



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

BENEFIS HEALTH SYSTEM, INC. AND AFFILIATES

December 31, 2018 and 2017



MOSSADAMS

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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, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2018 and 2017, 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.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, as of December 31, 2018, Benefis Health System Inc. and Affiliates adopted Financial Accounting Standards Board (FASB) Accounting Standards Board (ASU) 2016-14, *Presenting Financial Statement for Not-for Profit Entities*, and FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Both FASB ASU 2016-14 and 2014-09 have been applied retrospectively to all periods presented, with exception to the omission of certain information as permitted by FASB ASU 2016-14. Our opinion is not modified with respect to this matter.

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.



Everett, Washington
March 15, 2019

Benefis Health System, Inc. and Affiliates Consolidated Balance Sheets

ASSETS

	December 31,	
	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 27,135,606	\$ 46,424,686
Current portion of assets limited as to use	14,778,016	13,592,424
Receivables		
Patient, net of estimated price concessions	58,873,490	64,656,855
Other	4,985,008	4,647,438
Supplies	11,876,836	10,505,825
Other	6,557,882	3,636,424
Total current assets	124,206,838	143,463,652
ASSETS LIMITED AS TO USE, net of current portion		
By board	269,693,786	231,854,710
Held by trustees	55,932	10,248,140
Restricted	36,682,831	39,826,618
Total assets limited as to use, net of current portion	306,432,549	281,929,468
PROPERTY AND EQUIPMENT, net	283,794,587	275,676,833
OTHER ASSETS	20,999,518	17,003,032
Total assets	\$ 735,433,492	\$ 718,072,985
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 14,217,609	\$ 11,610,388
Accrued compensation and benefits	26,688,158	24,134,161
Estimated third-party payor settlements	5,070,588	4,345,845
Other accrued liabilities	9,192,620	8,219,185
Current portion of long-term debt	7,636,063	7,708,799
Total current liabilities	62,805,038	56,018,378
LONG-TERM DEBT, net of current portion	192,281,824	200,412,580
OTHER LONG-TERM LIABILITIES	27,413,791	24,532,877
Total liabilities	282,500,653	280,963,835
NET ASSETS		
Without donor restrictions		
Benefis Health System, Inc. and Affiliates	425,201,633	409,268,602
Noncontrolling interest in subsidiary	84,690	62,881
Total without donor restrictions	425,286,323	409,331,483
With donor restrictions	27,646,516	27,777,667
Total net assets	452,932,839	437,109,150
Total liabilities and net assets	\$ 735,433,492	\$ 718,072,985

Benefis Health System, Inc. and Affiliates
Consolidated Statements of Operations

	Years Ended December 31,	
	2018	2017
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Net patient service revenue	\$ 428,942,427	\$ 417,107,181
Other operating revenue	26,252,822	23,499,110
	<u>455,195,249</u>	<u>440,606,291</u>
OPERATING EXPENSES		
Salaries and wages	202,150,132	198,217,521
Employee benefits	43,847,884	41,101,954
Professional fees	15,982,365	17,317,556
Supplies	86,457,119	78,609,148
Purchased services	30,049,181	29,993,153
Depreciation	22,686,981	22,505,218
Interest	7,946,874	8,378,486
Other	18,445,240	19,002,993
	<u>427,565,776</u>	<u>415,126,029</u>
OPERATING INCOME	27,629,473	25,480,262
OTHER INCOME	6,470,839	10,131,857
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 34,100,312</u>	<u>\$ 35,612,119</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
BALANCE, December 31, 2016	<u>\$ 361,544,573</u>	<u>\$ 25,796,620</u>	<u>\$ 387,341,193</u>
Excess of revenues over expenses	35,612,119	-	35,612,119
Contributions	-	2,120,378	2,120,378
Interest income	-	616,797	616,797
Change in unrealized gains and losses on investments, net	11,751,592	1,809,637	13,561,229
Special events, net	-	233,518	233,518
Net assets released from restriction and reclassifications	-	(2,799,283)	(2,799,283)
Gain on interest rate swap agreement	631,449	-	631,449
Distributions to noncontrolling members	<u>(208,250)</u>	<u>-</u>	<u>(208,250)</u>
Change in net assets	<u>47,786,910</u>	<u>1,981,047</u>	<u>49,767,957</u>
BALANCE, December 31, 2017	<u>409,331,483</u>	<u>27,777,667</u>	<u>437,109,150</u>
Excess of revenues over expenses	34,100,312	-	34,100,312
Contributions	-	1,913,993	1,913,993
Interest income	-	1,068,004	1,068,004
Change in unrealized gains and losses on investments, net	(18,895,300)	(2,513,572)	(21,408,872)
Special events, net	-	266,667	266,667
Net assets released from restriction and reclassifications	-	(866,243)	(866,243)
Gain on interest rate swap agreement	902,708	-	902,708
Distributions to noncontrolling members	<u>(152,880)</u>	<u>-</u>	<u>(152,880)</u>
Change in net assets	<u>15,954,840</u>	<u>(131,151)</u>	<u>15,823,689</u>
BALANCE, December 31, 2018	<u><u>\$ 425,286,323</u></u>	<u><u>\$ 27,646,516</u></u>	<u><u>\$ 452,932,839</u></u>

Benefis Health System, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 15,823,689	\$ 49,767,957
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	22,686,981	22,505,218
Amortization of bond premium and debt issuance costs	(564,739)	(600,500)
Loss on disposal of property and equipment	66,990	188,931
Realized and unrealized (gains) losses on investments	18,298,770	(21,105,756)
Restricted contributions received	(1,913,993)	(2,120,378)
Gain on interest rate swap agreement	(902,708)	(631,449)
(Gain) loss on investments recognized on the equity method	(78,513)	4,215,818
Distributions to noncontrolling interest	152,880	208,250
Changes in certain current assets and liabilities	7,991,573	1,681,686
Changes in other long-term assets	(1,917,973)	(2,555,533)
Changes in other long-term liabilities	3,783,622	1,660,980
	63,426,579	53,215,224
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments limited as to use	185,813,693	168,723,632
Purchase of investments limited as to use	(229,801,136)	(221,011,810)
Purchase and construction of property and equipment	(30,850,576)	(25,311,764)
Contribution to joint venture	(2,000,000)	-
	(76,838,019)	(77,599,942)
CASH FLOWS FROM FINANCING ACTIVITIES		
Restricted contributions received	1,913,993	2,120,378
Proceeds from long-term debt	-	1,345,851
Repayment of long-term debt	(7,638,753)	(1,951,446)
Bond refunding proceeds and other financing activities, net	-	159,916
Distributions to noncontrolling interest	(152,880)	(208,250)
	(5,877,640)	1,466,449
NET CHANGE IN CASH AND CASH EQUIVALENTS	(19,289,080)	(22,918,269)
CASH AND CASH EQUIVALENTS, beginning of year	46,424,686	69,342,955
CASH AND CASH EQUIVALENTS, end of year	\$ 27,135,606	\$ 46,424,686
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest, net of amounts capitalized of \$151,414 in 2018 and \$110,095 in 2017	\$ 8,354,707	\$ 7,206,028
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in property and equipment included in accounts payable	\$ 21,149	\$ 762,347

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

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 services to Benefis by facilitating employment of physicians. 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 2018 and 2017, 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

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.

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; and BHSA (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 accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. 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.

Patient receivables – Patient receivables are uncollateralized patient, resident, customer, and third-party payor obligations. Payments of patient 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 receivables is reduced by implicit and explicit price concessions that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors.

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 2 – Significant Accounting Policies (continued)

Management reviews patient 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 due to implicit price concessions. Management considers historical write-off and recovery information in determining the estimated implicit price concession.

Receivables are reduced by an estimated implicit price concession. In evaluating the collectibility of receivables, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate estimated implicit price concession. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the estimated implicit price concession. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an estimated implicit price concession, 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 implicit price concession 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 estimated implicit price concession.

The Organization's estimated implicit price concession is 76% of the related self-pay receivables at December 31, 2017, compared to 73% of self-pay receivables at December 31, 2018. In addition, self-pay implicit price concessions decreased \$1,700,000 from approximately \$18,900,000 for the year ended December 31, 2017, to \$17,280,000 for the year ended December 31, 2018.

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

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.

Basis of presentation – The Organization's financial statements are presented in accordance with GAAP, as codified by the Financial Accounting Standards Board (FASB). The Foundation has implemented Accounting Standards Codification (ASC) 958, *Not-for-Profit-Entities*, and has adjusted the presentation in these financial statements accordingly, including changes to the presentation of net asset classification on the financial statements, inclusion of information about liquidity and availability of resources (Note 15), and inclusion of information provided about expenses (Note 16). Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor restrictions.

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 2 – Significant Accounting Policies (continued)

- *Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. These are reported as reclassifications between the applicable classes of net assets.

In accordance with ASC 958, net assets at December 31, 2017, have been reclassified as follows:

	Without Donor Restrictions	With Donor Restrictions
Unrestricted	\$ 409,331,483	\$ -
Temporarily restricted	-	10,456,125
Permanently restricted	-	17,321,542
	\$ 409,331,483	\$ 27,777,667

The Organization has three components within net assets without donor restrictions: Benefis Health System, Inc. and Affiliates, noncontrolling interest in subsidiary, and board-designated.

Board-designated represents a fund and the associated earnings on that fund. Annually, in accordance with Foundation grant-making and spending policies, the board approves grants from the related earnings. As of December 31, 2018 and 2017, the Organization had \$3,159,942 and \$3,428,289, respectively, of board-designated funds included in net assets without donor restrictions.

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

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 2 – Significant Accounting Policies (continued)

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital(s) receiving inpatient acute care services or patients receiving services in the outpatient centers or in their homes (home care). The Organization measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Organization does not believe it is required to provide additional goods or services related to that sale.

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

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

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

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 2 – Significant Accounting Policies (continued)

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2018 and 2017, no additional revenue was recognized due to changes in the Organization's estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with those patients.

Charity care – Patients who meet the Organization's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The costs the Organization incurred to provide charity care were approximately \$2,000,000 and \$2,500,000 for the years ended December 31, 2018 and 2017, 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.

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 2 – Significant Accounting Policies (continued)

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 net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restriction, which is included in other operating revenue. 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 without donor restriction (including realized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses. Unrealized gains and losses without donor restriction on investments are excluded from excess of revenues over expenses unless the investments are trading securities.

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 \$5,326,065 and the variable rate was 3.98% as of December 31, 2018.

The second swap expires in June 2030 and fixes the interest rate paid on some of the Series 2017A Revenue Bonds at 3.71%. The outstanding balance of this note payable was \$26,480,000, of which \$12,720,000 was the outstanding notional amount related to the swap. The variable rate was 3.86% as of December 31, 2018.

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 \$13,070,035 and the variable rate was 5.31% as of December 31, 2018.

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 \$1,278,700 and the variable rate was 3.98% as of December 31, 2018.

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.

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 2 – Significant Accounting Policies (continued)

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, 2018 and 2017.

Federal income tax – The Organization comprises several corporations that 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. The Organization has adopted accounting for uncertain tax positions, which is an accounting standard that prescribes a recognition threshold and measurement process for uncertain tax positions. The Organization had no uncertain tax positions as of December 31, 2018 or 2017.

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.

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 2 – Significant Accounting Policies (continued)

New accounting pronouncements – In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in the ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. The Organization evaluated the impact of ASU No. 2014-09 and has implemented this ASU beginning January 1, 2018, with retrospective application. The adoption of ASU No. 2014-09 did not result in any change to net patient service revenue in total as of December 31, 2017.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, to reduce diversity in reporting practice, reduce complexity, and enhance understandability of not-for-profit financial statements. This ASU contains the following key aspects: (A) reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; (B) requires all not-for profits (NFPs) to present expenses by their functional and their natural classifications in one location in the financial statements; (C) requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date; and (D) retains the option to present operating cash flows in the statement of cash flows using either the direct or indirect method. The Organization has implemented this ASU for the year beginning January 1, 2018, with retrospective application.

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 15, 2019, 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

Note 3 – Net Patient Service Revenue

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

Medicare (approximately 45.8% and 45.6% of gross patient service revenues for the years ended December 31, 2018 and 2017, 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. The Organization converted from a Sole Community Hospital to a Disproportionate Share Hospital in October 2018. While a Sole Community Hospital, the Organization was 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, outlier payments, indirect medical education, and disproportionate share. As a Disproportionate Share Hospital, the Organization is paid the combined total of federal operating diagnosis- related group payments, outlier payments, indirect medical education, and disproportionate share. Inpatient capital is paid on a prospectively determined rate and added to the inpatient operating reimbursement. Certain outpatient services, graduate medical education, and bad debt 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, 2014, with the exception of the 2012 report, which is pending a final Centers for Medicare & Medicaid Services (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 20.6% and 20.9% of gross patient service revenues for the years ended December 31, 2018 and 2017, 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 – Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge and discounts from established charges.

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 3 – Net Patient Service Revenue (continued)

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

	<u>2018</u>	<u>2017</u>
Total patient service revenue	<u>\$ 1,040,863,420</u>	<u>\$ 961,468,833</u>
Explicit price concessions		
Medicare	(321,594,161)	(279,681,851)
Medicaid	(145,868,151)	(134,012,187)
Other	<u>(132,004,363)</u>	<u>(121,302,396)</u>
Total explicit price concessions	(599,466,675)	(534,996,434)
Implicit price concession	<u>(12,454,318)</u>	<u>(9,365,218)</u>
Net patient service revenue	<u><u>\$ 428,942,427</u></u>	<u><u>\$ 417,107,181</u></u>

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 implicit price concession related to uninsured patients in the period the services are provided.

Patient service revenue, net of implicit and explicit price concessions, recognized in the period from these major payor sources, is as follows.

For the year ended December 31, 2018	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
Patient service revenue (net of price concessions)	<u>\$ 420,065,800</u>	<u>\$ 8,876,627</u>	<u>\$ 428,942,427</u>
For the year ended December 31, 2017			
Patient service revenue (net of price concessions)	<u>\$ 408,653,170</u>	<u>\$ 8,454,011</u>	<u>\$ 417,107,181</u>

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 3 – Net Patient Service Revenue (continued)

The composition of net patient service revenue by primary payor for the years ended December 31 is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 160,256,065	\$ 163,766,259
Medicaid	75,807,731	73,688,238
Commercial	154,549,215	144,396,238
Self-pay	9,977,559	9,587,840
Other	<u>28,351,857</u>	<u>25,668,606</u>
	<u>\$ 428,942,427</u>	<u>\$ 417,107,181</u>

Revenue from patient's deductibles and coinsurance are included in the categories presented above based on the primary payor.

The composition of net patient service revenue based on its lines of business for the years ended December 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Hospital	\$ 291,951,924	\$ 285,784,717
BMG Clinics and other	98,660,850	94,272,032
Senior Services	17,960,470	16,628,274
Community Hospitals	5,853,939	5,955,279
Spectrum Medical	<u>14,515,244</u>	<u>14,466,879</u>
	<u>\$ 428,942,427</u>	<u>\$ 417,107,181</u>

Note 4 – Other Receivables

Other receivables consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Montana State Hospital Utilization Fee receivable	\$ 4,000,000	\$ 4,000,002
Other	<u>985,008</u>	<u>647,436</u>
	<u>\$ 4,985,008</u>	<u>\$ 4,647,438</u>

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 5 – Assets Limited as to Use

The composition of assets limited as to use at December 31, 2018 and 2017, is shown in the following table. Investments are stated at fair value.

	<u>2018</u>	<u>2017</u>
By board		
For Foundation board-designated endowment fund		
Cash and cash equivalents	\$ 52	\$ 61,364
Mutual funds	3,159,890	2,286,406
Corporate bonds	-	1,080,520
	<u>3,159,942</u>	<u>3,428,290</u>
For capital improvements		
Cash and cash equivalents	235,172	11,282,376
Mutual funds	15,006,695	10,895,434
Common stock	35,720,401	35,180,178
Corporate bonds	63,050,958	65,270,512
Pooled common accounts	117,082,812	78,044,202
Other assets	36,351,489	28,646,252
	<u>267,447,527</u>	<u>229,318,954</u>
	270,607,469	232,747,244
Less current portion	<u>(913,683)</u>	<u>(892,534)</u>
	<u>\$ 269,693,786</u>	<u>\$ 231,854,710</u>
Held by trustees		
For bond service and project fund		
Money market	\$ 10,152,199	\$ 20,490,061
Less current portion	<u>(10,096,267)</u>	<u>(10,241,921)</u>
	<u>\$ 55,932</u>	<u>\$ 10,248,140</u>

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

Note 5 – Assets Limited as to Use (continued)

	<u>2018</u>	<u>2017</u>
Restricted		
For the Health Trust		
Certificates of deposit	<u>\$ 7,659,498</u>	<u>\$ 6,962,862</u>
For workers' compensation trust		
Cash and cash equivalents	62,250	12,927
Corporate bonds	3,507,376	2,337,674
Certificates of deposit	<u>553,091</u>	<u>1,655,366</u>
	<u>4,122,717</u>	<u>4,005,967</u>
By donor		
Cash and cash equivalents	636,967	1,448,512
Mutual funds	16,285,692	14,784,883
Corporate bonds	3,898,710	5,890,509
Common stock	5,409,302	6,618,552
Government obligations	1,769,276	1,521,000
Other assets	<u>668,735</u>	<u>-</u>
	<u>28,668,682</u>	<u>30,263,456</u>
For loan collateral		
Cash and cash equivalents	-	1,021
Mutual funds	-	959,679
Common stock	<u>-</u>	<u>91,602</u>
	<u>-</u>	<u>1,052,302</u>
	40,450,897	42,284,587
Less current portion	<u>(3,768,066)</u>	<u>(2,457,969)</u>
	<u>\$ 36,682,831</u>	<u>\$ 39,826,618</u>

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

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>2018</u>	<u>2017</u>
Other operating revenue		
Investment income	<u>\$ 898,255</u>	<u>\$ 666,436</u>
Other income		
Interest and dividends	\$ 3,360,737	\$ 2,249,810
Realized gains on investments	<u>3,110,102</u>	<u>7,544,527</u>
	<u>\$ 6,470,839</u>	<u>\$ 9,794,337</u>
Other changes in net assets with and without donor restriction		
Unrealized gains (losses) on investments, net	<u>\$ (21,408,872)</u>	<u>\$ 13,561,229</u>

Note 6 – Property and Equipment

A summary of property and equipment at December 31 follows:

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 19,837,846	\$ 17,110,214
Buildings and improvements	383,590,795	371,756,037
Fixed, major movable, and minor equipment	200,309,430	200,585,675
Construction in progress	<u>6,192,025</u>	<u>12,151,770</u>
	609,930,096	601,603,696
Less accumulated depreciation	<u>(326,135,509)</u>	<u>(325,926,863)</u>
Net property and equipment	<u>\$ 283,794,587</u>	<u>\$ 275,676,833</u>

Note 7 – Other Assets

Other assets consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Investment in joint ventures	\$ 2,255,156	\$ 176,643
Deferred compensation plan assets	1,124,654	1,269,962
Estimated insurance recoveries	15,540,170	13,106,011
Other	<u>2,079,538</u>	<u>2,450,416</u>
	<u>\$ 20,999,518</u>	<u>\$ 17,003,032</u>

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 8 – Other Accrued Liabilities

Other accrued liabilities consist of the following at December 31:

	2018	2017
Accrued interest payable	\$ 2,976,514	\$ 2,971,022
Estimated liability for unpaid claims under the Health Trust	3,768,066	2,457,969
Estimated liability for unpaid professional liability claims	283,759	283,759
Montana State Hospital Utilization Fee payable and other	2,164,281	2,506,435
	\$ 9,192,620	\$ 8,219,185

Note 9 – Long-Term Debt

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

	2018	2017
Montana Facility Finance Authority Revenue Bonds, Series 2016, plus unamortized premium of \$18,850,163 and \$19,515,425, 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.	\$155,380,163	\$160,765,425
Montana Facility Finance Authority Revenue Bonds, Series 2017A, with interest rates varying based on the LIBOR index rate (3.86% at December 31, 2018), 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.	26,480,000	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% (5.31% at December 31, 2018) through June 2030, secured by facilities, payable by BMG, Benefis Hospitals, Inc., and Benefis Health System Administration.	13,070,035	13,800,934
Note payable to bank, due in monthly principal payments from \$26,090 to \$50,402, plus interest at LIBOR plus 1.6% (3.98% at December 31, 2018) 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.	5,326,065	5,646,255
Note payable to bank, due in monthly principal payments from \$7,100 to \$9,900, plus interest at LIBOR plus 1.6% (3.98% at December 31, 2018) through October 2027, secured by property and equipment, payable by The Peak.	1,400,885	1,345,851
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.	63,992	138,488
Long-term debt	201,721,140	209,996,953
Less current portion	(7,636,063)	(7,708,799)
Less net unamortized issuance costs	(1,803,253)	(1,875,574)
	\$192,281,824	\$200,412,580

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 9 – Long-Term Debt (continued)

Long-term debt maturities are as follows:

2019	\$ 7,636,063
2020	8,458,542
2021	8,856,888
2022	9,289,928
2023	9,726,405
Thereafter	<u>138,903,151</u>
	182,870,977
Unamortized bond premium	<u>18,850,163</u>
	<u>\$201,721,140</u>

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 expected 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, 2018.

Note 10 – Other Long-Term Liabilities

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

	<u>2018</u>	<u>2017</u>
Estimated liability for unpaid workers' compensation claims	\$ 5,084,938	\$ 5,054,358
Deferred compensation plan liability	1,930,274	1,045,787
Estimated liability for unpaid professional liability claims	18,453,673	15,803,744
Fair value of interest rate swaps	1,479,686	2,382,394
Gift annuities payable	511,979	530,353
Other estimated liabilities	<u>237,000</u>	<u>-</u>
	27,697,550	24,816,636
Less amounts shown as other current accrued liabilities	<u>(283,759)</u>	<u>(283,759)</u>
	<u>\$ 27,413,791</u>	<u>\$ 24,532,877</u>

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

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, 2016	\$ 361,544,573	\$ 361,553,168	\$ (8,595)
Excess of revenues over expenses	35,612,119	35,390,210	221,909
Unrealized gains on investments	11,751,592	11,751,592	-
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>
Excess of revenues over expenses	34,100,312	34,010,411	89,901
Unrealized losses on investments	(18,895,300)	(18,895,300)	-
Gain on interest rate swap agreement	902,708	817,920	84,788
Distributions to noncontrolling members	<u>(152,880)</u>	<u>-</u>	<u>(152,880)</u>
Increase in net assets	<u>15,954,840</u>	<u>15,933,031</u>	<u>21,809</u>
Balance, December 31, 2018	<u>\$ 425,286,323</u>	<u>\$ 425,201,633</u>	<u>\$ 84,690</u>

Net assets with donor restrictions are restricted for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Subject to spending policy and appropriation, including amounts above original gift amount of \$5,578,953 in 2018 and \$7,196,320 in 2017	\$ 23,923,856	\$ 24,517,862
Subject to expenditures for a specific purpose	<u>3,722,660</u>	<u>3,259,805</u>
	<u>\$ 27,646,516</u>	<u>\$ 27,777,667</u>

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.

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 12 – Endowment (continued)

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 retains in perpetuity (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. Net assets with donor restrictions remain as assets with donor restrictions 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

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.

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 12 – Endowment (continued)

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 assets with donor restrictions. There were no such deficiencies as of December 31, 2018.

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

	Without Donor Restrictions	With Donor Restrictions	Total
2018			
Donor-restricted endowment fund	\$ -	\$ 23,923,856	\$ 23,923,856
Board-designated endowment fund	3,159,942	-	3,159,942
	<u>\$ 3,159,942</u>	<u>\$ 23,923,856</u>	<u>\$ 27,083,798</u>
2017			
Donor-restricted endowment fund	\$ -	\$ 24,517,862	\$ 24,517,862
Board-designated endowment fund	3,428,290	-	3,428,290
	<u>\$ 3,428,290</u>	<u>\$ 24,517,862</u>	<u>\$ 27,946,152</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, December 31, 2016	\$ 2,970,009	\$ 21,210,114	\$ 24,180,123
Contributions	1,000	575,258	576,258
Investment return			
Investment income	135,232	616,764	751,996
Net depreciation/appreciation	322,049	1,804,804	2,126,853
Distribution of endowment returns and other	-	310,922	310,922
Balance, December 31, 2017	3,428,290	24,517,862	27,946,152
Contributions	1,000	621,422	622,422
Investment return			
Investment income	224,103	1,064,657	1,288,760
Net depreciation/appreciation	(493,451)	(2,511,504)	(3,004,955)
Distribution of endowment returns and other	-	231,419	231,419
Balance, December 31, 2018	<u>\$ 3,159,942</u>	<u>\$ 23,923,856</u>	<u>\$ 27,083,798</u>

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

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 \$7,212,180 and \$6,848,552 for the years ended December 31, 2018 and 2017, respectively.

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

Note 14 – Concentrations of Credit Risk

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

	2018	2017
	<u> </u>	<u> </u>
Medicare	33%	36%
Medicaid	14%	17%
Self-pay patients	13%	13%
Other third-party payors	17%	13%
Commercial insurance	14%	12%
Blue Cross	9%	9%
	<u> </u>	<u> </u>
	<u>100%</u>	<u>100%</u>

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 15 – Liquidity and Availability

Financial assets available for general expenditure that are without donor or other restrictions limiting their use within one year of December 31, 2018, comprise the following:

Cash and cash equivalents	\$ 27,135,606
Current portion of assets limited as to use, net of restricted	913,683
Assets limited as to use, by board	<u>269,693,786</u>
	<u>\$ 297,743,075</u>

In the calculation of other assets, the Organization includes the portion of endowment funds that is available for expenditure per the Organization's policy. Donor-restricted endowment funds are not considered available for general expenditures.

The Organization has \$297,743,075 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures, consisting of cash of \$27,135,606 and short-term investments of \$270,607,439. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date. In the calculation of financial assets, The Organization includes board-designated investments that are available for expenditure per the Organization investment policy.

The Organization maintains financial assets, which consist of cash and short-term investments, on hand to meet at least 85 days of normal operating expenses, which are, on average, approximately \$1,100,000 per day. There are certain debt covenant compliances that the Organization must adhere to per its debt agreements, and as of December 31, 2018, the Organization is in compliance with its debt covenants.

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 16 – Functional Expenses

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

	Patient Health Care and Program	General and Administrative	Total
2018			
Salaries and wages	\$ 167,855,216	\$ 34,294,916	\$ 202,150,132
Employee benefits	27,432,011	16,415,873	43,847,884
Professional fees	6,105,631	9,876,734	15,982,365
Supplies	83,514,686	2,942,433	86,457,119
Purchased services	8,113,286	21,935,895	30,049,181
Depreciation	8,357,746	14,329,235	22,686,981
Interest and amortization	166,581	7,780,293	7,946,874
Other expenses	4,888,646	13,556,595	18,445,240
	<u>\$ 306,433,803</u>	<u>\$ 121,131,974</u>	<u>\$ 427,565,776</u>
2017			
Patient health care and program			\$ 296,260,888
General and administrative			<u>118,865,141</u>
			<u>\$ 415,126,029</u>

No significant allocations of expenses are made from general and administrative expenses to program services.

Note 17 – 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 \$199,053,900 and \$210,127,000 at December 31, 2018 and 2017, 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.

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 17 – Fair Value of Financial Instruments (continued)

Pooled common accounts are 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.

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)
2018				
Assets whose use is limited				
Cash and cash equivalents	\$ 934,441	\$ 934,441	\$ -	\$ -
Certificates of deposit	8,212,589	-	8,212,589	-
Money market	10,152,199	-	10,152,199	-
Mutual funds	34,452,277	34,452,277	-	-
Common stock	41,129,703	41,129,703	-	-
Government obligations	1,769,276	-	1,769,276	-
Corporate bonds	70,457,044	-	70,457,044	-
Other assets	37,020,224	36,351,489	668,735	-
Total assets limited as to use at fair value	204,127,753	112,867,910	91,259,843	-
Pooled common accounts	117,082,812			
Total assets whose use is limited	<u>\$ 321,210,565</u>			
Other long-term liabilities				
Interest rate swaps	<u>\$ 1,479,686</u>	<u>\$ -</u>	<u>\$ 1,479,686</u>	<u>\$ -</u>
2017				
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 limited as to use 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>

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 18 – 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, 2018 and 2017, for all operating leases, was approximately \$5,446,000 and \$3,626,000, respectively.

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

2019	\$ 3,604,000
2020	2,747,000
2021	639,000
2022	<u>63,000</u>
	<u>\$ 7,053,000</u>

Professional liability – The Organization currently has claims made professional and general liability insurance coverage for medical malpractice claims through UMIA Insurance, Inc. (UMIA) and previously through Mountain States Healthcare Risk Reciprocal Retention Group (MSHRRRG).

UMIA liability insurance coverage was effective on January 1, 2018 for new claims made after this date and any unknown claims that may arise from previous years dating back to May 1, 2004. UMIA Insurance, Inc. 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 per claim with an annual aggregate limit of \$3,000,000 for general liability coverage. The deductible per claim is \$25,000. UMIA has obtained reinsurance coverage.

MSHRRRG provides primary coverage for claims that were reported as of December 31, 2017. Coverage limits are \$1,000,000 per claim with an annual aggregate limit of \$3,000,000 for professional liability coverage and \$1,000,000 per claim with an annual aggregate limit of \$1,000,000 for general liability coverage. Effective January 1, 2018, the captive went into a run-off period for existing claims. The total unpaid claim liability for claims reported as of December 31, 2017 has been actuarially determined. Accrued losses for known claims have been discounted at 4.25% and, in management's opinion, provides adequate reserve for loss contingencies.

There are known potential claims and incidents that may develop into asserted claims under the MSHRRRG program. The Organization has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims.

The Organization has recorded a liability of \$18,453,673 and \$15,803,744 at December 31, 2018 and 2017, 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, 2018 and 2017, are included in Notes 7, 8, and 10.

Benefis Health System, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 18 – Commitments and Contingencies (continued)

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, 2018 and 2017, the estimated liability for future claims costs totaled \$5,084,938 and \$5,054,358, 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 \$3,768,066 and \$2,457,969 at December 31, 2018 and 2017, respectively, 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.

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

Benefis Health System, Inc. and Affiliates
Consolidating Balance Sheet
December 31, 2018

ASSETS											
	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.	Eliminations	Consolidated Total
CURRENT ASSETS											
Cash and cash equivalents	\$ (2,173,398)	\$ (140,149)	\$ 126,488	\$ 3,413,115	\$ 110,036	\$ -	\$ 2,759	\$ 25,833,284	\$ (36,529)	\$ -	\$ 27,135,606
Assets limited as to use	-	-	-	3,768,066	-	-	-	11,009,950	-	-	14,778,016
Receivables											
Patient, net	56,889,969	1,259,509	25,633	-	-	-	-	128,594	569,785	-	58,873,490
Affiliates	495,490,447	7,616,887	-	-	319,209,131	721,893	681,170	374,839,891	632,142	(1,199,191,561)	-
Other	4,385,391	(6,407)	-	64,622	502,442	-	-	38,960	-	-	4,985,008
Supplies	9,589,842	2,206,847	26,263	-	-	-	-	-	53,884	-	11,876,836
Other	863,458	31,376	-	-	-	16,259	-	5,605,262	41,527	-	6,557,882
Total current assets	565,045,709	10,968,063	178,384	7,245,803	319,821,609	738,152	683,929	417,455,941	1,260,809	(1,199,191,561)	124,206,838
ASSETS LIMITED AS TO USE											
By board	-	-	-	-	-	-	3,075,157	266,618,629	-	-	269,693,786
Held by trustees	-	-	-	-	-	-	-	55,932	-	-	55,932
Restricted	-	-	-	3,891,432	-	-	28,668,682	4,122,717	-	-	36,682,831
Total assets limited as to use, net	-	-	-	3,891,432	-	-	31,743,839	270,797,278	-	-	306,432,549
PROPERTY AND EQUIPMENT	69,061,872	3,774,861	7,218,260	-	-	3,000	-	202,730,273	1,266,514	(260,193)	283,794,587
OTHER ASSETS	79,873	-	25,112	-	-	60,386	939,333	34,097,477	-	(14,202,663)	20,999,518
Total assets	\$ 634,187,454	\$ 14,742,924	\$ 7,421,756	\$ 11,137,235	\$ 319,821,609	\$ 801,538	\$ 33,367,101	\$ 925,080,969	\$ 2,527,323	\$ (1,213,654,417)	\$ 735,433,492
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES											
Accounts payable	\$ 10,943,455	\$ 175,687	\$ 87,760	\$ 348,094	\$ -	\$ -	\$ 60,928	\$ 2,535,290	\$ 66,395	\$ -	\$ 14,217,609
Payable to affiliates	468,929,507	3,900,823	-	390,524	311,345,373	454,732	233,864	409,049,524	4,887,214	(1,199,191,561)	-
Accrued compensation and benefits	13,506,472	1,072,025	76,660	-	8,701,020	-	-	3,332,096	(115)	-	26,688,158
Estimated third-party payor settlements	5,070,588	-	-	-	-	-	-	-	-	-	5,070,588
Other accrued liabilities	1,366,855	355	-	3,786,202	-	-	-	4,026,629	12,579	-	9,192,620
Current portion of long-term debt	-	-	516,310	-	-	-	-	7,119,753	-	-	7,636,063
Total current liabilities	499,816,877	5,148,890	680,730	4,524,820	320,046,393	454,732	294,792	426,063,292	4,966,073	(1,199,191,561)	62,805,038
LONG-TERM DEBT, net of current portion	-	-	6,274,632	-	-	-	-	186,007,192	-	-	192,281,824
OTHER LONG-TERM LIABILITIES	237,000	-	293,558	-	-	-	511,979	26,371,254	-	-	27,413,791
Total liabilities	500,053,877	5,148,890	7,248,920	4,524,820	320,046,393	454,732	806,771	638,441,738	4,966,073	(1,199,191,561)	282,500,653
NET ASSETS											
Without donor restrictions											
Benefis Health System, Inc.	134,133,577	9,594,034	172,836	6,612,415	(224,784)	346,806	4,913,814	286,639,231	(2,438,750)	(14,547,546)	425,201,633
Noncontrolling interest	-	-	-	-	-	-	-	-	-	84,690	84,690
With donor restrictions	-	-	-	-	-	-	27,646,516	-	-	-	27,646,516
Total net assets	134,133,577	9,594,034	172,836	6,612,415	(224,784)	346,806	32,560,330	286,639,231	(2,438,750)	(14,462,856)	452,932,839
Total liabilities and net assets	\$ 634,187,454	\$ 14,742,924	\$ 7,421,756	\$ 11,137,235	\$ 319,821,609	\$ 801,538	\$ 33,367,101	\$ 925,080,969	\$ 2,527,323	\$ (1,213,654,417)	\$ 735,433,492

Benefis Health System, Inc. and Affiliates
Consolidating Statement of Operations
Year Ended December 31, 2018

	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.	Eliminations	Consolidated Total
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT											
Net patient service revenue	\$ 408,587,372	\$ 14,515,244	\$ (14,128)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,853,939	\$ -	\$ 428,942,427
Other operating revenue	12,493,622	1,171,669	4,077,063	21,009,428	69,006,448	659,074	1,773,862	2,786,537	333,048	(87,057,929)	26,252,822
Total revenues, gains, and other support	421,080,994	15,686,913	4,062,935	21,009,428	69,006,448	659,074	1,773,862	2,786,537	6,186,987	(87,057,929)	455,195,249
OPERATING EXPENSES											
Salaries and wages	109,366,407	9,040,034	1,549,111	-	61,431,501	-	381,783	17,177,717	3,203,579	-	202,150,132
Employee benefits	23,096,249	2,000,033	247,354	21,282,002	5,627,893	-	84,804	6,359,247	715,748	(15,565,446)	43,847,884
Professional fees	73,410,415	105,840	179,879	444,177	-	-	74,652	7,910,286	933,120	(67,076,004)	15,982,365
Supplies	83,160,601	2,416,795	230,431	-	-	-	19,403	806,728	429,164	(606,003)	86,457,119
Purchased services	19,678,578	470,898	263,611	-	-	-	793	9,930,328	599,508	(894,535)	30,049,181
Depreciation	9,197,266	224,245	462,176	-	-	5,860	1,714	12,639,929	155,791	-	22,686,981
Interest	4,576,441	9	339,942	-	-	-	-	3,030,473	9	-	7,946,874
Other	9,064,399	479,505	606,960	-	1,947,054	332,758	2,671,013	7,754,899	99,158	(4,510,506)	18,445,240
Total operating expenses	331,550,356	14,737,359	3,879,464	21,726,179	69,006,448	338,618	3,234,162	65,609,607	6,136,077	(88,652,494)	427,565,776
OPERATING INCOME (LOSS)	89,530,638	949,554	183,471	(716,751)	-	320,456	(1,460,300)	(62,823,070)	50,910	1,594,565	27,629,473
OTHER INCOME (LOSS)	(58,936,204)	(1,560,980)	-	-	-	-	288,893	67,410,455	(731,325)	-	6,470,839
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ 30,594,434	\$ (611,426)	\$ 183,471	\$ (716,751)	\$ -	\$ 320,456	\$ (1,171,407)	\$ 4,587,385	\$ (680,415)	\$ 1,594,565	\$ 34,100,312

Benefis Health System, Inc. and Affiliates
Consolidating Statement of Changes in Net Assets
Year Ended December 31, 2018

	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.	Eliminations	Consolidated Total
WITHOUT DONOR RESTRICTIONS, beginning 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
Excess (deficiency) of revenues over expenses	30,594,434	(611,426)	183,471	(716,751)	-	320,456	(1,171,407)	4,587,385	(680,415)	1,594,565	34,100,312
Change in unrealized gains and losses on investments, net	-	-	-	(9,364)	-	-	(803,496)	(18,091,805)	-	9,365	(18,895,300)
Gain (loss) on interest rate swap agreement	-	-	173,037	-	-	-	-	817,920	-	(88,249)	902,708
Net assets released from restriction for property and equipment	-	-	-	-	-	-	-	-	-	-	-
Interaffiliate transfers	-	-	(159,120)	-	-	-	-	-	-	159,120	-
Distributions to noncontrolling members	-	-	(152,880)	-	-	-	-	-	-	-	(152,880)
Increase (decrease) in net assets without donor restrictions	30,594,434	(611,426)	44,508	(726,115)	-	320,456	(1,974,903)	(12,686,500)	(680,415)	1,674,801	15,954,840
WITHOUT DONOR RESTRICTIONS, end of year	<u>\$ 134,133,577</u>	<u>\$ 9,594,034</u>	<u>\$ 172,836</u>	<u>\$ 6,612,415</u>	<u>\$ (224,784)</u>	<u>\$ 346,806</u>	<u>\$ 4,913,814</u>	<u>\$ 286,639,231</u>	<u>\$ (2,438,750)</u>	<u>\$ (14,462,856)</u>	<u>\$ 425,286,323</u>
WITH DONOR RESTRICTIONS, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,777,667	\$ -	\$ -	\$ -	\$ 27,777,667
Contributions	-	-	-	-	-	-	1,913,993	-	-	-	1,913,993
Interest income	-	-	-	-	-	-	1,068,004	-	-	-	1,068,004
Change in unrealized gains and losses on investments	-	-	-	-	-	-	(2,513,572)	-	-	-	(2,513,572)
Special events, net	-	-	-	-	-	-	266,667	-	-	-	266,667
Net assets released from restriction	-	-	-	-	-	-	(866,243)	-	-	-	(866,243)
Decrease in net assets with donor restrictions	-	-	-	-	-	-	(131,151)	-	-	-	(131,151)
WITH DONOR RESTRICTIONS, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,646,516</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,646,516</u>

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

ASSETS												
	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
CURRENT ASSETS												
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, 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
Total current assets	451,351,271	10,132,016	228,648	5,792,787	250,686,630	432,007	873,901	369,860,985	1,051,386	-	(946,945,979)	143,463,652
ASSETS LIMITED AS TO USE												
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
Total assets limited as to use, net	-	-	-	4,504,893	-	-	33,604,398	243,820,177	-	-	-	281,929,468
PROPERTY AND EQUIPMENT	68,336,501	3,625,498	7,747,793	-	-	8,861	-	194,970,900	1,247,473	-	(260,193)	275,676,833
OTHER ASSETS	112,001	320,074	27,209	-	-	40,214	974,597	31,406,401	-	-	(15,877,464)	17,003,032
Total assets	\$ 519,799,773	\$ 14,077,588	\$ 8,003,650	\$ 10,297,680	\$ 250,686,630	\$ 481,082	\$ 35,452,896	\$ 840,058,463	\$ 2,298,859	\$ -	\$ (963,083,636)	\$ 718,072,985
LIABILITIES AND NET ASSETS												
CURRENT LIABILITIES												
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
Total current liabilities	416,260,630	3,872,128	716,033	2,959,150	250,911,414	454,732	256,159	323,476,917	4,057,194	-	(946,945,979)	56,018,378
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
Total liabilities	416,260,630	3,872,128	7,875,322	2,959,150	250,911,414	454,732	786,512	540,732,732	4,057,194	-	(946,945,979)	280,963,835
NET ASSETS												
Without donor restrictions												
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
With donor restrictions	-	-	-	-	-	-	27,777,667	-	-	-	-	27,777,667
Total net assets	103,539,143	10,205,460	128,328	7,338,530	(224,784)	26,350	34,666,384	299,325,731	(1,758,335)	-	(16,137,657)	437,109,150
Total liabilities and net assets	\$ 519,799,773	\$ 14,077,588	\$ 8,003,650	\$ 10,297,680	\$ 250,686,630	\$ 481,082	\$ 35,452,896	\$ 840,058,463	\$ 2,298,859	\$ -	\$ (963,083,636)	\$ 718,072,985

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
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT												
Net patient service revenue	\$ 395,997,127	\$ 14,466,879	\$ (15,599)	\$ -	\$ -	\$ -	\$ -	\$ 703,495	\$ 5,955,279	\$ -	\$ -	\$ 417,107,181
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
Total revenues, gains, and other support	<u>408,622,275</u>	<u>15,789,905</u>	<u>3,873,509</u>	<u>19,371,762</u>	<u>65,074,161</u>	<u>557,944</u>	<u>3,694,734</u>	<u>(2,333,795)</u>	<u>6,233,792</u>	<u>-</u>	<u>(80,277,996)</u>	<u>440,606,291</u>
OPERATING EXPENSES												
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
Total operating expenses	<u>320,682,856</u>	<u>14,750,575</u>	<u>3,420,637</u>	<u>18,996,931</u>	<u>65,074,161</u>	<u>292,938</u>	<u>3,799,493</u>	<u>64,830,969</u>	<u>7,282,638</u>	<u>1</u>	<u>(84,005,170)</u>	<u>415,126,029</u>
OPERATING INCOME (LOSS)	87,939,419	1,039,330	452,872	374,831	-	265,006	(104,759)	(67,164,764)	(1,048,846)	(1)	3,727,174	25,480,262
OTHER INCOME (LOSS)	<u>(63,159,656)</u>	<u>(1,728,983)</u>	<u>-</u>	<u>-</u>	<u>(224,783)</u>	<u>-</u>	<u>759,579</u>	<u>74,939,510</u>	<u>(729,490)</u>	<u>275,680</u>	<u>-</u>	<u>10,131,857</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$ 24,779,763</u>	<u>\$ (689,653)</u>	<u>\$ 452,872</u>	<u>\$ 374,831</u>	<u>\$ (224,783)</u>	<u>\$ 265,006</u>	<u>\$ 654,820</u>	<u>\$ 7,774,746</u>	<u>\$ (1,778,336)</u>	<u>\$ 275,679</u>	<u>\$ 3,727,174</u>	<u>\$ 35,612,119</u>

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
WITHOUT DONOR RESTRICTIONS, 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, net	-	-	-	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 net assets without donor restrictions	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
WITHOUT DONOR RESTRICTIONS, 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
WITH DONOR RESTRICTIONS, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,796,620	\$ -	\$ -	\$ -	\$ -	\$ 25,796,620
Contributions	-	-	-	-	-	-	2,120,378	-	-	-	-	2,120,378
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	-	-	-	-	-	-	(2,799,283)	-	-	-	-	(2,799,283)
Increase in net assets with donor restrictions	-	-	-	-	-	-	1,981,047	-	-	-	-	1,981,047
WITH DONOR RESTRICTIONS, end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,777,667	\$ -	\$ -	\$ -	\$ -	\$ 27,777,667

