not-for-profit tax-exempt status was approved. The sole member of BCH is Benefis.

Walk-In Express, LLC (Walk-In Express) is a single-member Montana limited liability company of which the sole and controlling member is Benefis. Walk-In Express owns and operates a walk-in health care clinic in Great Falls, Montana. In late 2016, the operations of the Walk-In Express were transferred to a department within Benefis Hospitals, Inc.

Benefis Health System Administration (BHSA) provides oversight and direction, as well as a range of administrative services, on a centralized basis, on behalf of Benefis Hospitals, Inc.; Benefis Spectrum Medical, Inc.; Benefis Medical Group, Inc.; Benefis Community Hospitals, Inc.; and other related entities.

BBB, LLC (BBB), a wholly owned subsidiary of Benefis, is organized as a Montana limited liability company. The purpose of BBB is to develop, own, manage, lease, and operate the building in which a center for the provision of medical and surgical orthopedic services to patients operates. For tax purposes, any income or loss is passed through to Benefis.

The consolidated financial statements include the accounts of Benefis and its affiliates, Benefis Hospitals, Inc., Spectrum, The Peak, the Health Trust, BMG, BSHCC, the Foundation, BCH, Walk-In Express, BHSA, and BBB (collectively referred to as the Organization). All significant intercompany balances and transactions have been eliminated.

### Note 2 – Significant Accounting Policies

**Use of estimates** – The preparation of the consolidated financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

**Cash and cash equivalents** – Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use. At times, deposits exceed Federal Deposit Insurance Corporation (FDIC)-insured limits.

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### **Note 2 – Significant Accounting Policies (continued)**

**Patient and resident receivables** – Patient and resident receivables are uncollateralized patient, resident, customer, and third-party payor obligations. Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim. The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients or residents due to bad debts and charity care. Management considers historical write-off and recovery information in determining the estimated bad debt provision.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Organization's allowance for doubtful accounts is 80% of the related accounts receivable at December 31, 2016, compared to 74% of self-pay accounts receivable at December 31, 2017. In addition, self-pay write-offs decreased \$10,600,000 from approximately \$28,200,000 for the year ended December 31, 2016, to \$17,600,000 for the year ended December 31, 2017.

**Supplies** – Supplies, consisting principally of surgical, medical, and pharmaceutical supplies, are stated at the lower of cost (first in, first out) or market.

**Assets limited as to use** – Assets limited as to use include assets set aside for future capital improvements, over which the board of directors retains control and may, at its discretion, subsequently use for other purposes, assets restricted by donors, and assets held by trustees under indenture and other agreements. Also included in assets limited as to use are the funds held for long-term purposes to be used for certain self-insurance programs for the Health Trust and workers' compensation trust.

# Benefis Health System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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### Note 2 – Significant Accounting Policies (continued)

**Property and equipment** – Property and equipment acquisitions equal to or greater than \$2,000 and having at least a three-year useful life are capitalized and recorded at cost. The cost of property and equipment, and the related accumulated depreciation, are removed from the accounts when sold or retired, and any resulting gain or loss is recognized. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of property and equipment are as follows:

Land improvements	10–40 years
Buildings and improvements	15–40 years
Equipment	3–25 years

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Investment income earned or investment losses incurred on tax-exempt borrowed funds during the period of construction of capital assets are recorded as an offset to the costs of acquiring those assets.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net assets. 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.

The Organization assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the carrying value of the assets unlikely.

**Equity investments** – Investments in jointly owned companies in which Benefis has a 20% to 50% interest or otherwise exercises significant influence are accounted for on the equity method and are carried at cost, adjusted for Benefis' proportionate share of its undistributed earnings or losses.

**Self-insurance reserves** – The provisions for the reserves in the self-insured Health Trust and the workers' compensation trust include estimates of the ultimate costs for both the reported claims and the claims incurred but not reported.

**Temporarily and permanently restricted net assets** – Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Permanently restricted endowment net assets are stipulated by the donor as such and consist of the original principal to be held in perpetuity. Generally, net appreciation, realized and unrealized, unless restricted by the donor, is available for appropriation by the Organization for the uses and purposes for which the endowment fund is intended.

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### **Note 2 – Significant Accounting Policies (continued)**

**Net patient and resident service revenue and payable to contractual agencies** – The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services provided, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are provided and adjusted in future periods as final settlements are determined. Estimates of final settlements to or from third-party payors are included in estimated third-party payor settlements in the accompanying consolidated balance sheets.

**Charity care** – The Organization provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The costs the Organization incurred to provide charity care were approximately \$2,500,000 and \$3,500,000 for the years ended December 31, 2017 and 2016, respectively. The Organization has estimated these costs by multiplying its ratio of costs to gross charges to the gross uncompensated charges associated with providing charity care.

**Other operating revenue** – Other operating revenue primarily includes revenues generated from cafeteria, rentals, vendor rebates, other ancillary services, and joint venture gains and losses.

**Other operating expenses** – Other operating expenses primarily include expenses related to insurance, taxes, repairs and maintenance, temporary staffing, travel, education, professional dues, subscriptions, recruiting, and licenses.

**Excess of revenues over expenses** – Excess of revenues over expenses excludes unrealized gains and losses on investments other than trading securities and transfers of assets to and from related parties for other than goods and services.

**Donor-restricted gifts** – Unconditional promises to give cash and other assets are reported at fair value at the date the promise 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 either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When donor-stipulated time restrictions or purpose restrictions are met or accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as other operating revenue in the consolidated statements of operations.

**Investment income** – Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenues over expenses unless the investments are trading securities.

## **Benefis Health System, Inc. and Affiliates**

### **Notes to Consolidated Financial Statements**

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#### **Note 2 – Significant Accounting Policies (continued)**

**Derivative instruments** – The Organization has four interest rate swaps, which qualify as cash flow hedges. The details of each swap are as follows:

The first swap expires in July 2030 and fixes the interest rate paid on one of The Peak's notes payable at 5.27%. The outstanding balance of this note payable was \$5,646,255 and the variable rate was 2.98% as of December 31, 2017.

The second swap expires in June 2030 and fixes the interest rate paid on some the Series 2017A Revenue Bonds at 3.71%. The outstanding balance of this note payable was \$28,300,000, of which \$13,510,000 was the outstanding notional amount related to the swap. The variable rate was 1.96% as of December 31, 2017.

The third swap expires in June 2030 and fixes the interest rate paid on the Benefis note payable at 3.48%. The outstanding balance of this note payable was \$13,800,934 and the variable rate was 4.98% as of December 31, 2017.

The fourth swap expires in September 2027 and fixes the interest rate paid on one of The Peak's notes payable at 3.97%. The outstanding balance of this note payable was \$1,345,851 and the variable rate was 2.98% as of December 31, 2017.

The derivative financial instruments are reported at fair market value on the consolidated balance sheets. Changes in the fair market value of the derivative are recorded each period on the consolidated statements of changes in net assets.

**Montana State Hospital Utilization Fee** – During 2003, the Montana State Legislature passed an act imposing a utilization fee on hospital facilities for inpatient bed days, and authorized the Department of Revenue to collect and deposit fees in a state special revenue account for funding increases in Medicaid payments to Montana hospitals (Montana State Hospital Utilization Fee). The state special revenue account received an appropriation from a federal special revenue fund to match the state special revenue collected through the utilization fee, thereby providing increased Medicaid reimbursement for Montana hospitals. See Notes 4 and 8 for information on the associated account balances as of December 31, 2017 and 2016.

**Federal income tax** – The Organization is comprised of several corporations which are exempt from federal income tax under Section 501(c)(3) of the IRC (see Note 1), except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515, and several Limited Liability Companies. Effective January 1, 2009, the Organization adopted accounting for uncertain tax positions. The accounting standard prescribes a recognition threshold and measurement process for uncertain tax positions. The Organization had no uncertain tax positions as of December 31, 2017 or 2016.

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 2 – Significant Accounting Policies (continued)

**Fair value measurements** – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. The Organization classified its investments and derivatives based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value (Note 16). The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

**Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

**Level 2** – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Reclassifications** – Certain reclassifications have been made to prior-year amounts to conform to the current-year presentation.

**Subsequent events** – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheets, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization’s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheets but arose after the consolidated balance sheet date and before the consolidated financial statements are issued.

The Organization has evaluated subsequent events through March 12, 2018, which is the date the consolidated financial statements are issued, and concluded that there were no events or transactions that need to be disclosed.

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 3 – Net Patient and Resident Service Revenue

The Organization has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

**Medicare** (approximately 45.6% and 45.7% of gross patient service revenues for the years ended December 31, 2017 and 2016, respectively) – Inpatient acute care services provided to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. As a sole community hospital, the Organization is paid the higher of the Organization's updated sole community payment, adjusted for patient acuity, or the combined total of federal operating diagnosis-related group payments, indirect medical education, and disproportionate share. Inpatient capital is paid on a prospectively determined rate and added to the inpatient operating reimbursement. Inpatient non-acute services, certain outpatient services, and graduate medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The majority of Medicare outpatient services are reimbursed under a prospective payment methodology (Ambulatory Payment Classification System). Benefis Hospitals, Inc.'s Medicare cost reports have been settled by the Medicare Administrative Contractor through December 31, 2013, with the exception of the 2012 report which is pending a final CMS review. Benefis Hospitals, Inc.'s classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with Benefis Hospitals, Inc.

**Medicaid** (approximately 20.9% and 18.4% of gross patient service revenues for the years ended December 31, 2017 and 2016, respectively) – Inpatient acute care services provided to Medicaid 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. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a fee schedule.

**Blue Cross** – Inpatient and outpatient services rendered to Blue Cross subscribers are paid at either a percentage of charges or on a fee schedule. The prospectively determined discount is not subject to retroactive adjustment.

**Resident services** – The Organization is reimbursed for resident services at prospective per diem rates that are determined on an inflation-adjusted basis subject to certain limitations as prescribed by the Montana Department of Health and Human Services regulations. Under the Medicare program, payment for resident services is made on a prospectively determined per diem rate, which varies based on a case-mix-adjusted patient classification system.

**Other** – The Organization has also entered into payment agreements with certain commercial insurance carriers and other organizations.

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term.

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 3 – Net Patient and Resident Service Revenue (continued)

A summary of patient and resident service revenue and contractual adjustments for the years ended December 31 is as follows:

	2017	2016
Total patient and resident service revenue	\$ 961,468,833	\$ 879,376,669
Contractual adjustments		
Medicare	(279,681,851)	(258,167,256)
Medicaid	(134,012,187)	(113,077,371)
Other	(115,226,413)	(101,498,485)
Total contractual adjustments	(528,920,451)	(472,743,112)
Charity care	(6,075,983)	(8,464,973)
Net patient and resident service revenue	\$ 426,472,399	\$ 398,168,584

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows.

	Third-Party Payors	Self-Pay	Total All Payors
<b>For the year ended December 31, 2017</b>			
Patient service revenue (net of contractual allowances and discounts)	\$ 394,396,481	\$ 32,075,918	\$ 426,472,399
<b>For the year ended December 31, 2016</b>			
Patient service revenue (net of contractual allowances and discounts)	\$ 365,275,850	\$ 32,892,734	\$ 398,168,584

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 4 – Other Receivables

Other receivables consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Montana State Hospital Utilization Fee receivable	\$ 4,000,002	\$ 4,000,002
Other	647,436	622,641
	<u>\$ 4,647,438</u>	<u>\$ 4,622,643</u>

#### Note 5 – Assets Limited as to Use

The composition of assets limited as to use at December 31, 2017 and 2016, is shown in the following table. Investments are stated at fair value.

	<u>2017</u>	<u>2016</u>
By board		
For Foundation board-designated endowment fund		
Cash and cash equivalents	\$ 61,364	\$ 23,351
Mutual funds	2,286,406	2,946,659
Corporate bonds	1,080,520	-
	<u>3,428,290</u>	<u>2,970,010</u>
For capital improvements		
Cash and cash equivalents	11,282,376	-
Money market	-	197,337
Mutual funds	10,895,434	15,646,986
Common stock	35,180,178	63,119,997
Corporate bonds	65,270,512	46,965,010
Pooled common accounts	78,044,202	16,678,671
Other assets	28,646,252	13,975,463
	<u>229,318,954</u>	<u>156,583,464</u>
	232,747,244	159,553,474
Less current portion	<u>(892,534)</u>	<u>(130,187)</u>
	<u>\$ 231,854,710</u>	<u>\$ 159,423,287</u>
Held by trustees		
For bond service and project fund		
Money market	\$ 20,490,061	\$ 23,338,161
Less current portion	<u>(10,241,921)</u>	<u>(3,023,648)</u>
	<u>\$ 10,248,140</u>	<u>\$ 20,314,513</u>

**Benefis Health System, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**

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**Note 5 – Assets Limited as to Use (continued)**

	2017	2016
Restricted		
For the Health Trust		
Certificates of deposit	\$ 6,962,862	\$ 7,458,897
For workers' compensation trust		
Cash and cash equivalents	12,927	105,064
Mutual funds	-	968,568
Corporate bonds	2,337,674	-
Certificates of deposit	1,655,366	2,116,511
	4,005,967	3,190,143
By donor		
Cash and cash equivalents	1,448,512	1,770,687
Mutual funds	14,784,883	14,449,047
Corporate bonds	5,890,509	3,753,794
Common stock	6,618,552	6,512,825
Government obligations	1,521,000	1,073,379
	30,263,456	27,559,732
For loan collateral		
Cash and cash equivalents	1,021	2,827
Mutual funds	959,679	942,400
Corporate bonds	-	49,900
Common stock	91,602	32,424
	1,052,302	1,027,551
	42,284,587	39,236,323
Less current portion	(2,457,969)	(2,457,969)
	\$ 39,826,618	\$ 36,778,354

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 5 – Assets Limited as to Use (continued)

**Investment income** – Investment income and gains and losses on assets limited as to use, cash equivalents, and other investments consist of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Other operating revenue		
Investment income	<u>\$ 666,436</u>	<u>\$ 545,824</u>
Other income		
Interest and dividends	\$ 2,249,810	\$ 2,532,610
Realized gains (losses) on investments	<u>7,544,527</u>	<u>(509,338)</u>
	<u>\$ 9,794,337</u>	<u>\$ 2,023,272</u>
Other changes in unrestricted, temporarily and permanently restricted net assets		
Change in unrealized gains on investments	<u>\$ 13,561,229</u>	<u>\$ 6,285,402</u>

#### Note 6 – Property and Equipment

A summary of property and equipment at December 31 follows:

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 17,110,214	\$ 16,912,214
Buildings and improvements	371,756,037	409,122,634
Fixed, major movable, and minor equipment	200,585,675	189,856,067
Construction in progress	<u>12,151,770</u>	<u>2,003,349</u>
	601,603,696	617,894,264
Less accumulated depreciation	<u>(325,926,863)</u>	<u>(345,597,393)</u>
Net property and equipment	<u>\$ 275,676,833</u>	<u>\$ 272,296,871</u>

#### Note 7 – Other Assets

Other assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Investment in joint ventures	\$ 176,643	\$ 4,392,461
Deferred compensation plan assets	683,238	1,481,581
Estimated insurance recoveries	13,106,011	10,496,572
Other	<u>3,037,140</u>	<u>2,292,703</u>
	<u>\$ 17,003,032</u>	<u>\$ 18,663,317</u>

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 8 – Other Accrued Liabilities

Other accrued liabilities consist of the following at December 31:

	2017	2016
Accrued interest payable	\$ 2,971,022	\$ 1,308,159
Estimated liability for unpaid claims under the Health Trust	2,457,969	2,457,969
Estimated liability for unpaid professional liability claims	283,759	266,322
Montana State Hospital Utilization Fee payable and other	2,506,435	2,391,901
	\$ 8,219,185	\$ 6,424,351

#### Note 9 – Long-Term Debt

Long-term debt consists of the following at December 31:

	2017	2016
Montana Facility Finance Authority Revenue Bonds, Series 2016, plus unamortized premium of \$19,515,425 and \$20,187,933, with interest rates varying from 3.50% to 5.00%, with annual principal payments ranging from \$4,110,000 to 9,125,000 through February 2041, secured by facilities, payable by BMG, Benefis Hospitals, Inc., and Benefis Health System Administration.	\$ 160,765,425	\$ 161,437,933
Montana Facility Finance Authority Revenue Bonds, Series 2017A, with interest rates varying based on the LIBOR index rate (1.96% at December 31, 2017), with annual principal payments increasing from \$1,820,000 to \$2,550,000 through December 2030, secured by facilities, payable by BMG, Benefis Hospitals, Inc., and Benefis Health System Administration.	28,300,000	-
Note payable to bank, due in annual principal payments from \$730,899 to \$1,470,712, plus quarterly interest payments at LIBOR plus 2.50% (4.98% at December 31, 2017) through June 2030, secured by facilities, payable by BMG, Benefis Hospitals, Inc., and Benefis Health System Administration.	13,800,934	14,490,461
Note payable to bank, due in monthly principal payments from \$26,090 to \$50,402, plus interest at LIBOR plus 1.6% (2.98% at December 31, 2017) through July 2020 and then LIBOR plus 2.0% thereafter through June 2030, secured by deed of trust and personally guaranteed by Benefis Health System, payable by The Peak.	5,646,255	5,949,824
Note payable to bank, due in monthly principal payments from \$7,100 to \$9,900, plus interest at LIBOR plus 1.6% (2.98% at December 31, 2017) through October 2027 secured by property and equipment, payable by The Peak.	1,345,851	-

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 9 – Long-Term Debt (continued)

	2017	2016
Note payable to bank, due in monthly principal payments of \$6,648, including interest at 3.50%, through September 2019, secured by equipment, payable by The Peak.	138,488	210,488
2011B Bonds paid in full in 2017.	-	14,265,000
Note payable to bank, paid in full in 2017.	-	14,630,949
Long-term debt	209,996,953	210,984,655
Less current portion	(7,708,799)	(2,089,572)
Less net unamortized issuance costs	(1,875,574)	(1,817,097)
	<b>\$200,412,580</b>	<b>\$207,077,986</b>

Long-term debt maturities are as follows:

2018	\$ 7,708,799
2019	7,610,058
2020	8,458,842
2021	8,857,288
2022	9,290,228
Thereafter	148,556,313
	190,481,528
Unamortized bond premium	19,515,425
	<b>\$209,996,953</b>

In November 2016, the Organization advance refunded \$101,750,000 par value and defeased the Series 2007 Revenue Bonds and advance refunded \$41,250,000 par value and defeased the Series 2011A Revenue Bonds with the proceeds of the Series 2016 Revenue Bonds by depositing in escrow accounts amounts that, with interest, were sufficient to meet principal, interest, and premium payments on the advance refunded debt. As a result of the refinancing, the Series 2007 Revenue Bonds and the Series 2011A Revenue Bonds have been legally satisfied. Therefore, neither the advance refunded debt nor the related trust funds are reflected in the accompanying consolidated balance sheets. Loss on bond refunding of \$9,455,253 was recorded and included as nonoperating activity in other income (loss) in the consolidated statement of operations for the year ended December 31, 2016. Through completing this transaction, Benefis expects the net present value of cost savings to be in excess of \$13,000,000 over the life of the debt.

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 9 – Long-Term Debt (continued)

In June 2017, the Organization advance refunded \$13,510,000 par value related to the Series 2011B Revenue Bonds, and paid off the \$14,500,000 note payable to a bank, with the proceeds of the Series 2017A Revenue Bonds. As a result of the refinancing, the Series 2011B Revenue Bonds have been legally satisfied. Therefore, neither the advance refunded debt nor the related trust funds are reflected in the accompanying consolidated balance sheets. Through completing this transaction, Benefis expects the net present value of cost savings to be in excess of \$2,700,000 over the life of the debt.

The revenue bonds payable to Montana Facility Finance Authority are subject to certain covenants regarding certain financial statement amounts, ratios, and activities of the Organization. The Organization is in compliance with these covenants as of December 31, 2017.

#### Note 10 – Other Long-Term Liabilities

Other long-term liabilities consist of the following at December 31:

	2017	2016
Estimated liability for unpaid workers' compensation claims	\$ 5,054,358	\$ 5,053,939
Deferred compensation plan liability	1,045,787	978,274
Estimated liability for unpaid professional liability claims	15,803,744	13,058,463
Fair value of interest rate swaps	2,382,394	3,013,843
Gift annuities payable	530,353	512,951
Other estimated liabilities	-	1,152,198
	24,816,636	23,769,668
Less amounts shown as other current accrued liabilities	(283,759)	(266,322)
	\$ 24,532,877	\$ 23,503,346

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 11 – Net Assets

The changes in consolidated unrestricted net assets attributable to the Organization and transfers to and from noncontrolling interest are as follows for the years ended December 31:

	<u>Total</u>	<u>Controlling Interest</u>	<u>Noncontrolling Interest</u>
Balance, December 31, 2015	\$ 338,471,423	\$ 338,649,861	\$ (178,438)
Excess of revenues over expenses	15,881,391	15,525,132	356,259
Change in unrealized gains and losses on investments	5,455,118	5,455,118	-
Net assets released used for property and equipment	916,999	916,999	-
Gain on interest rate swap agreement	1,082,282	1,006,058	76,224
Distributions to noncontrolling members	<u>(262,640)</u>	<u>-</u>	<u>(262,640)</u>
Increase in net assets	<u>23,073,150</u>	<u>22,903,307</u>	<u>169,843</u>
Balance, December 31, 2016	<u>361,544,573</u>	<u>361,553,168</u>	<u>(8,595)</u>
Excess of revenues over expenses	35,612,119	35,390,210	221,909
Change in unrealized gains and losses on investments	11,751,592	11,751,592	-
Net assets released used for property and equipment	-	-	-
Gain on interest rate swap agreement	631,449	573,632	57,817
Distributions to noncontrolling members	<u>(208,250)</u>	<u>-</u>	<u>(208,250)</u>
Increase in net assets	<u>47,786,910</u>	<u>47,715,434</u>	<u>71,476</u>
Balance, December 31, 2017	<u>\$ 409,331,483</u>	<u>\$ 409,268,602</u>	<u>\$ 62,881</u>

Temporarily restricted net assets of \$10,456,125 and \$9,060,169 are available for health care services and other various program purposes at December 31, 2017 and 2016, respectively.

Permanently restricted net assets of \$17,321,542 and \$16,736,451 at December 31, 2017 and 2016, respectively, are restricted to investments to be held in perpetuity, the income from which is expendable to support various services (Note 12).

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 12 – Endowment

The Organization has an endowment as a result of the acquisition of the Foundation by the Organization. The Foundation's endowment consists of four separate investment pools established for a variety of purposes. This endowment includes both donor-restricted endowment funds and funds designated by the Foundation's board of directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of relevant law** – The board of directors of the Foundation has interpreted the Montana Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as needing to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Foundation considers the following factors when making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 12 – Endowment (continued)

**Endowment spending policy** – It is the goal of the Foundation to provide annual distributions to support the programs it has identified within its various missions. This goal needs to be balanced with an equally important goal of growing the principal of the pools in real terms. The finance committee of the Foundation's board of directors has taken into consideration the impact cash withdrawals play upon the volatility of a portfolio over time. Taking this into account, the finance committee of the Foundation's board of directors has set annual withdrawal policy limits for each pool.

**Investment objective** – The investment pools of the Foundation are maintained to provide total return through capital appreciation, dividends, and interest income. They are to be invested using sound practices that emphasize long-term investment fundamentals because the Foundation has a time horizon sufficiently long that performance is to be measured over multiple market cycles. It is hoped that through careful management of these assets, the total return will be sufficient to both support the annual distribution needs of the Foundation's programs and continually grow the overall principal of the pools in real terms, while also taking into account the rate of inflation.

**Risk tolerance** – It is the goal of the Foundation to maximize the return of its investment pools with a reasonable and prudent level of risk. The Foundation's finance committee recognizes and acknowledges that there is a relationship between the level of risk assumed and the level of return that can be expected in an investment account. In establishing risk tolerances for each pool, the finance committee has considered both the financial ability to withstand this risk and the willingness to accept this volatility.

**Asset allocation** – The Foundation recognizes that the strategic allocation of assets across broadly defined financial, asset, and specific investment classes is critical in reducing the volatility of the portfolio and in achieving its long-term performance objectives. Taking into account the Foundation's return objectives and risk tolerance, the Foundation's finance committee has set the general asset allocation rules that detail the asset mix between equity and fixed income for each pool.

**Funds with deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions. There were no such deficiencies as of December 31, 2017.

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

#### Note 12 – Endowment (continued)

The endowment net assets composition by type of fund as of December 31 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>2017</b>				
Donor-restricted endowment fund	\$ -	\$ 7,196,319	\$ 17,321,542	\$ 24,517,861
Board-designated endowment fund	3,428,290	-	-	3,428,290
	<u>\$ 3,428,290</u>	<u>\$ 7,196,319</u>	<u>\$ 17,321,542</u>	<u>\$ 27,946,151</u>
<b>2016</b>				
Donor-restricted endowment fund	\$ -	\$ 4,473,662	\$ 16,736,451	\$ 21,210,113
Board-designated endowment fund	2,970,010	-	-	2,970,010
	<u>\$ 2,970,010</u>	<u>\$ 4,473,662</u>	<u>\$ 16,736,451</u>	<u>\$ 24,180,123</u>

The following shows changes in endowment net assets for the years ended December 31:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, December 31, 2015	\$ 2,921,691	\$ 3,746,456	\$ 16,328,344	\$ 22,996,491
Contributions	1,000	-	847,326	848,326
Investment return				
Investment income	114,076	493,674	-	607,750
Net depreciation/appreciation	94,443	826,696	-	921,139
Distribution of endowment returns and other	<u>(161,200)</u>	<u>(593,164)</u>	<u>(439,219)</u>	<u>(1,193,583)</u>
Balance, December 31, 2016	2,970,010	4,473,662	16,736,451	24,180,123
Contributions	1,000	-	575,258	576,258
Investment return				
Investment income	135,231	616,764	-	751,995
Net depreciation/appreciation	322,049	1,804,804	-	2,126,853
Distribution of endowment returns and other	<u>-</u>	<u>301,089</u>	<u>9,833</u>	<u>310,922</u>
Balance, December 31, 2017	<u>\$ 3,428,290</u>	<u>\$ 7,196,319</u>	<u>\$ 17,321,542</u>	<u>\$ 27,946,151</u>

# Benefis Health System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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### Note 13 – Benefit Plans

**Qualified pension plans** – Benefis Hospitals, Inc., Spectrum, BMG, BCH, and BHSA have a defined contribution pension plan under IRC Section 403(b) covering all employees upon employment. Upon completion of one year of service, with at least 1,040 hours, for those employees with a contribution percentage of at least 2.5%, Benefis Hospitals, Inc., Spectrum, BMG, and Benefis Health System Administration contribute a discretionary matching percentage, which increases from 5% to 7% depending on the number of years of service.

The Peak has a defined contribution pension plan qualified under the IRC as a Savings Incentive Match Plan for Employees (SIMPLE) that provides benefits to employees who have earned at least \$5,000 during the previous two years. Under the SIMPLE, The Peak provides a matching contribution of up to 2% of the employee’s wages.

Benefis Hospitals, Inc., Spectrum, BMG, BCH, and BHSA have a second defined contribution pension plan under IRC 403(b) covering substantially all employees upon employment. This Plan is a salary reduction only plan.

Pension expense under the qualified pension plans and the nonqualified deferred compensation plan totaled \$6,848,552 and \$5,974,378 for the years ended December 31, 2017 and 2016, respectively.

**Nonqualified deferred compensation plan** – Benefis provides a Section 457 nonqualified deferred compensation plan for certain employees.

### Note 14 – Concentrations of Credit Risk

Benefis Hospitals, Inc. grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at December 31 was as follows:

	2017	2016
Medicare	36%	30%
Medicaid	17%	22%
Self-pay patients and residents	13%	18%
Other third-party payors	13%	11%
Commercial insurance	12%	11%
Blue Cross	9%	8%
	<u>100%</u>	<u>100%</u>

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 15 – Functional Expenses

The Organization provides health care, education, and social services to patients and residents within its geographic location. Expenses related to providing these services by functional class for the years ended December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Patient health care and other program services	\$ 296,260,888	\$ 275,519,212
General and administrative	<u>118,865,141</u>	<u>113,973,061</u>
	<u>\$ 415,126,029</u>	<u>\$ 389,492,273</u>

#### Note 16 – Fair Value of Financial Instruments

The following methods and assumptions were used by the Organization in estimating the fair value of its financial instruments. The carrying amounts of cash and cash equivalents, accounts payable, accrued expenses, and estimated third-party payor settlements reported in the consolidated balance sheets approximate the fair value of these instruments. The fair value of long-term debt is estimated using either current traded values or discounted cash flow analyses based on borrowing rates currently available to the Organization for similar arrangements. The estimated fair value of long-term debt reported at the carrying amount in the consolidated balance sheets is approximately \$210,127,000 and \$206,328,000 at December 31, 2017 and 2016, respectively. These instruments are categorized as Level 2 in the fair value hierarchy (Note 2). Fair values of assets whose use is limited are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Fair values of interest rate swaps included in other long-term liabilities in the consolidated balance sheets are based on observable significant inputs.

*Pooled common account* – Units held in common accounts are valued using the net asset value practical expedient (NAV practical expedient) of the common account as reported by the common account managers. The NAV practical expedient is based on the fair value of the underlying assets owned by the common account, minus its liabilities, and then divided by the number of units outstanding.

# Benefis Health System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### Note 16 – Fair Value of Financial Instruments (continued)

The following table discloses, by level, the fair value hierarchy categorization for assets whose use is limited and interest rate swaps:

	Total	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>2017</b>				
Assets whose use is limited				
Cash and cash equivalents	\$ 12,806,200	\$ 12,806,200	\$ -	\$ -
Certificates of deposit	8,618,228	-	8,618,228	-
Money market	20,490,061	-	20,490,061	-
Mutual funds	28,926,402	28,926,402	-	-
Common stock	41,890,332	41,890,332	-	-
Government obligations	1,521,000	-	1,521,000	-
Corporate bonds	74,579,215	-	74,579,215	-
Other assets	28,646,252	-	28,646,252	-
Total assets whose use is limited at fair value	217,477,690	83,622,934	133,854,756	-
Pooled common accounts	78,044,202			
Total assets whose use is limited	<u>\$ 295,521,892</u>			
Other long-term liabilities				
Interest rate swaps	<u>\$ 2,382,394</u>	<u>\$ -</u>	<u>\$ 2,382,394</u>	<u>\$ -</u>
<b>2016</b>				
Assets whose use is limited				
Cash and cash equivalents	\$ 1,901,929	\$ 1,901,929	\$ -	\$ -
Certificates of deposit	9,575,408	-	9,575,408	-
Money market	23,535,498	-	23,535,498	-
Mutual funds	34,953,660	34,953,660	-	-
Common stock	69,665,246	69,665,246	-	-
Government obligations	1,073,379	-	1,073,379	-
Corporate bonds	50,768,704	-	50,768,704	-
Other assets	13,975,463	-	13,975,463	-
Total assets whose use is limited at fair value	205,449,287	106,520,835	98,928,452	-
Pooled common accounts	16,678,671			
Total assets whose use is limited	<u>\$ 222,127,958</u>			
Other long-term liabilities				
Interest rate swaps	<u>\$ 3,013,843</u>	<u>\$ -</u>	<u>\$ 3,013,843</u>	<u>\$ -</u>

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 17 – Commitments and Contingencies

**Operating leases** – The Organization leases certain equipment under noncancelable long-term operating lease agreements. Total lease expense for the years ended December 31, 2017 and 2016, for all operating leases, was approximately \$3,626,000 and \$7,081,000, respectively.

Minimum future lease payments for the operating leases are as follows:

2018	\$ 3,442,000
2019	422,000
2020	404,000
2021	335,000
2022	335,000
Thereafter	<u>335,000</u>
	<u>\$ 5,273,000</u>

**Professional liability** – The Organization has professional and general liability insurance coverage for medical malpractice claims through a multi-employer captive insurance company. The captive insurance company provides coverage on a claims-made basis subject to a limit of \$1,000,000 per claim with an annual aggregate limit of \$3,000,000 for professional coverage and \$1,000,000 for general coverage. The deductible is \$25,000. There is also a shared buffer limit of \$3,000,000 per claim and an annual aggregate limit of \$9,000,000. In addition, the Organization has reinsurance coverage. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Organization has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued malpractice losses have been discounted 5.25% and, in management's opinion, provide an adequate reserve for loss contingencies.

The Organization has recorded a liability of \$15,803,744 and \$13,058,463 at December 31, 2017 and 2016, respectively. The balance is included in other current and long-term liabilities in the accompanying consolidated balance sheets for an estimated liability related to the deductibles and other expenses associated with reported and unreported professional liability claims. The amounts of accrued malpractice losses and related insurance recoveries as of December 31, 2017 and 2016, are included in Notes 7, 8, and 10.

**Workers' compensation** – The Organization maintains a self-insurance program for workers' compensation. Insurance policies through commercial insurance carriers are in force to provide coverage for claims in excess of self-insurance limits. The Organization has recorded a liability for the estimated future costs of claims for which payments will be made. At December 31, 2017 and 2016, the estimated liability for future claims costs totaled \$5,054,358 and \$5,053,939, respectively. These amounts are included in other long-term liabilities in the accompanying consolidated balance sheets. The calculation for the liability included a discount of 1%.

**Employee Health and Welfare Trust** – The Organization has a self-insured plan (the Health Trust) for its group health and dental insurance whose estimated liabilities of \$2,457,696 at December 31, 2017 and 2016, are included in other accrued liabilities in the accompanying consolidated balance sheets. Insurance policies through commercial insurance companies are in force to provide coverage for certain claims in excess of self-insurance limits.

## **Benefis Health System, Inc. and Affiliates**

### **Notes to Consolidated Financial Statements**

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#### **Note 17 – Commitments and Contingencies (continued)**

**Litigation, claims, and disputes** – The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the consolidated financial position of the Organization.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with those laws and regulations, specifically those relating to Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient and resident services. Management believes that the Organization is in substantial compliance with current laws and regulations.

**Guarantees** – Benefis is a guarantor of all the debt for The Peak, which is included in the consolidated financial statements.

## **Supplementary Consolidating Schedules**

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**Benefis Health System, Inc. and Affiliates**  
**Consolidating Balance Sheet**  
**December 31, 2017**

<b>ASSETS</b>												
	Benefis Hospitals, Inc.	Benefis Spectrum Medical, Inc.	Great Falls Athletic Club, LLC	Employee Health Plan Trust	Benefis Medical Group, Inc.	Benefis Sletten Hi-Line Cancer Center, LLC	Benefis Health System Foundation, Inc.	Benefis Health System Administration	Benefis Community Hospitals, Inc.	Walk-In Care Express	Eliminations	Consolidated Total
<b>CURRENT ASSETS</b>												
Cash and cash equivalents	\$ (2,445,324)	\$ (81,145)	\$ 195,640	\$ 3,299,885	\$ (55,937)	\$ -	\$ 20,845	\$ 45,331,534	\$ 159,188	\$ -	\$ -	\$ 46,424,686
Assets limited as to use	-	-	-	2,457,969	-	-	-	11,134,455	-	-	-	13,592,424
Receivables												
Patient and resident, net	62,665,774	1,487,327	3,963	-	-	-	-	162,506	337,285	-	-	64,656,855
Affiliates	377,752,558	6,785,813	-	-	250,664,193	432,007	853,056	310,022,269	436,083	-	(946,945,979)	-
Other	4,451,733	(1,581)	-	34,933	78,374	-	-	83,979	-	-	-	4,647,438
Supplies	8,487,576	1,933,964	29,045	-	-	-	-	-	55,240	-	-	10,505,825
Other	438,954	7,638	-	-	-	-	-	3,126,242	63,590	-	-	3,636,424
<b>Total current assets</b>	<b>451,351,271</b>	<b>10,132,016</b>	<b>228,648</b>	<b>5,792,787</b>	<b>250,686,630</b>	<b>432,007</b>	<b>873,901</b>	<b>369,860,985</b>	<b>1,051,386</b>	<b>-</b>	<b>(946,945,979)</b>	<b>143,463,652</b>
<b>ASSETS LIMITED AS TO USE</b>												
By board	-	-	-	-	-	-	3,340,564	228,514,146	-	-	-	231,854,710
Held by trustees	-	-	-	-	-	-	-	10,248,140	-	-	-	10,248,140
Restricted	-	-	-	4,504,893	-	-	30,263,834	5,057,891	-	-	-	39,826,618
<b>Total assets limited as to use, net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,504,893</b>	<b>-</b>	<b>-</b>	<b>33,604,398</b>	<b>243,820,177</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>281,929,468</b>
<b>PROPERTY AND EQUIPMENT</b>	<b>68,336,501</b>	<b>3,625,498</b>	<b>7,747,793</b>	<b>-</b>	<b>-</b>	<b>8,861</b>	<b>-</b>	<b>194,970,900</b>	<b>1,247,473</b>	<b>-</b>	<b>(260,193)</b>	<b>275,676,833</b>
<b>OTHER ASSETS</b>	<b>112,001</b>	<b>320,074</b>	<b>27,209</b>	<b>-</b>	<b>-</b>	<b>40,214</b>	<b>974,597</b>	<b>31,406,401</b>	<b>-</b>	<b>-</b>	<b>(15,877,464)</b>	<b>17,003,032</b>
<b>Total assets</b>	<b>\$ 519,799,773</b>	<b>\$ 14,077,588</b>	<b>\$ 8,003,650</b>	<b>\$ 10,297,680</b>	<b>\$ 250,686,630</b>	<b>\$ 481,082</b>	<b>\$ 35,452,896</b>	<b>\$ 840,058,463</b>	<b>\$ 2,298,859</b>	<b>\$ -</b>	<b>\$ (963,083,636)</b>	<b>\$ 718,072,985</b>
<b>LIABILITIES AND NET ASSETS</b>												
<b>CURRENT LIABILITIES</b>												
Accounts payable	\$ 7,589,085	\$ 119,586	\$ 188,803	\$ 380,234	\$ (1,571)	\$ -	\$ 54,390	\$ 3,214,118	\$ 65,743	\$ -	\$ -	\$ 11,610,388
Payable to affiliates	389,384,243	2,755,712	-	100,393	243,635,275	454,732	201,769	306,434,432	3,979,423	-	(946,945,979)	-
Accrued compensation and benefits	13,320,888	996,830	89,330	-	7,281,684	-	-	2,445,429	-	-	-	24,134,161
Estimated third-party payor settlements	4,345,845	-	-	-	-	-	-	-	-	-	-	4,345,845
Other accrued liabilities	1,620,569	-	-	2,478,523	(3,974)	-	-	4,112,039	12,028	-	-	8,219,185
Current portion of long-term debt	-	-	437,900	-	-	-	-	7,270,899	-	-	-	7,708,799
<b>Total current liabilities</b>	<b>416,260,630</b>	<b>3,872,128</b>	<b>716,033</b>	<b>2,959,150</b>	<b>250,911,414</b>	<b>454,732</b>	<b>256,159</b>	<b>323,476,917</b>	<b>4,057,194</b>	<b>-</b>	<b>(946,945,979)</b>	<b>56,018,378</b>
LONG-TERM DEBT, net of current portion	-	-	6,692,694	-	-	-	-	193,719,886	-	-	-	200,412,580
OTHER LONG-TERM LIABILITIES	-	-	466,595	-	-	-	530,353	23,535,929	-	-	-	24,532,877
<b>Total liabilities</b>	<b>416,260,630</b>	<b>3,872,128</b>	<b>7,875,322</b>	<b>2,959,150</b>	<b>250,911,414</b>	<b>454,732</b>	<b>786,512</b>	<b>540,732,732</b>	<b>4,057,194</b>	<b>-</b>	<b>(946,945,979)</b>	<b>280,963,835</b>
<b>NET ASSETS</b>												
Unrestricted												
Benefis Health System, Inc.	103,539,143	10,205,460	128,328	7,338,530	(224,784)	26,350	6,888,717	299,325,731	(1,758,335)	-	(16,200,538)	409,268,602
Noncontrolling interest	-	-	-	-	-	-	-	-	-	-	62,881	62,881
Temporarily restricted	-	-	-	-	-	-	10,456,125	-	-	-	-	10,456,125
Permanently restricted	-	-	-	-	-	-	17,321,542	-	-	-	-	17,321,542
<b>Total net assets</b>	<b>103,539,143</b>	<b>10,205,460</b>	<b>128,328</b>	<b>7,338,530</b>	<b>(224,784)</b>	<b>26,350</b>	<b>34,666,384</b>	<b>299,325,731</b>	<b>(1,758,335)</b>	<b>-</b>	<b>(16,137,657)</b>	<b>437,109,150</b>
<b>Total liabilities and net assets</b>	<b>\$ 519,799,773</b>	<b>\$ 14,077,588</b>	<b>\$ 8,003,650</b>	<b>\$ 10,297,680</b>	<b>\$ 250,686,630</b>	<b>\$ 481,082</b>	<b>\$ 35,452,896</b>	<b>\$ 840,058,463</b>	<b>\$ 2,298,859</b>	<b>\$ -</b>	<b>\$ (963,083,636)</b>	<b>\$ 718,072,985</b>

**Benefis Health System, Inc. and Affiliates**  
**Consolidating Statement of Operations**  
**Year Ended December 31, 2017**

	Benefis Hospitals, Inc.	Benefis Spectrum Medical, Inc.	Great Falls Athletic Club, LLC	Employee Health Plan Trust	Benefis Medical Group, Inc.	Benefis Sletten Hi-Line Cancer Center, LLC	Benefis Health System Foundation, Inc.	Benefis Health System Administration	Benefis Community Hospitals, Inc.	Walk-In Care Express	Eliminations	Consolidated Total
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>												
Net patient and resident service revenue	\$ 405,945,234	\$ 14,586,320	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,940,845	\$ -	\$ -	\$ 426,472,399
Provision for bad debts	(9,948,107)	(119,441)	(15,599)	-	-	-	-	703,495	14,434	-	-	(9,365,218)
Other operating revenue	12,625,148	1,323,026	3,889,108	19,371,762	65,074,161	557,944	3,694,734	(3,037,290)	278,513	-	(80,277,996)	23,499,110
<b>Total revenues, gains, and other support</b>	<b>408,622,275</b>	<b>15,789,905</b>	<b>3,873,509</b>	<b>19,371,762</b>	<b>65,074,161</b>	<b>557,944</b>	<b>3,694,734</b>	<b>(2,333,795)</b>	<b>6,233,792</b>	<b>-</b>	<b>(80,277,996)</b>	<b>440,606,291</b>
<b>OPERATING EXPENSES</b>												
Salaries and wages	109,641,681	9,256,941	1,410,232	-	57,991,433	-	422,903	15,976,844	3,517,487	-	-	198,217,521
Employee benefits	22,167,143	1,906,736	222,988	18,307,295	5,153,798	-	88,017	6,814,095	744,435	-	(14,302,553)	41,101,954
Professional fees	70,470,255	175,154	136,241	689,636	-	1	74,297	7,794,106	1,132,840	-	(63,154,974)	17,317,556
Supplies	75,498,660	1,948,371	198,722	-	-	-	13,218	918,259	511,238	1	(479,321)	78,609,148
Purchased services	19,392,197	661,254	284,352	-	-	-	6,210	9,800,586	691,058	-	(842,504)	29,993,153
Depreciation	9,073,791	204,810	363,255	-	-	8,921	1,714	12,386,872	465,855	-	-	22,505,218
Interest	4,657,977	-	312,545	-	-	-	-	3,407,963	1	-	-	8,378,486
Other	9,781,152	597,309	492,302	-	1,928,930	284,016	3,193,134	7,732,244	219,724	-	(5,225,818)	19,002,993
<b>Total operating expenses</b>	<b>320,682,856</b>	<b>14,750,575</b>	<b>3,420,637</b>	<b>18,996,931</b>	<b>65,074,161</b>	<b>292,938</b>	<b>3,799,493</b>	<b>64,830,969</b>	<b>7,282,638</b>	<b>1</b>	<b>(84,005,170)</b>	<b>415,126,029</b>
<b>OPERATING INCOME (LOSS)</b>	<b>87,939,419</b>	<b>1,039,330</b>	<b>452,872</b>	<b>374,831</b>	<b>-</b>	<b>265,006</b>	<b>(104,759)</b>	<b>(67,164,764)</b>	<b>(1,048,846)</b>	<b>(1)</b>	<b>3,727,174</b>	<b>25,480,262</b>
<b>OTHER INCOME (LOSS)</b>	<b>(63,159,656)</b>	<b>(1,728,983)</b>	<b>-</b>	<b>-</b>	<b>(224,783)</b>	<b>-</b>	<b>759,579</b>	<b>74,939,510</b>	<b>(729,490)</b>	<b>275,680</b>	<b>-</b>	<b>10,131,857</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>\$ 24,779,763</b>	<b>\$ (689,653)</b>	<b>\$ 452,872</b>	<b>\$ 374,831</b>	<b>\$ (224,783)</b>	<b>\$ 265,006</b>	<b>\$ 654,820</b>	<b>\$ 7,774,746</b>	<b>\$ (1,778,336)</b>	<b>\$ 275,679</b>	<b>\$ 3,727,174</b>	<b>\$ 35,612,119</b>

**Benefis Health System, Inc. and Affiliates**  
**Consolidating Statement of Changes in Net Assets**  
**Year Ended December 31, 2017**

	Benefis Hospitals, Inc.	Benefis Spectrum Medical, Inc.	Great Falls Athletic Club, LLC	Employee Health Plan Trust	Benefis Medical Group, Inc.	Benefis Sletten Hi-Line Cancer Center, LLC	Benefis Health System Foundation, Inc.	Benefis Health System Administration	Benefis Community Hospitals, Inc.	Walk In Care Express	Eliminations	Consolidated Total
UNRESTRICTED, beginning of year	\$ 77,759,380	\$ 10,895,113	\$ (17,538)	\$ 6,961,734	\$ (1)	\$ (238,656)	\$ 5,506,975	\$ 278,822,683	\$ 20,001	\$ (275,679)	\$ (17,889,439)	\$ 361,544,573
Excess (deficiency) of revenues over expenses	24,779,763	(689,653)	452,872	374,831	(224,783)	265,006	654,820	7,774,746	(1,778,336)	275,679	3,727,174	35,612,119
Change in unrealized gains and losses on investments	-	-	-	1,965	-	-	726,922	11,024,671	-	-	(1,966)	11,751,592
Gain (loss) on interest rate swap agreement	-	-	117,994	-	-	-	-	573,632	-	-	(60,177)	631,449
Net assets released from restriction for property and equipment	1,000,000	-	-	-	-	-	-	1,129,999	-	-	(2,129,999)	-
Interaffiliate transfers	-	-	(216,750)	-	-	-	-	-	-	-	216,750	-
Distributions to noncontrolling members	-	-	(208,250)	-	-	-	-	-	-	-	-	(208,250)
Increase (decrease) in unrestricted net assets	25,779,763	(689,653)	145,866	376,796	(224,783)	265,006	1,381,742	20,503,048	(1,778,336)	275,679	1,751,782	47,786,910
UNRESTRICTED, end of year	\$ 103,539,143	\$ 10,205,460	\$ 128,328	\$ 7,338,530	\$ (224,784)	\$ 26,350	\$ 6,888,717	\$ 299,325,731	\$ (1,758,335)	\$ -	\$ (16,137,657)	\$ 409,331,483
TEMPORARILY RESTRICTED, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,060,169	\$ -	\$ -	\$ -	\$ -	\$ 9,060,169
Contributions	-	-	-	-	-	-	1,545,120	-	-	-	-	1,545,120
Interest income	-	-	-	-	-	-	616,797	-	-	-	-	616,797
Change in unrealized gains and losses on investments	-	-	-	-	-	-	1,809,637	-	-	-	-	1,809,637
Special events, net	-	-	-	-	-	-	233,518	-	-	-	-	233,518
Net assets released from restriction	-	-	-	-	-	-	(2,809,116)	-	-	-	-	(2,809,116)
Increase in temporarily restricted net assets	-	-	-	-	-	-	1,395,956	-	-	-	-	1,395,956
TEMPORARILY RESTRICTED, end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,456,125	\$ -	\$ -	\$ -	\$ -	\$ 10,456,125
PERMANENTLY RESTRICTED, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,736,451	\$ -	\$ -	\$ -	\$ -	\$ 16,736,451
Contributions	-	-	-	-	-	-	575,258	-	-	-	-	575,258
Net assets released from restriction	-	-	-	-	-	-	9,833	-	-	-	-	9,833
PERMANENTLY RESTRICTED, end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,321,542	\$ -	\$ -	\$ -	\$ -	\$ 17,321,542

**Benefis Health System, Inc. and Affiliates**  
**Consolidating Balance Sheet**  
**December 31, 2016**

<b>ASSETS</b>														
	Benefis Hospitals, Inc.	Benefis Spectrum Medical, Inc.	Great Falls Athletic Club, LLC	Employee Health Plan Trust	Benefis Medical Group, Inc.	Benefis Sletten Hi-Line Cancer Center, LLC	BBB, LLC	Ambulatory Surgery Center, LLC	Benefis Health System Foundation, Inc.	Benefis Health System Administration	Benefis Community Hospitals, Inc.	Walk-In Care Express	Eliminations	Consolidated Total
<b>CURRENT ASSETS</b>														
Cash and cash equivalents	\$ (2,463,782)	\$ (103,838)	\$ 296,344	\$ 2,407,872	\$ (53,490)	\$ -	\$ -	\$ -	\$ (100,324)	\$ 68,537,093	\$ 769,078	\$ 54,002	\$ -	\$ 69,342,955
Assets limited as to use	-	-	-	2,457,969	-	-	-	-	-	3,153,835	-	-	-	5,611,804
Receivables														
Patient and resident, net	59,701,348	1,960,438	43,070	-	-	-	-	-	-	194,285	623,440	-	-	62,522,581
Affiliates	267,500,038	6,031,695	-	-	186,130,630	167,675	-	-	527,492	237,139,306	(115,169)	(33,852)	(697,347,815)	-
Other	4,319,880	(645)	-	39,680	140,782	-	-	-	51,696	71,250	-	-	-	4,622,643
Supplies	8,471,556	1,620,312	34,601	-	-	-	-	-	-	-	71,608	-	-	10,198,077
Other	473,204	8,365	-	-	-	-	-	-	-	2,879,709	13,877	-	-	3,375,155
<b>Total current assets</b>	<b>338,002,244</b>	<b>9,516,327</b>	<b>374,015</b>	<b>4,905,521</b>	<b>186,217,922</b>	<b>167,675</b>	<b>-</b>	<b>-</b>	<b>478,864</b>	<b>311,975,478</b>	<b>1,362,834</b>	<b>20,150</b>	<b>(697,347,815)</b>	<b>155,673,215</b>
<b>ASSETS LIMITED AS TO USE</b>														
By board	5	-	-	-	-	-	-	-	2,988,610	156,434,672	-	-	-	159,423,287
Held by trustees	90	-	-	-	-	-	-	-	-	20,314,423	-	-	-	20,314,513
Restricted	-	-	-	5,000,928	-	-	-	-	27,559,732	4,217,694	-	-	-	36,778,354
<b>Total assets limited as to use, net</b>	<b>95</b>	<b>-</b>	<b>-</b>	<b>5,000,928</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,548,342</b>	<b>180,966,789</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>216,516,154</b>
<b>PROPERTY AND EQUIPMENT</b>	<b>67,992,165</b>	<b>3,755,361</b>	<b>6,535,208</b>	<b>-</b>	<b>-</b>	<b>17,782</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>192,787,428</b>	<b>1,469,120</b>	<b>-</b>	<b>(260,193)</b>	<b>272,296,871</b>
<b>OTHER ASSETS</b>	<b>-</b>	<b>291,885</b>	<b>22,081</b>	<b>-</b>	<b>-</b>	<b>30,619</b>	<b>-</b>	<b>-</b>	<b>1,021,800</b>	<b>34,926,178</b>	<b>-</b>	<b>-</b>	<b>(17,629,246)</b>	<b>18,663,317</b>
<b>Total assets</b>	<b>\$ 405,994,504</b>	<b>\$ 13,563,573</b>	<b>\$ 6,931,304</b>	<b>\$ 9,906,449</b>	<b>\$ 186,217,922</b>	<b>\$ 216,076</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 32,049,006</b>	<b>\$ 720,655,873</b>	<b>\$ 2,831,954</b>	<b>\$ 20,150</b>	<b>\$ (715,237,254)</b>	<b>\$ 663,149,557</b>
<b>LIABILITIES AND NET ASSETS</b>														
<b>CURRENT LIABILITIES</b>														
Accounts payable	\$ 8,167,645	\$ 185,771	\$ 124,247	\$ 367,177	\$ 33,800	\$ -	\$ -	\$ -	\$ 47,711	\$ 2,434,428	\$ 29,432	\$ (96)	\$ -	\$ 11,390,115
Payable to affiliates	301,052,740	1,486,902	-	103,363	180,251,221	454,732	-	-	184,749	210,780,271	2,737,912	295,925	(697,347,815)	-
Accrued compensation and benefits	12,021,740	995,787	79,694	-	5,932,902	-	-	-	-	1,980,781	-	-	-	21,010,904
Estimated third-party payor settlements	4,312,090	-	-	-	-	-	-	-	-	-	-	-	-	4,312,090
Other accrued liabilities	1,528,711	-	-	2,474,175	-	-	-	-	-	2,376,856	44,609	-	-	6,424,351
Current portion of long-term debt	-	-	374,083	-	-	-	-	-	-	1,715,489	-	-	-	2,089,572
<b>Total current liabilities</b>	<b>327,082,926</b>	<b>2,668,460</b>	<b>578,024</b>	<b>2,944,715</b>	<b>186,217,923</b>	<b>454,732</b>	<b>-</b>	<b>-</b>	<b>232,460</b>	<b>219,287,825</b>	<b>2,811,953</b>	<b>295,829</b>	<b>(697,347,815)</b>	<b>45,227,032</b>
<b>LONG-TERM DEBT, net of current portion</b>	<b>-</b>	<b>-</b>	<b>5,786,229</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>201,291,757</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>207,077,986</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>1,152,198</b>	<b>-</b>	<b>584,589</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>512,951</b>	<b>21,253,608</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,503,346</b>
<b>Total liabilities</b>	<b>328,235,124</b>	<b>2,668,460</b>	<b>6,948,842</b>	<b>2,944,715</b>	<b>186,217,923</b>	<b>454,732</b>	<b>-</b>	<b>-</b>	<b>745,411</b>	<b>441,833,190</b>	<b>2,811,953</b>	<b>295,829</b>	<b>(697,347,815)</b>	<b>275,808,364</b>
<b>NET ASSETS</b>														
Unrestricted														
Benefis Health System, Inc.	77,759,380	10,895,113	(17,538)	6,961,734	(1)	(238,656)	-	-	5,506,975	278,822,683	20,001	(275,679)	(17,880,844)	361,553,168
Noncontrolling interest	-	-	-	-	-	-	-	-	-	-	-	-	(8,595)	(8,595)
Temporarily restricted	-	-	-	-	-	-	-	-	9,060,169	-	-	-	-	9,060,169
Permanently restricted	-	-	-	-	-	-	-	-	16,736,451	-	-	-	-	16,736,451
<b>Total net assets</b>	<b>77,759,380</b>	<b>10,895,113</b>	<b>(17,538)</b>	<b>6,961,734</b>	<b>(1)</b>	<b>(238,656)</b>	<b>-</b>	<b>-</b>	<b>31,303,595</b>	<b>278,822,683</b>	<b>20,001</b>	<b>(275,679)</b>	<b>(17,889,439)</b>	<b>387,341,193</b>
<b>Total liabilities and net assets</b>	<b>\$ 405,994,504</b>	<b>\$ 13,563,573</b>	<b>\$ 6,931,304</b>	<b>\$ 9,906,449</b>	<b>\$ 186,217,922</b>	<b>\$ 216,076</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 32,049,006</b>	<b>\$ 720,655,873</b>	<b>\$ 2,831,954</b>	<b>\$ 20,150</b>	<b>\$ (715,237,254)</b>	<b>\$ 663,149,557</b>

**Benefis Health System, Inc. and Affiliates**  
**Consolidating Statement of Operations**  
**Year Ended December 31, 2016**

	Benefis Hospitals, Inc.	Benefis Spectrum Medical, Inc.	Great Falls Athletic Club, LLC	Employee Health Plan Trust	Benefis Medical Group, Inc.	Benefis Sletten Hi-Line Cancer Center, LLC	BBB, LLC	Ambulatory Surgery Center, LLC	Benefis Health System Foundation, Inc.	Benefis Health System Administration	Benefis Community Hospitals, Inc.	Walk-In Care Express	Eliminations	Consolidated Total
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>														
Net patient and resident service revenue	\$ 377,150,202	\$ 15,984,967	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,977,852	\$ 55,563	\$ -	\$ 398,168,584
Provision for bad debts	(11,679,583)	(144,005)	(17,659)	-	-	-	-	-	-	632,384	49,927	(545)	-	(11,159,481)
Other operating revenue	12,402,303	1,630,482	3,751,471	18,611,006	52,208,186	616,122	-	-	2,920,576	3,693,877	229,427	-	(69,873,391)	26,190,059
Total revenues, gains, and other support	<u>377,872,922</u>	<u>17,471,444</u>	<u>3,733,812</u>	<u>18,611,006</u>	<u>52,208,186</u>	<u>616,122</u>	<u>-</u>	<u>-</u>	<u>2,920,576</u>	<u>4,326,261</u>	<u>5,257,206</u>	<u>55,018</u>	<u>(69,873,391)</u>	<u>413,199,162</u>
<b>OPERATING EXPENSES</b>														
Salaries and wages	102,015,223	9,422,101	1,404,189	-	46,658,689	-	-	-	534,217	13,976,318	3,371,167	59,349	-	177,441,253
Employee benefits	21,154,780	1,917,521	223,391	17,899,877	3,925,505	-	-	-	101,680	5,984,129	668,890	-	(13,772,578)	38,103,195
Professional fees	61,990,874	258,453	129,932	770,499	-	-	-	-	134,792	7,902,585	1,130,098	220,695	(50,363,338)	22,174,590
Supplies	68,289,969	1,947,432	205,750	-	-	-	-	-	12,506	1,177,737	576,781	16,525	(491,281)	71,735,419
Purchased services	19,078,560	601,026	250,025	-	-	-	-	-	-	7,949,458	679,559	12,092	(942,207)	27,628,513
Depreciation	9,604,113	274,405	336,723	-	-	22,287	-	-	1,714	13,149,557	190,594	-	-	23,579,393
Interest	4,960,356	-	337,446	-	-	-	-	-	-	4,160,027	83	-	-	9,457,912
Other	10,480,301	684,736	416,766	-	1,623,995	284,242	-	-	2,314,896	8,509,136	258,346	22,036	(5,222,456)	19,371,998
Total operating expenses	<u>297,574,176</u>	<u>15,105,674</u>	<u>3,304,222</u>	<u>18,670,376</u>	<u>52,208,189</u>	<u>306,529</u>	<u>-</u>	<u>-</u>	<u>3,099,805</u>	<u>62,808,947</u>	<u>6,875,518</u>	<u>330,697</u>	<u>(70,791,860)</u>	<u>389,492,273</u>
OPERATING INCOME (LOSS)	80,298,746	2,365,770	429,590	(59,370)	(3)	309,593	-	-	(179,229)	(58,482,686)	(1,618,312)	(275,679)	918,469	23,706,889
LOSS ON BOND REFUNDING	(1,079,284)	-	-	-	-	-	-	-	-	(8,375,969)	-	-	-	(9,455,253)
OTHER INCOME	(53,368,857)	(1,497,080)	-	-	-	-	1,627,007	291,508	393,636	56,594,462	(631,646)	-	(1,779,275)	1,629,755
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$ 25,850,605</u>	<u>\$ 868,690</u>	<u>\$ 429,590</u>	<u>\$ (59,370)</u>	<u>\$ (3)</u>	<u>\$ 309,593</u>	<u>\$ 1,627,007</u>	<u>\$ 291,508</u>	<u>\$ 214,407</u>	<u>\$ (10,264,193)</u>	<u>\$ (2,249,958)</u>	<u>\$ (275,679)</u>	<u>\$ (860,806)</u>	<u>\$ 15,881,391</u>

**Benefis Health System, Inc. and Affiliates**  
**Consolidating Statement of Changes in Net Assets**  
**Year Ended December 31, 2016**

	Benefis Hospitals, Inc.	Benefis Spectrum Medical, Inc.	Great Falls Athletic Club, LLC	Employee Health Plan Trust	Benefis Medical Group, Inc.	Benefis Sletten Hi-Line Cancer Center, LLC	BBB, LLC	Ambulatory Surgery Center, LLC	Benefis Health System Foundation, Inc.	Benefis Health System Administration	Benefis Community Hospitals, Inc.	Walk In Care Express	Eliminations	Consolidated Total
UNRESTRICTED, beginning of year	\$ 51,782,157	\$ 10,026,423	\$ (66,687)	\$ 7,023,383	\$ 2	\$ (548,249)	\$ (1,627,007)	\$ (291,508)	\$ 5,026,322	\$ 282,101,564	\$ 2,269,959	\$ -	\$ (17,224,936)	\$ 338,471,423
Excess (deficiency) of revenues over expenses	25,850,605	868,690	429,590	(59,370)	(3)	309,593	1,627,007	291,508	214,407	(10,264,193)	(2,249,958)	(275,679)	(860,806)	15,881,391
Change in unrealized gains and losses on investments	(73,382)	-	-	(2,279)	-	-	-	-	266,246	5,262,255	-	-	2,278	5,455,118
Gain (loss) on interest rate swap agreement	-	-	155,559	-	-	-	-	-	-	1,006,058	-	-	(79,335)	1,082,282
Net assets released from restriction for property and equipment	200,000	-	-	-	-	-	-	-	-	716,999	-	-	-	916,999
Interaffiliate transfers	-	-	(273,360)	-	-	-	-	-	-	-	-	-	273,360	-
Distributions to noncontrolling members	-	-	(262,640)	-	-	-	-	-	-	-	-	-	-	(262,640)
Increase (decrease) in unrestricted net assets	25,977,223	868,690	49,149	(61,649)	(3)	309,593	1,627,007	291,508	480,653	(3,278,881)	(2,249,958)	(275,679)	(664,503)	23,073,150
UNRESTRICTED, end of year	\$ 77,759,380	\$ 10,895,113	\$ (17,538)	\$ 6,961,734	\$ (1)	\$ (238,656)	\$ -	\$ -	\$ 5,506,975	\$ 278,822,683	\$ 20,001	\$ (275,679)	\$ (17,889,439)	\$ 361,544,573
TEMPORARILY RESTRICTED, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,542,435	\$ -	\$ -	\$ -	\$ -	\$ 7,542,435
Contributions	-	-	-	-	-	-	-	-	1,222,710	-	-	-	-	1,222,710
Interest income	-	-	-	-	-	-	-	-	496,349	-	-	-	-	496,349
Change in unrealized gains and losses on investments	-	-	-	-	-	-	-	-	830,284	-	-	-	-	830,284
Special events, net	-	-	-	-	-	-	-	-	249,843	-	-	-	-	249,843
Net assets released from restriction	-	-	-	-	-	-	-	-	(1,281,452)	-	-	-	-	(1,281,452)
Increase (decrease) in temporarily restricted net assets	-	-	-	-	-	-	-	-	1,517,734	-	-	-	-	1,517,734
TEMPORARILY RESTRICTED, end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,060,169	\$ -	\$ -	\$ -	\$ -	\$ 9,060,169
PERMANENTLY RESTRICTED, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,328,344	\$ -	\$ -	\$ -	\$ -	\$ 16,328,344
Contributions	-	-	-	-	-	-	-	-	847,326	-	-	-	-	847,326
Net assets released from restriction	-	-	-	-	-	-	-	-	(439,219)	-	-	-	-	(439,219)
PERMANENTLY RESTRICTED, end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,736,451	\$ -	\$ -	\$ -	\$ -	\$ 16,736,451

