



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

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

December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, and the results of its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

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



Everett, Washington  
March 16, 2020

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

### ASSETS

|   | December 31,          |                       |
|---|-----------------------|-----------------------|
|   | 2019                  | 2018                  |
| <b>CURRENT ASSETS</b>                                   |                       |                       |
| Cash and cash equivalents                               | \$ 31,822,473         | \$ 27,135,606         |
| Current portion of assets limited as to use             | 11,346,643            | 14,778,016            |
| Receivables   |                       |                       |
| Patient, net of estimated price concessions             | 67,366,389            | 58,873,490            |
| Other   | 9,798,467             | 4,985,008             |
| Supplies  | 11,907,058            | 11,876,836            |
| Other   | 7,575,666             | 6,557,882             |
|   | <b>139,816,696</b>    | <b>124,206,838</b>    |
| <b>ASSETS LIMITED AS TO USE, net of current portion</b> |                       |                       |
| By board  | 343,194,846           | 269,693,786           |
| Held by trustees  | -                     | 55,932                |
| Restricted  | 40,001,084            | 36,682,831            |
|   | <b>383,195,930</b>    | <b>306,432,549</b>    |
| <b>PROPERTY AND EQUIPMENT, net</b>                      | <b>280,044,610</b>    | <b>283,794,587</b>    |
| <b>OTHER ASSETS</b>                                     | <b>31,474,258</b>     | <b>20,999,518</b>     |
| <b>Total assets</b>                                     | <b>\$ 834,531,494</b> | <b>\$ 735,433,492</b> |

### LIABILITIES AND NET ASSETS

|   |                       |                       |
|---|-----------------------|-----------------------|
| <b>CURRENT LIABILITIES</b>                    |                       |                       |
| Accounts payable                              | \$ 13,234,633         | \$ 14,217,609         |
| Accrued compensation and benefits             | 26,900,004            | 26,688,158            |
| Estimated third-party payor settlements       | 6,675,851             | 5,070,588             |
| Other accrued liabilities                     | 13,542,374            | 9,192,620             |
| Current portion of long-term debt             | 8,488,511             | 7,636,063             |
|   | <b>68,841,373</b>     | <b>62,805,038</b>     |
| <b>LONG-TERM DEBT, net of current portion</b> | <b>183,238,595</b>    | <b>192,281,824</b>    |
| <b>OTHER LONG-TERM LIABILITIES</b>            | <b>37,356,290</b>     | <b>27,413,791</b>     |
| <b>Total liabilities</b>                      | <b>289,436,258</b>    | <b>282,500,653</b>    |
| <b>NET ASSETS</b>                             |                       |                       |
| Without donor restrictions                    |                       |                       |
| Benefis Health System, Inc. and Affiliates    | 513,195,401           | 425,201,633           |
| Noncontrolling interest in subsidiary         | (35,329)              | 84,690                |
|   | <b>513,160,072</b>    | <b>425,286,323</b>    |
| With donor restrictions                       | 31,935,164            | 27,646,516            |
|   | <b>545,095,236</b>    | <b>452,932,839</b>    |
| <b>Total net assets</b>                       | <b>545,095,236</b>    | <b>452,932,839</b>    |
| <b>Total liabilities and net assets</b>       | <b>\$ 834,531,494</b> | <b>\$ 735,433,492</b> |

## Benefis Health System, Inc. and Affiliates

### Consolidated Statements of Operations

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|  | Years Ended December 31, |                |
|--|--------------------------|----------------|
|  | 2019                     | 2018           |
| UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT              |                          |                |
| Net patient service revenue                                  | \$ 475,198,324           | \$ 428,942,427 |
| Other operating revenue                                      | 27,407,147               | 26,252,822     |
|  | 502,605,471              | 455,195,249    |
| OPERATING EXPENSES   |                          |                |
| Salaries and wages   | 212,213,226              | 202,150,132    |
| Employee benefits  | 46,643,251               | 43,847,884     |
| Professional fees  | 15,863,238               | 15,982,365     |
| Supplies   | 97,552,143               | 86,457,119     |
| Purchased services   | 31,443,785               | 30,049,181     |
| Depreciation   | 23,681,970               | 22,686,981     |
| Interest   | 7,897,683                | 7,946,874      |
| Other  | 19,310,707               | 18,445,240     |
|  | 454,606,003              | 427,565,776    |
| OPERATING INCOME   | 47,999,468               | 27,629,473     |
| OTHER INCOME   | 7,452,484                | 6,470,839      |
| CHANGE IN UNREALIZED GAINS AND LOSSES FROM EQUITY SECURITIES | 31,523,521               | -              |
| EXCESS OF REVENUES OVER EXPENSES                             | \$ 86,975,473            | \$ 34,100,312  |

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

|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total          |
|---|-------------------------------|----------------------------|----------------|
| BALANCE, December 31, 2017                                    | \$ 409,331,483                | \$ 27,777,667              | \$ 437,109,150 |
| 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<br>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<br>reclassifications | -                             | (866,243)                  | (866,243)      |
| Gain on interest rate swap agreement                          | 902,708                       | -                          | 902,708        |
| Distributions to noncontrolling members                       | (152,880)                     | -                          | (152,880)      |
| Change in net assets  | 15,954,840                    | (131,151)                  | 15,823,689     |
| BALANCE, December 31, 2018                                    | 425,286,323                   | 27,646,516                 | 452,932,839    |
| Excess of revenues over expenses                              | 86,975,473                    | -                          | 86,975,473     |
| Contributions   | -                             | 1,697,016                  | 1,697,016      |
| Interest income   | -                             | 1,029,168                  | 1,029,168      |
| Change in unrealized gains and losses<br>on investments, net  | 1,970,489                     | 3,317,912                  | 5,288,401      |
| Special events, net   | -                             | 248,140                    | 248,140        |
| Net assets released from restriction and<br>reclassifications | -                             | (2,003,588)                | (2,003,588)    |
| Loss on interest rate swap agreement                          | (1,066,088)                   | -                          | (1,066,088)    |
| Distributions to noncontrolling members                       | (6,125)                       | -                          | (6,125)        |
| Change in net assets  | 87,873,749                    | 4,288,648                  | 92,162,397     |
| BALANCE, December 31, 2019                                    | \$ 513,160,072                | \$ 31,935,164              | \$ 545,095,236 |

## Benefis Health System, Inc. and Affiliates

### Consolidated Statements of Cash Flows

|   | Years Ended December 31, |                      |
|---|--------------------------|----------------------|
|   | 2019                     | 2018                 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                          |                      |
| Change in net assets  | \$ 92,162,397            | \$ 15,823,689        |
| Adjustments to reconcile change in net assets to net cash from operating activities                           |                          |                      |
| Depreciation  | 23,681,970               | 22,686,981           |
| Amortization of bond premium and debt issuance costs  | (554,718)                | (564,739)            |
| Loss on disposal of property and equipment  | 74,781                   | 66,990               |
| Realized and unrealized (gains) losses on investments   | (40,251,653)             | 18,298,770           |
| Restricted contributions received   | (1,697,016)              | (1,913,993)          |
| Loss (gain) on interest rate swap agreement   | 1,066,088                | (902,708)            |
| Gain on investments recognized on the equity method   | (43,609)                 | (78,513)             |
| Distributions to noncontrolling interest  | 6,125                    | 152,880              |
| Changes in certain current assets and liabilities   | (8,279,694)              | 7,991,573            |
| Changes in other noncurrent assets  | (10,531,131)             | (1,917,973)          |
| Changes in other long-term liabilities  | 8,876,411                | 3,783,622            |
|   | <b>64,509,951</b>        | <b>63,426,579</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                          |                      |
| Proceeds from sale of investments limited as to use   | 80,686,466               | 173,941,934          |
| Purchase of investments limited as to use   | (113,511,887)            | (229,801,136)        |
| Purchase and construction of property and equipment   | (20,897,557)             | (30,850,576)         |
| Distribution from joint venture   | 100,000                  | -                    |
| Contribution to joint venture   | -                        | (2,000,000)          |
|   | <b>(53,622,978)</b>      | <b>(88,709,778)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                          |                      |
| Restricted contributions received   | 1,697,016                | 1,913,993            |
| Repayment of long-term debt   | (7,636,063)              | (7,638,753)          |
| Distributions to noncontrolling interest  | (6,125)                  | (152,880)            |
|   | <b>(5,945,172)</b>       | <b>(5,877,640)</b>   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | <b>4,941,801</b>         | <b>(31,160,839)</b>  |
| <b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year</b>   | <b>28,070,047</b>        | <b>59,230,886</b>    |
| <b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year</b>   | <b>\$ 33,011,848</b>     | <b>\$ 28,070,047</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>   |                          |                      |
| Cash paid during the year for interest, net of amounts capitalized of \$127,592 in 2019 and \$151,414 in 2018 | <b>\$ 8,491,787</b>      | <b>\$ 8,354,707</b>  |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>                                  |                          |                      |
| Change in property and equipment included in accounts payable   | <b>\$ (890,783)</b>      | <b>\$ 21,149</b>     |

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

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

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

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

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

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

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

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

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

# Benefis Health System, Inc. and Affiliates

## Notes to Consolidated Financial Statements

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

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

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; the Foundation; BCH; 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.

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.

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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

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 73% of the related self-pay receivables at December 31, 2018, compared to 76% of self-pay receivables at December 31, 2019. In addition, self-pay implicit price concessions increased \$2,858,000 from approximately \$17,280,000 for the year ended December 31, 2018, to \$20,138,000 for the year ended December 31, 2019.

**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.

**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.

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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

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). 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.

*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.

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, 2019 and 2018, the Organization had \$3,718,434 and \$3,159,942, respectively, of board-designated funds included in net assets without donor restrictions.

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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

**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.

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.

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

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

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

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 2019 or 2018.

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, 2019 and 2018, no significant 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 \$1,440,000 and \$2,000,000 for the years ended December 31, 2019 and 2018, 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 debt 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

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#### 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, unrealized gains and losses on equity investments, interest, and dividends) is included in excess of revenues over expenses. Unrealized gains and losses without donor restriction on debt securities are excluded from excess of revenues over expenses.

**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 \$4,987,556 and the variable rate was 3.33% as of December 31, 2019.

The second swap expires in June 2030 and fixes the interest rate paid on a portion of the Series 2017A Revenue Bonds at 3.71%. The outstanding balance of this bond payable was \$24,610,000 as of December 31, 2019, of which \$11,895,000 was the outstanding notional amount related to the swap. The variable rate was 2.95% as of December 31, 2019.

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 \$12,295,282 and the variable rate was 4.40% as of December 31, 2019.

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 \$1,192,600 and the variable rate was 3.33% as of December 31, 2019.

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

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#### 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, 2019 and 2018.

**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, 2019 or 2018.

**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

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

**New accounting pronouncements** – In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, *Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Organization has implemented this ASU for the year beginning January 1, 2019, with retrospective application.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU, among other things, requires equity securities classified as other than trading to be measured at fair value with changes in fair value recognized in excess of revenues over expenses and updates certain disclosure requirements related to financial instruments. The Organization has implemented this ASU for the year beginning January 1, 2019.

Effective January 1, 2018, the Organization adopted ASU No. 2016-02, *Leases* (Topic 842). The Organization has elected the package of practical expedients permitted in the ASC Topic 842. Accordingly, the Organization accounted for its existing operating leases as an operating lease under the new guidance, without reassessing whether the contract contains a lease under Topic 842 or whether classification of the operating lease would be different in accordance with Topic 842, or whether the unamortized initial direct costs before transition adjustments (as of December 31, 2018) would have met the definition of initial direct costs in Topic 842 at lease commencement. The Organization has implemented this ASU for the year beginning January 1, 2019. See Note 18 for further lease disclosures.

**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 16, 2020, which is the date the consolidated financial statements are issued, and concluded that there were no events or transactions that need to be disclosed.

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 3 – Net Patient 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 46.4% and 45.8% of gross patient service revenues for the years ended December 31, 2019 and 2018, 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 20.8% and 20.6% of gross patient service revenues for the years ended December 31, 2019 and 2018, 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:

|                                  | 2019             | 2018             |
|----------------------------------|------------------|------------------|
| Total patient service revenue    | \$ 1,160,743,406 | \$ 1,040,863,420 |
| Explicit price concessions       |                  |                  |
| Medicare                         | (374,448,201)    | (321,594,161)    |
| Medicaid                         | (146,061,254)    | (145,868,151)    |
| Other                            | (151,872,748)    | (132,004,363)    |
| Total explicit price concessions | (672,382,203)    | (599,466,675)    |
| Implicit price concessions       | (13,162,879)     | (12,454,318)     |
| Net patient service revenue      | \$ 475,198,324   | \$ 428,942,427   |

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.

|  | Third-Party<br>Payors | Self-Pay      | Total<br>All Payors |
|--|-----------------------|---------------|---------------------|
| <b>For the year ended December 31, 2019</b>        |                       |               |                     |
| Patient service revenue (net of price concessions) | \$ 463,618,747        | \$ 11,579,577 | \$ 475,198,324      |
| <b>For the year ended December 31, 2018</b>        |                       |               |                     |
| Patient service revenue (net of price concessions) | \$ 420,065,800        | \$ 8,876,627  | \$ 428,942,427      |

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### 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>2019</u>           | <u>2018</u>           |
|------------|-----------------------|-----------------------|
| Medicare   | \$ 164,809,387        | \$ 160,256,065        |
| Medicaid   | 95,645,068            | 75,807,731            |
| Commercial | 167,866,034           | 154,549,215           |
| Self-pay   | 11,579,577            | 8,876,627             |
| Other      | <u>35,298,258</u>     | <u>29,452,789</u>     |
|            | <u>\$ 475,198,324</u> | <u>\$ 428,942,427</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, 2019 and 2018, are as follows:

|                       | <u>2019</u>           | <u>2018</u>           |
|-----------------------|-----------------------|-----------------------|
| Hospital              | \$ 321,185,395        | \$ 291,951,924        |
| BMG Clinics and other | 114,045,487           | 98,660,850            |
| Senior Services       | 18,258,422            | 17,960,470            |
| Community Hospitals   | 6,078,893             | 5,853,939             |
| Spectrum Medical      | <u>15,630,127</u>     | <u>14,515,244</u>     |
|                       | <u>\$ 475,198,324</u> | <u>\$ 428,942,427</u> |

#### Note 4 – Other Receivables

Other receivables consist of the following at December 31:

|   | <u>2019</u>         | <u>2018</u>         |
|---|---------------------|---------------------|
| Montana State Hospital Utilization Fee receivable | \$ 8,949,924        | \$ 4,000,000        |
| Other   | <u>848,543</u>      | <u>985,008</u>      |
|   | <u>\$ 9,798,467</u> | <u>\$ 4,985,008</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, 2019 and 2018, is shown in the following table. Investments are stated at fair value.

|  | 2019        | 2018          |
|--|-------------|---------------|
| By board                                       |             |               |
| For Foundation board-designated endowment fund |             |               |
| Cash and cash equivalents                      | \$ 29       | \$ 52         |
| Mutual funds                                   | 3,718,405   | 3,159,890     |
|  | 3,718,434   | 3,159,942     |
| For capital improvements                       |             |               |
| Cash and cash equivalents                      | 98,205      | 235,172       |
| Mutual funds                                   | 17,734,700  | 15,006,695    |
| Common stock                                   | 49,122,151  | 35,720,401    |
| Corporate bonds                                | 80,479,123  | 63,050,958    |
| Pooled common accounts                         | 140,426,215 | 117,082,812   |
| Other assets                                   | 51,639,098  | 36,351,489    |
|  | 339,499,492 | 267,447,527   |
|  | 343,217,926 | 270,607,469   |
| Less current portion                           | (23,080)    | (913,683)     |
|  | 343,194,846 | 269,693,786   |
| Held by trustees                               |             |               |
| For bond service and project fund              |             |               |
| Money market                                   | \$ 7,757    | \$ 10,152,199 |
| Government obligations                         | 6,513,704   | -             |
| Less current portion                           | (6,521,461) | (10,096,267)  |
|  | \$ -        | \$ 55,932     |

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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

|                                 | <u>2019</u>          | <u>2018</u>          |
|---------------------------------|----------------------|----------------------|
| Restricted                      |                      |                      |
| For the Health Trust            |                      |                      |
| Certificates of deposit         | <u>\$ 6,958,760</u>  | <u>\$ 7,659,498</u>  |
| For workers' compensation trust |                      |                      |
| Cash and cash equivalents       | 259,865              | 62,250               |
| Corporate bonds                 | 4,009,149            | 3,507,376            |
| Certificates of deposit         | <u>-</u>             | <u>553,091</u>       |
|                                 | <u>4,269,014</u>     | <u>4,122,717</u>     |
| By donor                        |                      |                      |
| Cash and cash equivalents       | 831,276              | 636,967              |
| Mutual funds                    | 17,462,456           | 16,285,692           |
| Corporate bonds                 | 3,925,050            | 3,898,710            |
| Common stock                    | 9,249,620            | 5,409,302            |
| Government obligations          | 1,250,584            | 1,769,276            |
| Other assets                    | <u>856,426</u>       | <u>668,735</u>       |
|                                 | <u>33,575,412</u>    | <u>28,668,682</u>    |
|                                 | 44,803,186           | 40,450,897           |
| Less current portion            | <u>(4,802,102)</u>   | <u>(3,768,066)</u>   |
|                                 | <u>\$ 40,001,084</u> | <u>\$ 36,682,831</u> |

**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>2019</u>          | <u>2018</u>            |
|---|----------------------|------------------------|
| Other operating revenue                       |                      |                        |
| Investment income                             | <u>\$ 399,395</u>    | <u>\$ 287,036</u>      |
| Other income                                  |                      |                        |
| Interest and dividends                        | \$ 4,012,743         | \$ 3,360,737           |
| Realized gains on investments                 | <u>3,439,731</u>     | <u>3,110,102</u>       |
|   | <u>\$ 7,452,474</u>  | <u>\$ 6,470,839</u>    |
| Other changes                                 |                      |                        |
| Unrealized gains (losses) on investments, net | <u>\$ 36,811,922</u> | <u>\$ (21,408,872)</u> |

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

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**Note 6 – Property and Equipment**

A summary of property and equipment at December 31 follows:

|   | <u>2019</u>           | <u>2018</u>           |
|---|-----------------------|-----------------------|
| Land and improvements                     | \$ 21,195,203         | \$ 19,837,846         |
| Buildings and improvements                | 391,400,936           | 383,590,795           |
| Fixed, major movable, and minor equipment | 201,888,338           | 200,309,430           |
| Construction in progress                  | <u>6,362,163</u>      | <u>6,192,025</u>      |
|   | 620,846,640           | 609,930,096           |
| Less accumulated depreciation             | <u>(340,802,030)</u>  | <u>(326,135,509)</u>  |
| Net property and equipment                | <u>\$ 280,044,610</u> | <u>\$ 283,794,587</u> |

**Note 7 – Other Assets**

Other assets consist of the following at December 31:

|                                   | <u>2019</u>      | <u>2018</u>      |
|-----------------------------------|------------------|------------------|
| Investment in joint ventures      | \$ 2,198,765     | \$ 2,255,156     |
| Deferred compensation plan assets | 602,761          | 1,124,654        |
| Estimated insurance recoveries    | 23,021,862       | 15,540,170       |
| Other                             | <u>5,650,870</u> | <u>2,079,538</u> |
|                                   | \$ 31,474,258    | \$ 20,999,518    |

**Note 8 – Other Accrued Liabilities**

Other accrued liabilities consist of the following at December 31:

|  | <u>2019</u>          | <u>2018</u>         |
|--|----------------------|---------------------|
| Accrued interest payable                                     | \$ 2,809,536         | \$ 2,976,514        |
| Estimated liability for unpaid claims under the Health Trust | 3,180,017            | 3,768,066           |
| Estimated liability for unpaid professional liability claims | 492,605              | 283,759             |
| Montana State Hospital Utilization Fee payable and other     | <u>7,060,216</u>     | <u>2,164,281</u>    |
|  | <u>\$ 13,542,374</u> | <u>\$ 9,192,620</u> |

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 9 – Long-Term Debt

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

|  | <u>2019</u>           | <u>2018</u>           |
|--|-----------------------|-----------------------|
| Montana Facility Finance Authority Revenue Bonds, Series 2016, plus unamortized premium of \$18,206,999 and \$18,850,163, 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. | \$ 150,261,999        | \$ 155,380,163        |
| Montana Facility Finance Authority Revenue Bonds, Series 2017A, with interest rates varying based on the LIBOR index rate (2.95% at December 31, 2019), with annual principal payments increasing from \$1,930,000 to \$2,550,000 through December 2030, secured by facilities, payable by BMG, Benefis Hospitals, Inc., and Benefis Health System Administration.                 | 24,610,000            | 26,480,000            |
| Note payable to bank, due in annual principal payments from \$821,238 to \$1,470,712, plus quarterly interest payments at LIBOR plus 2.50% (4.40% at December 31, 2019) through June 2030, secured by facilities, payable by BMG, Benefis Hospitals, Inc., and Benefis Health System Administration.   | 12,295,282            | 13,070,035            |
| Note payable to bank, due in monthly principal payments from \$29,800 to \$50,402, plus interest at LIBOR plus 1.60% (3.33% at December 31, 2019) through July 2020 and then LIBOR plus 2.00% thereafter through June 2030, secured by deed of trust and personally guaranteed by Benefis Health System, payable by The Peak.  | 4,987,556             | 5,326,065             |
| Note payable to bank, due in monthly principal payments from \$10,131 to \$12,931, plus interest at LIBOR plus 1.60% (3.33% at December 31, 2019) through October 2027, secured by property and equipment, payable by The Peak.  | 1,287,076             | 1,400,885             |
| Note payable to bank, paid in full in 2019   | <u>-</u>              | <u>63,992</u>         |
| Long-term debt   | 193,441,913           | 201,721,140           |
| Less current portion   | (8,488,511)           | (7,636,063)           |
| Less net unamortized issuance costs  | <u>(1,714,807)</u>    | <u>(1,803,253)</u>    |
|  | <u>\$ 183,238,595</u> | <u>\$ 192,281,824</u> |

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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

Long-term debt maturities are as follows:

|                          |                              |
|--------------------------|------------------------------|
| 2020                     | \$ 8,488,511                 |
| 2021                     | 8,856,888                    |
| 2022                     | 9,289,982                    |
| 2023                     | 9,726,405                    |
| 2024                     | 10,187,772                   |
| Thereafter               | <u>128,685,356</u>           |
|                          | 175,234,914                  |
| Unamortized bond premium | <u>18,206,999</u>            |
|                          | <u><u>\$ 193,441,913</u></u> |

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, 2019.

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

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

|  | <u>2019</u>                 | <u>2018</u>                 |
|--|-----------------------------|-----------------------------|
| Estimated liability for unpaid workers' compensation claims  | \$ 6,137,988                | \$ 5,084,938                |
| Deferred compensation plan liability                         | 1,561,148                   | 1,930,274                   |
| Estimated liability for unpaid professional liability claims | 26,306,007                  | 18,453,673                  |
| Fair value of interest rate swaps                            | 2,583,274                   | 1,479,686                   |
| Gift annuities payable                                       | 571,182                     | 511,979                     |
| Other estimated liabilities                                  | <u>689,296</u>              | <u>237,000</u>              |
|  | 37,848,895                  | 27,697,550                  |
| Less amounts shown as other current accrued liabilities      | <u>(492,605)</u>            | <u>(283,759)</u>            |
|  | <u><u>\$ 37,356,290</u></u> | <u><u>\$ 27,413,791</u></u> |

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 11 – Net Assets

The changes in consolidated net assets without donor restrictions attributable to the Organization and transfers to and from noncontrolling interest are as follows for the years ended December 31:

|   | Total          | Controlling<br>Interest | Noncontrolling<br>Interest |
|---|----------------|-------------------------|----------------------------|
| Balance, December 31, 2017              | \$ 409,331,483 | \$ 409,268,602          | \$ 62,881                  |
| 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 | (152,880)      | -                       | (152,880)                  |
| Increase in net assets                  | 15,954,840     | 15,933,031              | 21,809                     |
| Balance, December 31, 2018              | 425,286,323    | 425,201,633             | 84,690                     |
| Excess of revenues over expenses        | 86,975,473     | 86,966,180              | 9,293                      |
| Unrealized gains on investments         | 1,970,489      | 1,970,489               | -                          |
| Loss on interest rate swap agreement    | (1,066,088)    | (942,901)               | (123,187)                  |
| Distributions to noncontrolling members | (6,125)        | -                       | (6,125)                    |
| Increase in net assets                  | 87,873,749     | 87,993,768              | (120,019)                  |
| Balance, December 31, 2019              | \$ 513,160,072 | \$ 513,195,401          | \$ (35,329)                |

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

|   | 2019          | 2018          |
|---|---------------|---------------|
| Subject to spending policy and appropriation, including amounts above original gift amount of \$9,544,099 in 2019 and \$5,905,096 in 2018 | \$ 28,142,342 | \$ 23,923,856 |
| Subject to expenditures for a specific purpose  | 3,792,822     | 3,722,660     |
|   | \$ 31,935,164 | \$ 27,646,516 |

#### 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

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#### 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.

**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.

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 12 – Endowment (continued)

**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, should they occur, could be due to the result of unfavorable market fluctuations that occur after the investment of assets with donor restrictions. There were no such deficiencies as of December 31, 2019.

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

|                                 | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |
|---------------------------------|-------------------------------|----------------------------|----------------------|
| <b>2019</b>                     |                               |                            |                      |
| Donor-restricted endowment fund | \$ -                          | \$ 28,142,342              | \$ 28,142,342        |
| Board-designated endowment fund | 3,718,434                     | -                          | 3,718,434            |
|                                 | <u>\$ 3,718,434</u>           | <u>\$ 28,142,342</u>       | <u>\$ 31,860,776</u> |
| <b>2018</b>                     |                               |                            |                      |
| 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> |

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

|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |
|---|-------------------------------|----------------------------|----------------------|
| 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                            | (493,451)                     | (2,511,504)                | (3,004,955)          |
| Distribution of endowment returns and other | -                             | 231,419                    | 231,419              |
| Balance, December 31, 2018                  | 3,159,942                     | 23,923,856                 | 27,083,798           |
| Contributions                               | 1,000                         | 579,484                    | 580,484              |
| Investment return                           |                               |                            |                      |
| Investment income                           | 180,077                       | 1,026,573                  | 1,206,650            |
| Net appreciation                            | 427,115                       | 3,308,993                  | 3,736,108            |
| Distribution of endowment returns and other | (49,700)                      | (696,564)                  | (746,264)            |
| Balance, December 31, 2019                  | <u>\$ 3,718,434</u>           | <u>\$ 28,142,342</u>       | <u>\$ 31,860,776</u> |

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 13 – Benefit Plans

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

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

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

Pension expense under the qualified pension plans and the nonqualified deferred compensation plan totaled \$7,341,092 and \$7,212,180 for the years ended December 31, 2019 and 2018, 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:

|                          | 2019 | 2018 |
|--------------------------|------|------|
| Medicare                 | 31%  | 33%  |
| Medicaid                 | 16%  | 14%  |
| Self-pay patients        | 13%  | 13%  |
| Commercial insurance     | 14%  | 14%  |
| Blue Cross               | 9%   | 9%   |
| Other third-party payors | 17%  | 17%  |
|                          | 100% | 100% |

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### 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, 2019, comprise the following:

|  |                       |
|--|-----------------------|
| Cash and cash equivalents                                      | \$ 31,822,473         |
| Current portion of assets limited as to use, net of restricted | 23,080                |
| Assets limited as to use, by board                             | <u>343,194,846</u>    |
|  | <u>\$ 375,040,399</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 \$375,040,399 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures, consisting of cash of \$31,822,473 and short-term investments of \$343,217,926. 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's 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 \$1,200,000 per day. There are certain debt covenant compliances that the Organization must adhere to per its debt agreements, and as of December 31, 2019, the Organization is in compliance with its debt covenants.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

|   | <u>2019</u>          | <u>2018</u>          |
|---|----------------------|----------------------|
| Cash and cash equivalents                         | \$ 31,822,473        | \$ 27,135,606        |
| Assets limited as to use                          | <u>1,189,375</u>     | <u>934,441</u>       |
| Total cash, cash equivalents, and restricted cash | <u>\$ 33,011,848</u> | <u>\$ 28,070,047</u> |

## 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<br>and Program | General and<br>Administrative | Total                 |
|---------------------------|------------------------------------|-------------------------------|-----------------------|
| <b>2019</b>               |                                    |                               |                       |
| Salaries and wages        | \$ 178,992,100                     | \$ 33,221,126                 | \$ 212,213,226        |
| Employee benefits         | 29,674,308                         | 16,968,943                    | 46,643,251            |
| Professional fees         | 6,420,507                          | 9,442,731                     | 15,863,238            |
| Supplies                  | 94,001,666                         | 3,550,477                     | 97,552,143            |
| Purchased services        | 8,597,573                          | 22,846,212                    | 31,443,785            |
| Depreciation              | 8,375,121                          | 15,306,849                    | 23,681,970            |
| Interest and amortization | 159,219                            | 7,738,464                     | 7,897,683             |
| Other expenses            | 4,490,446                          | 14,820,261                    | 19,310,707            |
|                           | <u>\$ 330,710,940</u>              | <u>\$ 123,895,063</u>         | <u>\$ 454,606,003</u> |
| <b>2018</b>               |                                    |                               |                       |
| 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                          | 13,556,594                    | 18,445,240            |
|                           | <u>\$ 306,433,803</u>              | <u>\$ 121,131,973</u>         | <u>\$ 427,565,776</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. 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)

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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<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) |
|---|----------------|---|---|---|
| <b>2019</b>                                     |                |   |   |   |
| Assets whose use is limited                     |                |   |   |   |
| Cash and cash equivalents                       | \$ 1,189,375   | \$ 1,189,375  | \$ -  | \$ -  |
| Certificates of deposit                         | 6,958,760      | -   | 6,958,760   | -   |
| Money market                                    | 7,757          | -   | 7,757   | -   |
| Mutual funds                                    | 38,915,561     | 38,915,561  | -   | -   |
| Common stock                                    | 58,371,771     | 58,371,771  | -   | -   |
| Government obligations                          | 7,764,288      | -   | 7,764,288   | -   |
| Corporate bonds                                 | 88,413,322     | -   | 88,413,322  | -   |
| Other assets                                    | 52,495,524     | 51,639,098  | 856,426   | -   |
| Total assets limited as to use<br>at fair value | 254,116,358    | 150,115,805   | 104,000,553   | -   |
| Pooled common accounts                          | 140,426,215    |   |   |   |
| Total assets whose use is limited               | \$ 394,542,573 |   |   |   |

|                             |              |      |              |      |
|-----------------------------|--------------|------|--------------|------|
| Other long-term liabilities |              |      |              |      |
| Interest rate swaps         | \$ 2,583,274 | \$ - | \$ 2,583,274 | \$ - |

|   | Total          | Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) |
|---|----------------|---|---|---|
| <b>2018</b>                                     |                |   |   |   |
| 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<br>at fair value | 204,127,753    | 112,867,910   | 91,259,843  | -   |
| Pooled common accounts                          | 117,082,812    |   |   |   |
| Total assets whose use is limited               | \$ 321,210,565 |   |   |   |

|                             |              |      |              |      |
|-----------------------------|--------------|------|--------------|------|
| Other long-term liabilities |              |      |              |      |
| Interest rate swaps         | \$ 1,479,686 | \$ - | \$ 1,479,686 | \$ - |

## Benefis Health System, Inc. and Affiliates

### Notes to Consolidated Financial Statements

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#### 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, 2019 and 2018, for all operating leases, was approximately \$5,904,000 and \$5,446,000, respectively.

The following is a maturity analysis of the annual undiscounted cash flows of operating lease liabilities as of December 31, 2019:

|      |                     |
|------|---------------------|
| 2020 | \$ 3,060,000        |
| 2021 | 691,000             |
| 2022 | <u>63,000</u>       |
|      | <u>\$ 3,814,000</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 \$26,306,007 and \$18,453,673 at December 31, 2019 and 2018, 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, 2019 and 2018, are included in Notes 7, 8, and 10.

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

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

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#### **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, 2019 and 2018, the estimated liability for future claims costs totaled \$6,137,988 and \$5,084,938, 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 \$3,180,017 and \$3,768,066 at December 31, 2019 and 2018, 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**

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**Benefis Health System, Inc. and Affiliates**  
**Consolidating Balance Sheet**  
**December 31, 2019**

|   | <b>ASSETS</b>                     |                                      |   |                                     |                                   |   |   |   |                           |                       |
|---|-----------------------------------|--------------------------------------|---|-------------------------------------|-----------------------------------|---|---|---|---------------------------|-----------------------|
|   | Benefis<br>Hospitals, Inc.        | Benefis<br>Spectrum<br>Medical, Inc. | Great<br>Falls<br>Athletic<br>Club, LLC | Employee<br>Health<br>Plan<br>Trust | Benefis<br>Medical<br>Group, Inc. | Benefis<br>Health<br>System<br>Foundation, Inc. | Benefis<br>Health<br>System<br>Administration | Benefis<br>Community<br>Hospitals, Inc. | Eliminations              | Consolidated<br>Total |
| <b>CURRENT ASSETS</b>                         |                                   |                                      |   |                                     |                                   |   |   |   |                           |                       |
| Cash and cash equivalents                     | \$ (1,732,021)                    | \$ (138,102)                         | \$ 54,975                               | \$ 3,000,195                        | \$ (50,307)                       | \$ (9,224)                                      | \$ 29,800,831                                 | \$ 896,126                              | \$ -                      | \$ 31,822,473         |
| Current portion of assets limited as to use   | -                                 | -                                    | -                                       | 4,802,102                           | -                                 | -   | 6,544,541                                     | -                                       | -                         | 11,346,643            |
| Receivables                                   |                                   |                                      |   |                                     |                                   |   |   |   |                           |                       |
| Patient, net                                  | 65,333,461                        | 1,435,499                            | 19,780                                  | -                                   | -                                 | -   | 184,782                                       | 392,867                                 | -                         | 67,366,389            |
| Affiliates                                    | 623,585,832                       | 8,326,978                            | -                                       | -                                   | 393,467,640                       | 581,640   | 451,312,456                                   | 991,539                                 | (1,478,266,085)           | -                     |
| Other   | 9,308,473                         | -                                    | -                                       | 89,618                              | 378,628                           | -   | 21,748  | -                                       | -                         | 9,798,467             |
| Supplies                                      | 9,958,089                         | 1,874,087                            | 18,287                                  | -                                   | -                                 | -   | -   | 56,595                                  | -                         | 11,907,058            |
| Other   | 1,036,808                         | 13,670                               | -                                       | -                                   | -                                 | -   | 6,481,659                                     | 43,529                                  | -                         | 7,575,666             |
| <b>Total current assets</b>                   | <b>707,490,642</b>                | <b>11,512,132</b>                    | <b>93,042</b>                           | <b>7,891,915</b>                    | <b>393,795,961</b>                | <b>572,416</b>                                  | <b>494,346,017</b>                            | <b>2,380,656</b>                        | <b>(1,478,266,085)</b>    | <b>139,816,696</b>    |
| <b>ASSETS LIMITED AS TO USE, net</b>          |                                   |                                      |   |                                     |                                   |   |   |   |                           |                       |
| By board                                      | -                                 | -                                    | -                                       | -                                   | -                                 | 3,605,223                                       | 339,589,623                                   | -                                       | -                         | 343,194,846           |
| Held by trustees                              | -                                 | -                                    | -                                       | -                                   | -                                 | -   | -   | -                                       | -                         | -                     |
| Restricted                                    | -                                 | -                                    | -                                       | 2,156,658                           | -                                 | 33,575,412                                      | 4,269,014                                     | -                                       | -                         | 40,001,084            |
| <b>Total assets limited as to use, net</b>    | <b>-</b>                          | <b>-</b>                             | <b>-</b>                                | <b>2,156,658</b>                    | <b>-</b>                          | <b>37,180,635</b>                               | <b>343,858,637</b>                            | <b>-</b>                                | <b>-</b>                  | <b>383,195,930</b>    |
| <b>PROPERTY AND EQUIPMENT, net</b>            | <b>67,858,120</b>                 | <b>3,670,757</b>                     | <b>6,904,336</b>                        | <b>-</b>                            | <b>-</b>                          | <b>-</b>  | <b>200,456,682</b>                            | <b>1,414,908</b>                        | <b>(260,193)</b>          | <b>280,044,610</b>    |
| <b>OTHER ASSETS</b>                           | <b>2,925,532</b>                  | <b>25,487</b>                        | <b>23,015</b>                           | <b>-</b>                            | <b>-</b>                          | <b>1,168,806</b>                                | <b>39,862,255</b>                             | <b>-</b>                                | <b>(12,530,837)</b>       | <b>31,474,258</b>     |
| <b>Total assets</b>                           | <b>\$ 778,274,294</b>             | <b>\$ 15,208,376</b>                 | <b>\$ 7,020,393</b>                     | <b>\$ 10,048,573</b>                | <b>\$ 393,795,961</b>             | <b>\$ 38,921,857</b>                            | <b>\$ 1,078,523,591</b>                       | <b>\$ 3,795,564</b>                     | <b>\$ (1,491,057,115)</b> | <b>\$ 834,531,494</b> |
|   | <b>LIABILITIES AND NET ASSETS</b> |                                      |   |                                     |                                   |   |   |   |                           |                       |
| <b>CURRENT LIABILITIES</b>                    |                                   |                                      |   |                                     |                                   |   |   |   |                           |                       |
| Accounts payable                              | \$ 9,243,114                      | \$ 230,009                           | \$ 194,845                              | \$ 329,945                          | \$ -                              | \$ 49,066                                       | \$ 3,114,789                                  | \$ 72,865                               | \$ -                      | \$ 13,234,633         |
| Payable to affiliates                         | 558,983,050                       | 5,294,753                            | -                                       | -                                   | 385,121,245                       | 238,712   | 522,763,110                                   | 5,865,215                               | (1,478,266,085)           | -                     |
| Accrued compensation and benefits             | 13,836,423                        | 1,156,745                            | 78,054                                  | -                                   | 8,899,501                         | -   | 2,929,281                                     | -                                       | -                         | 26,900,004            |
| Estimated third-party payor settlements       | 6,067,851                         | -                                    | -                                       | -                                   | -                                 | -   | -   | 608,000                                 | -                         | 6,675,851             |
| Other accrued liabilities                     | 5,911,685                         | 28,011                               | -                                       | 3,199,428                           | -                                 | -   | 4,357,693                                     | 45,557                                  | -                         | 13,542,374            |
| Current portion of long-term debt             | -                                 | -                                    | 477,273                                 | -                                   | -                                 | -   | 8,011,238                                     | -                                       | -                         | 8,488,511             |
| <b>Total current liabilities</b>              | <b>594,042,123</b>                | <b>6,709,518</b>                     | <b>750,172</b>                          | <b>3,529,373</b>                    | <b>394,020,746</b>                | <b>287,778</b>                                  | <b>541,176,111</b>                            | <b>6,591,637</b>                        | <b>(1,478,266,085)</b>    | <b>68,841,373</b>     |
| <b>LONG-TERM DEBT, net of current portion</b> | <b>-</b>                          | <b>-</b>                             | <b>5,797,359</b>                        | <b>-</b>                            | <b>-</b>                          | <b>-</b>  | <b>177,441,236</b>                            | <b>-</b>                                | <b>-</b>                  | <b>183,238,595</b>    |
| <b>OTHER LONG-TERM LIABILITIES</b>            | <b>430,005</b>                    | <b>-</b>                             | <b>544,961</b>                          | <b>-</b>                            | <b>-</b>                          | <b>571,182</b>                                  | <b>35,810,142</b>                             | <b>-</b>                                | <b>-</b>                  | <b>37,356,290</b>     |
| <b>Total liabilities</b>                      | <b>594,472,128</b>                | <b>6,709,518</b>                     | <b>7,092,492</b>                        | <b>3,529,373</b>                    | <b>394,020,746</b>                | <b>858,960</b>                                  | <b>754,427,489</b>                            | <b>6,591,637</b>                        | <b>(1,478,266,085)</b>    | <b>289,436,258</b>    |
| <b>NET ASSETS</b>                             |                                   |                                      |   |                                     |                                   |   |   |   |                           |                       |
| Without donor restrictions                    |                                   |                                      |   |                                     |                                   |   |   |   |                           |                       |
| Benefis Health System, Inc.                   | 183,802,166                       | 8,498,858                            | (72,099)                                | 6,519,200                           | (224,785)                         | 6,127,733                                       | 324,096,102                                   | (2,796,073)                             | (12,755,701)              | 513,195,401           |
| Noncontrolling interest in subsidiary         | -                                 | -                                    | -                                       | -                                   | -                                 | -   | -   | -                                       | (35,329)                  | (35,329)              |
| With donor restrictions                       | -                                 | -                                    | -                                       | -                                   | -                                 | 31,935,164                                      | -   | -                                       | -                         | 31,935,164            |
| <b>Total net assets</b>                       | <b>183,802,166</b>                | <b>8,498,858</b>                     | <b>(72,099)</b>                         | <b>6,519,200</b>                    | <b>(224,785)</b>                  | <b>38,062,897</b>                               | <b>324,096,102</b>                            | <b>(2,796,073)</b>                      | <b>(12,791,030)</b>       | <b>545,095,236</b>    |
| <b>Total liabilities and net assets</b>       | <b>\$ 778,274,294</b>             | <b>\$ 15,208,376</b>                 | <b>\$ 7,020,393</b>                     | <b>\$ 10,048,573</b>                | <b>\$ 393,795,961</b>             | <b>\$ 38,921,857</b>                            | <b>\$ 1,078,523,591</b>                       | <b>\$ 3,795,564</b>                     | <b>\$ (1,491,057,115)</b> | <b>\$ 834,531,494</b> |

**Benefis Health System, Inc. and Affiliates**  
**Consolidating Statement of Operations**  
**Year Ended December 31, 2019**

|  | Benefis<br>Hospitals, Inc. | Benefis<br>Spectrum<br>Medical, Inc. | Great<br>Falls<br>Athletic<br>Club, LLC | Employee<br>Health<br>Plan<br>Trust | Benefis<br>Medical<br>Group, Inc. | Benefis<br>Health<br>System<br>Foundation, Inc. | Benefis<br>Health<br>System<br>Administration | Benefis<br>Community<br>Hospitals, Inc. | Eliminations        | Consolidated<br>Total |
|--|----------------------------|--------------------------------------|---|-------------------------------------|-----------------------------------|---|---|---|---------------------|-----------------------|
| <b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>       |                            |                                      |   |                                     |                                   |   |   |   |                     |                       |
| Net patient service revenue                                  | \$ 453,503,005             | \$ 15,630,127                        | \$ (13,701)                             | \$ -                                | \$ -                              | \$ -  | \$ -  | \$ 6,078,893                            | \$ -                | \$ 475,198,324        |
| Other operating revenue                                      | 13,793,687                 | 1,298,744                            | 3,849,098                               | 21,878,013                          | 74,777,313                        | 2,773,183                                       | 2,709,530                                     | 372,623                                 | (94,045,044)        | 27,407,147            |
| Total revenues, gains, and other support                     | <u>467,296,692</u>         | <u>16,928,871</u>                    | <u>3,835,397</u>                        | <u>21,878,013</u>                   | <u>74,777,313</u>                 | <u>2,773,183</u>                                | <u>2,709,530</u>                              | <u>6,451,516</u>                        | <u>(94,045,044)</u> | <u>502,605,471</u>    |
| <b>OPERATING EXPENSES</b>                                    |                            |                                      |   |                                     |                                   |   |   |   |                     |                       |
| Salaries and wages   | 116,872,677                | 9,831,320                            | 1,427,910                               | -                                   | 66,382,566                        | 402,539   | 14,149,811                                    | 3,146,403                               | -                   | 212,213,226           |
| Employee benefits  | 24,281,113                 | 2,153,465                            | 195,687                                 | 21,551,118                          | 6,615,361                         | 84,690  | 7,633,355                                     | 714,062                                 | (16,585,600)        | 46,643,251            |
| Professional fees  | 79,916,622                 | 113,007                              | 150,724                                 | 447,372                             | -                                 | 59,964  | 7,213,569                                     | 970,222                                 | (73,008,242)        | 15,863,238            |
| Supplies   | 93,149,064                 | 3,115,840                            | 216,146                                 | -                                   | -                                 | 14,702  | 1,258,137                                     | 395,252                                 | (596,998)           | 97,552,143            |
| Purchased services   | 20,648,374                 | 421,632                              | 364,407                                 | -                                   | -                                 | (310)   | 10,821,620                                    | 581,638                                 | (1,393,576)         | 31,443,785            |
| Depreciation   | 9,321,382                  | 302,502                              | 407,984                                 | -                                   | -                                 | 1,714   | 13,519,451                                    | 128,937                                 | -                   | 23,681,970            |
| Interest   | 4,504,623                  | -                                    | 324,937                                 | -                                   | -                                 | -   | 3,068,123                                     | -                                       | -                   | 7,897,683             |
| Other  | 9,963,586                  | 524,389                              | 728,634                                 | -                                   | 1,779,387                         | 2,323,811                                       | 7,809,974                                     | 140,572                                 | (3,959,646)         | 19,310,707            |
| Total operating expenses                                     | <u>358,657,441</u>         | <u>16,462,155</u>                    | <u>3,816,429</u>                        | <u>21,998,490</u>                   | <u>74,777,314</u>                 | <u>2,887,110</u>                                | <u>65,474,040</u>                             | <u>6,077,086</u>                        | <u>(95,544,062)</u> | <u>454,606,003</u>    |
| OPERATING INCOME (LOSS)                                      | 108,639,251                | 466,716                              | 18,968                                  | (120,477)                           | (1)                               | (113,927)                                       | (62,764,510)                                  | 374,430                                 | 1,499,018           | 47,999,468            |
| OTHER INCOME (LOSS)  | (58,970,662)               | (1,561,892)                          | -                                       | -                                   | -                                 | 237,542   | 68,479,249                                    | (731,753)                               | -                   | 7,452,484             |
| CHANGE IN UNREALIZED GAINS AND LOSSES FROM EQUITY SECURITIES | -                          | -                                    | -                                       | -                                   | -                                 | -   | 31,523,521                                    | -                                       | -                   | 31,523,521            |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES                | <u>\$ 49,668,589</u>       | <u>\$ (1,095,176)</u>                | <u>\$ 18,968</u>                        | <u>\$ (120,477)</u>                 | <u>\$ (1)</u>                     | <u>\$ 123,615</u>                               | <u>\$ 37,238,260</u>                          | <u>\$ (357,323)</u>                     | <u>\$ 1,499,018</u> | <u>\$ 86,975,473</u>  |

**Benefis Health System, Inc. and Affiliates**  
**Consolidating Statement of Changes in Net Assets**  
**Year Ended December 31, 2019**

|  | Benefis<br>Hospitals, Inc. | Benefis<br>Spectrum<br>Medical, Inc. | Great<br>Falls<br>Athletic<br>Club, LLC | Employee<br>Health<br>Plan<br>Trust | Benefis<br>Medical<br>Group, Inc. | Benefis<br>Health<br>System<br>Foundation, Inc. | Benefis<br>Health<br>System<br>Administration | Benefis<br>Community<br>Hospitals, Inc. | Eliminations    | Consolidated<br>Total |
|--|----------------------------|--------------------------------------|---|-------------------------------------|-----------------------------------|---|---|---|-----------------|-----------------------|
| WITHOUT DONOR RESTRICTIONS, beginning of year                | \$ 134,133,577             | \$ 9,594,034                         | \$ 172,836                              | \$ 6,612,415                        | \$ (224,784)                      | \$ 4,913,814                                    | \$ 286,986,037                                | \$ (2,438,750)                          | \$ (14,462,856) | \$ 425,286,323        |
| Excess (deficiency) of revenues over expenses                | 49,668,589                 | (1,095,176)                          | 18,968                                  | (120,477)                           | (1)                               | 123,615   | 37,238,260                                    | (357,323)                               | 1,499,018       | 86,975,473            |
| Change in unrealized gains and losses on investments, net    | -                          | -                                    | -                                       | 27,262                              | -                                 | 1,090,304                                       | 814,706                                       | -                                       | 38,217          | 1,970,489             |
| Loss on interest rate swap agreement                         | -                          | -                                    | (251,403)                               | -                                   | -                                 | -   | (942,901)                                     | -                                       | 128,216         | (1,066,088)           |
| Interaffiliate transfers                                     | -                          | -                                    | (6,375)                                 | -                                   | -                                 | -   | -   | -                                       | 6,375           | -                     |
| Distributions to noncontrolling members                      | -                          | -                                    | (6,125)                                 | -                                   | -                                 | -   | -   | -                                       | -               | (6,125)               |
| Increase (decrease) in net assets without donor restrictions | 49,668,589                 | (1,095,176)                          | (244,935)                               | (93,215)                            | (1)                               | 1,213,919                                       | 37,110,065                                    | (357,323)                               | 1,671,826       | 87,873,749            |
| WITHOUT DONOR RESTRICTIONS, end of year                      | \$ 183,802,166             | \$ 8,498,858                         | \$ (72,099)                             | \$ 6,519,200                        | \$ (224,785)                      | \$ 6,127,733                                    | \$ 324,096,102                                | \$ (2,796,073)                          | \$ (12,791,030) | \$ 513,160,072        |
| WITH DONOR RESTRICTIONS, beginning of year                   | \$ -                       | \$ -                                 | \$ -                                    | \$ -                                | \$ -                              | \$ 27,646,516                                   | \$ -  | \$ -                                    | \$ -            | \$ 27,646,516         |
| Contributions  | -                          | -                                    | -                                       | -                                   | -                                 | 1,697,016                                       | -   | -                                       | -               | 1,697,016             |
| Interest income  | -                          | -                                    | -                                       | -                                   | -                                 | 1,029,168                                       | -   | -                                       | -               | 1,029,168             |
| Change in unrealized gains and losses on investments, net    | -                          | -                                    | -                                       | -                                   | -                                 | 3,317,912                                       | -   | -                                       | -               | 3,317,912             |
| Special events, net  | -                          | -                                    | -                                       | -                                   | -                                 | 248,140   | -   | -                                       | -               | 248,140               |
| Net assets released from restriction                         | -                          | -                                    | -                                       | -                                   | -                                 | (2,003,588)                                     | -   | -                                       | -               | (2,003,588)           |
| Increase in net assets with donor restrictions               | -                          | -                                    | -                                       | -                                   | -                                 | 4,288,648                                       | -   | -                                       | -               | 4,288,648             |
| WITH DONOR RESTRICTIONS, end of year                         | \$ -                       | \$ -                                 | \$ -                                    | \$ -                                | \$ -                              | \$ 31,935,164                                   | \$ -  | \$ -                                    | \$ -            | \$ 31,935,164         |

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

|   | <b>ASSETS</b>                     |                                      |   |                                     |                                   |   |   |   |                           |                       |
|---|-----------------------------------|--------------------------------------|---|-------------------------------------|-----------------------------------|---|---|---|---------------------------|-----------------------|
|   | Benefis<br>Hospitals, Inc.        | Benefis<br>Spectrum<br>Medical, Inc. | Great<br>Falls<br>Athletic<br>Club, LLC | Employee<br>Health<br>Plan<br>Trust | Benefis<br>Medical<br>Group, Inc. | Benefis<br>Health<br>System<br>Foundation, Inc. | Benefis<br>Health<br>System<br>Administration | Benefis<br>Community<br>Hospitals, Inc. | Eliminations              | Consolidated<br>Total |
| <b>CURRENT ASSETS</b>                         |                                   |                                      |   |                                     |                                   |   |   |   |                           |                       |
| 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         |
| Current portion of 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                       | 681,170   | 375,561,784                                   | 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                               | -                                       | -                                   | -                                 | -   | 5,621,521                                     | 41,527                                  | -                         | 6,557,882             |
| Total current assets                          | <u>565,045,709</u>                | <u>10,968,063</u>                    | <u>178,384</u>                          | <u>7,245,803</u>                    | <u>319,821,609</u>                | <u>683,929</u>                                  | <u>418,194,093</u>                            | <u>1,260,809</u>                        | <u>(1,199,191,561)</u>    | <u>124,206,838</u>    |
| <b>ASSETS LIMITED AS TO USE, net</b>          |                                   |                                      |   |                                     |                                   |   |   |   |                           |                       |
| 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           | <u>-</u>                          | <u>-</u>                             | <u>-</u>                                | <u>3,891,432</u>                    | <u>-</u>                          | <u>31,743,839</u>                               | <u>270,797,278</u>                            | <u>-</u>                                | <u>-</u>                  | <u>306,432,549</u>    |
| <b>PROPERTY AND EQUIPMENT, net</b>            | <u>69,061,872</u>                 | <u>3,774,861</u>                     | <u>7,218,260</u>                        | <u>-</u>                            | <u>-</u>                          | <u>-</u>  | <u>202,733,273</u>                            | <u>1,266,514</u>                        | <u>(260,193)</u>          | <u>283,794,587</u>    |
| <b>OTHER ASSETS</b>                           | <u>79,873</u>                     | <u>-</u>                             | <u>25,112</u>                           | <u>-</u>                            | <u>-</u>                          | <u>939,333</u>                                  | <u>34,157,863</u>                             | <u>-</u>                                | <u>(14,202,663)</u>       | <u>20,999,518</u>     |
| Total assets                                  | <u>\$ 634,187,454</u>             | <u>\$ 14,742,924</u>                 | <u>\$ 7,421,756</u>                     | <u>\$ 11,137,235</u>                | <u>\$ 319,821,609</u>             | <u>\$ 33,367,101</u>                            | <u>\$ 925,882,507</u>                         | <u>\$ 2,527,323</u>                     | <u>\$ (1,213,654,417)</u> | <u>\$ 735,433,492</u> |
|   | <b>LIABILITIES AND NET ASSETS</b> |                                      |   |                                     |                                   |   |   |   |                           |                       |
| <b>CURRENT LIABILITIES</b>                    |                                   |                                      |   |                                     |                                   |   |   |   |                           |                       |
| 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                       | 233,864   | 409,504,256                                   | 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                     | <u>499,816,877</u>                | <u>5,148,890</u>                     | <u>680,730</u>                          | <u>4,524,820</u>                    | <u>320,046,393</u>                | <u>294,792</u>                                  | <u>426,518,024</u>                            | <u>4,966,073</u>                        | <u>(1,199,191,561)</u>    | <u>62,805,038</u>     |
| <b>LONG-TERM DEBT, net of current portion</b> | <u>-</u>                          | <u>-</u>                             | <u>6,274,632</u>                        | <u>-</u>                            | <u>-</u>                          | <u>-</u>  | <u>186,007,192</u>                            | <u>-</u>                                | <u>-</u>                  | <u>192,281,824</u>    |
| <b>OTHER LONG-TERM LIABILITIES</b>            | <u>237,000</u>                    | <u>-</u>                             | <u>293,558</u>                          | <u>-</u>                            | <u>-</u>                          | <u>511,979</u>                                  | <u>26,371,254</u>                             | <u>-</u>                                | <u>-</u>                  | <u>27,413,791</u>     |
| Total liabilities                             | <u>500,053,877</u>                | <u>5,148,890</u>                     | <u>7,248,920</u>                        | <u>4,524,820</u>                    | <u>320,046,393</u>                | <u>806,771</u>                                  | <u>638,896,470</u>                            | <u>4,966,073</u>                        | <u>(1,199,191,561)</u>    | <u>282,500,653</u>    |
| <b>NET ASSETS</b>                             |                                   |                                      |   |                                     |                                   |   |   |   |                           |                       |
| Without donor restrictions                    |                                   |                                      |   |                                     |                                   |   |   |   |                           |                       |
| Benefis Health System, Inc.                   | 134,133,577                       | 9,594,034                            | 172,836                                 | 6,612,415                           | (224,784)                         | 4,913,814                                       | 286,986,037                                   | (2,438,750)                             | (14,547,546)              | 425,201,633           |
| Noncontrolling interest in subsidiary         | -                                 | -                                    | -                                       | -                                   | -                                 | -   | -   | -                                       | 84,690                    | 84,690                |
| With donor restrictions                       | -                                 | -                                    | -                                       | -                                   | -                                 | 27,646,516                                      | -   | -                                       | -                         | 27,646,516            |
| Total net assets                              | <u>134,133,577</u>                | <u>9,594,034</u>                     | <u>172,836</u>                          | <u>6,612,415</u>                    | <u>(224,784)</u>                  | <u>32,560,330</u>                               | <u>286,986,037</u>                            | <u>(2,438,750)</u>                      | <u>(14,462,856)</u>       | <u>452,932,839</u>    |
| Total liabilities and net assets              | <u>\$ 634,187,454</u>             | <u>\$ 14,742,924</u>                 | <u>\$ 7,421,756</u>                     | <u>\$ 11,137,235</u>                | <u>\$ 319,821,609</u>             | <u>\$ 33,367,101</u>                            | <u>\$ 925,882,507</u>                         | <u>\$ 2,527,323</u>                     | <u>\$ (1,213,654,417)</u> | <u>\$ 735,433,492</u> |

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

|  | Benefis<br>Hospitals, Inc. | Benefis<br>Spectrum<br>Medical, Inc. | Great<br>Falls<br>Athletic<br>Club, LLC | Employee<br>Health<br>Plan<br>Trust | Benefis<br>Medical<br>Group, Inc. | Benefis<br>Health<br>System<br>Foundation, Inc. | Benefis<br>Health<br>System<br>Administration | Benefis<br>Community<br>Hospitals, Inc. | Eliminations        | Consolidated<br>Total |
|--|----------------------------|--------------------------------------|---|-------------------------------------|-----------------------------------|---|---|---|---------------------|-----------------------|
| <b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b> |                            |                                      |   |                                     |                                   |   |   |   |                     |                       |
| 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                        | 1,773,862                                       | 3,445,611                                     | 333,048                                 | (87,057,929)        | 26,252,822            |
| Total revenues, gains, and other support               | <u>421,080,994</u>         | <u>15,686,913</u>                    | <u>4,062,935</u>                        | <u>21,009,428</u>                   | <u>69,006,448</u>                 | <u>1,773,862</u>                                | <u>3,445,611</u>                              | <u>6,186,987</u>                        | <u>(87,057,929)</u> | <u>455,195,249</u>    |
| <b>OPERATING EXPENSES</b>                              |                            |                                      |   |                                     |                                   |   |   |   |                     |                       |
| 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                                 | -                                   | -                                 | 1,714   | 12,645,789                                    | 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                         | 2,671,013                                       | 8,087,657                                     | 99,158                                  | (4,510,506)         | 18,445,240            |
| Total operating expenses                               | <u>331,550,356</u>         | <u>14,737,359</u>                    | <u>3,879,464</u>                        | <u>21,726,179</u>                   | <u>69,006,448</u>                 | <u>3,234,162</u>                                | <u>65,948,225</u>                             | <u>6,136,077</u>                        | <u>(88,652,494)</u> | <u>427,565,776</u>    |
| OPERATING INCOME (LOSS)                                | 89,530,638                 | 949,554                              | 183,471                                 | (716,751)                           | -                                 | (1,460,300)                                     | (62,502,614)                                  | 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          | <u>\$ 30,594,434</u>       | <u>\$ (611,426)</u>                  | <u>\$ 183,471</u>                       | <u>\$ (716,751)</u>                 | <u>\$ -</u>                       | <u>\$ (1,171,407)</u>                           | <u>\$ 4,907,841</u>                           | <u>\$ (680,415)</u>                     | <u>\$ 1,594,565</u> | <u>\$ 34,100,312</u>  |

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

|  | Benefis<br>Hospitals, Inc. | Benefis<br>Spectrum<br>Medical, Inc. | Great<br>Falls<br>Athletic<br>Club, LLC | Employee<br>Health<br>Plan<br>Trust | Benefis<br>Medical<br>Group, Inc. | Benefis<br>Health<br>System<br>Foundation, Inc. | Benefis<br>Health<br>System<br>Administration | Benefis<br>Community<br>Hospitals, Inc. | Eliminations           | Consolidated<br>Total |
|--|----------------------------|--------------------------------------|---|-------------------------------------|-----------------------------------|---|---|---|------------------------|-----------------------|
| WITHOUT DONOR RESTRICTIONS, beginning of year                | \$ 103,539,143             | \$ 10,205,460                        | \$ 128,328                              | \$ 7,338,530                        | \$ (224,784)                      | \$ 6,888,717                                    | \$ 299,352,081                                | \$ (1,758,335)                          | \$ (16,137,657)        | \$ 409,331,483        |
| Excess (deficiency) of revenues over expenses                | 30,594,434                 | (611,426)                            | 183,471                                 | (716,751)                           | -                                 | (1,171,407)                                     | 4,907,841                                     | (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 on interest rate swap agreement                         | -                          | -                                    | 173,037                                 | -                                   | -                                 | -   | 817,920                                       | -                                       | (88,249)               | 902,708               |
| 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)                           | -                                 | (1,974,903)                                     | (12,366,044)                                  | (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>\$ 4,913,814</u>                             | <u>\$ 286,986,037</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, net    | -                          | -                                    | -                                       | -                                   | -                                 | (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>\$ 27,646,516</u>                            | <u>\$ -</u>                                   | <u>\$ -</u>                             | <u>\$ -</u>            | <u>\$ 27,646,516</u>  |

