



Consolidated Financial Statements
June 30, 2017 and 2016

**Otero County Hospital Association
d/b/a Gerald Champion Regional
Medical Center**

Gerald Champion Regional Medical Center

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June 30, 2017 and 2016

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Independent Auditor's Report

The Board of Directors
Otero County Hospital Association
d/b/a Gerald Champion Regional Medical Center
Alamogordo, New Mexico

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Otero County Hospital Association d/b/a Gerald Champion Regional Medical Center (Medical Center), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Otero County Hospital Association d/b/a Gerald Champion Regional Medical Center, as of June 30, 2017 and 2016, and the consolidated results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Fargo, North Dakota
October 20, 2017

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	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 28,910,631	\$ 24,711,266
Marketable securities	69,284,474	45,162,189
Receivables		
Patient, net of estimated uncollectibles of \$9,875,000 in 2017 and \$13,219,000 in 2016	17,140,783	14,609,024
Other	515,062	464,667
Supplies	5,328,095	4,762,322
Prepaid expenses	2,187,374	2,112,057
Total current assets	<u>123,366,419</u>	<u>91,821,525</u>
 Assets Limited as to Use	 <u>5,393,296</u>	 <u>5,406,928</u>
 Property and Equipment, Net	 <u>89,726,298</u>	 <u>86,689,103</u>
 Other Assets		
Investment in affiliates	247,771	287,511
Insurance recovery receivable	-	1,000,000
Goodwill	713,085	713,085
Other intangible assets, net of accumulated amortization of \$240,219 in 2017 and \$186,188 in 2016	90,125	144,156
Total other assets	<u>1,050,981</u>	<u>2,144,752</u>
 Total assets	 <u><u>\$ 219,536,994</u></u>	 <u><u>\$ 186,062,308</u></u>

See Notes to Consolidated Financial Statements

Gerald Champion Regional Medical Center
Consolidated Balance Sheets
June 30, 2017 and 2016

	2017	2016
Current Liabilities		
Line of credit	\$ 154,839	\$ 154,694
Current maturities of long-term debt	1,515,388	1,556,619
Accounts payable		
Trade	10,751,345	6,957,342
Estimated third-party payor settlements	5,554,094	1,949,907
Construction and equipment	506,692	716,589
Accrued expenses		
Salaries and wages	2,403,898	1,673,276
Vacation	2,883,718	2,768,417
Payroll taxes and other benefits	460,141	385,444
Other	87,611	145,454
Total current liabilities	24,317,726	16,307,742
Long-Term Debt, Less Current Maturities, Unamortized Discount, and Unamortized Debt Issuance Costs	64,436,942	65,818,373
Insurance Claims Liability	-	1,000,000
Total liabilities	88,754,668	83,126,115
Unrestricted Net Assets		
Gerald Champion Regional Medical Center	127,406,134	99,567,626
Noncontrolling interests in controlled entities	3,376,192	3,368,567
Total unrestricted net assets	130,782,326	102,936,193
Total liabilities and net assets	\$ 219,536,994	\$ 186,062,308

Gerald Champion Regional Medical Center
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2017 and 2016

	2017	2016
Unrestricted Revenues, Gains, and Other Support		
Net patient service revenue	\$ 155,535,290	\$ 156,996,750
Provision for bad debts	(5,458,408)	(5,660,918)
Net patient service revenue less provision for bad debts	150,076,882	151,335,832
Other revenue	3,352,080	4,378,831
Total revenues, gains, and other support	153,428,962	155,714,663
Expenses		
Salaries and wages	49,629,924	45,445,681
Employee benefits	8,981,156	7,310,861
Professional fees and purchased services	20,892,088	19,641,622
Utilities	6,403,411	6,494,053
Supplies and other	18,800,347	17,867,166
Insurance	3,047,187	3,013,095
Leases and rentals	1,771,306	1,868,301
Taxes	1,177,577	977,385
Interest	3,940,688	4,047,760
Depreciation and amortization	10,292,646	10,684,705
Other	4,347,386	3,052,189
Total expenses	129,283,716	120,402,818
Operating Income	24,145,246	35,311,845
Other Income (Losses)		
Reorganization costs	(141,488)	(125,578)
Investment income	5,369,330	1,245,316
Other	86,544	50,482
Total other income (loss), net	5,314,386	1,170,220
Revenues in Excess of Expenses	29,459,632	36,482,065
Contributions from Noncontrolling Interests	-	611,590
Distributions to Noncontrolling Interests	(1,613,499)	(850,000)
Change in Unrestricted Net Assets	27,846,133	36,243,655
Net Assets, Beginning of Year	102,936,193	66,692,538
Net Assets, End of Year	\$ 130,782,326	\$ 102,936,193

Gerald Champion Regional Medical Center
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 27,846,133	\$ 36,243,655
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	10,292,646	10,684,705
Provision for bad debts	5,458,408	5,660,918
Amortization of original issue discount and debt issuance costs included in interest expense	126,199	126,020
Net realized gains and losses on investments	(122,207)	(12,016)
Net change in unrealized gains and losses on investments	(3,670,230)	(907,457)
Loss on disposal of property and equipment	14,894	15,480
Gain from investment in affiliates included in investment income	(4,943)	(147,466)
Distributions to noncontrolling interests	1,613,499	850,000
Losses on intangible assets and goodwill included in expenses	-	17,764
Contributions from noncontrolling interests	-	(611,590)
Changes in assets and liabilities		
Patient accounts receivable	(7,990,167)	(7,042,886)
Other accounts receivable	(50,395)	588,727
Supplies	(565,773)	(816,142)
Prepaid expenses	(75,317)	(779,667)
Accounts payable	3,794,003	(2,946,634)
Accrued expenses	862,777	(2,235,422)
Estimated third party payor settlements	3,604,187	2,093,831
Net Cash From Operating Activities	41,133,714	40,781,820
Investing Activities		
Construction and purchase of property and equipment	(13,500,601)	(11,322,006)
Distributions from affiliates	44,683	134,043
Sales (purchases) of assets limited as to use, net	13,632	(123,744)
Purchases of marketable securities	(20,329,848)	(44,242,716)
Proceeds from the sale of assets limited as to use	-	10,000,000
Net Cash Used For Investing Activities	(33,772,134)	(45,554,423)
Financing Activities		
Change in line of credit	145	48,560
Distributions to noncontrolling interests	(1,613,499)	(850,000)
Principal payments on long-term debt	(1,548,861)	(2,706,925)
Contributions from noncontrolling interests	-	611,590
Net Cash Used For Financing Activities	(3,162,215)	(2,896,775)

Gerald Champion Regional Medical Center
 Consolidated Statements of Cash Flows
 Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net Change in Cash and Cash Equivalents	\$ 4,199,365	\$ (7,669,378)
Cash and Cash Equivalents, Beginning of Year	<u>24,711,266</u>	<u>32,380,644</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 28,910,631</u></u>	<u><u>\$ 24,711,266</u></u>
Supplemental Schedule of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 3,814,489</u>	<u>\$ 5,853,778</u>
Supplemental Disclosure of Noncash Operating, Investing and Financing Activities		
Equipment financed through capital lease arrangements	<u>\$ -</u>	<u>\$ 168,619</u>
Equipment financed through construction payables	<u>\$ 506,692</u>	<u>\$ 716,589</u>

Note 1 - Organization and Significant Accounting Policies

Organization and Principles of Consolidation

Otero County Hospital Association, d/b/a Gerald Champion Regional Medical Center (Medical Center) operates a 100-bed acute care hospital and clinics located in Alamogordo, New Mexico.

The accompanying consolidated financial statements include the accounts and transactions of the Medical Center and its controlled subsidiaries, Alamogordo Surgery Venture, LLC (ASV) and Gerald Champion-Sierra Providence Cardiac Cath Lab, LLC (GCSP Cath Lab), collectively referred to as the Medical Center. All significant intercompany balances and transactions have been eliminated. The noncontrolling shareholder interests in ASV and GCSP Cath Lab are reported as a component of the Medical Center's unrestricted net assets (Note 8).

Use of Estimates

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

Income Taxes

The Medical Center is organized as a New Mexico nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Medical Center is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Medical Center is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Medical Center files an Exempt Organization Business Income Tax Return (Form 990T) with the IRS to report its unrelated business taxable income. The ASV and GCSP Cath Lab are limited liability companies for which the income is taxed to the respective members in their tax returns.

The Medical Center believes it has appropriate support for any tax positions taken affecting its annual filing requirements, and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Medical Center would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense, if such interest and penalties are incurred. The Medical Center's federal Form 990T filings are no longer subject to federal tax examinations by tax authorities for years before 2014.

Fair Value Measurement

The Medical Center has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

No assets were valued using Level 3 inputs during 2017 or 2016.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with a maturity of three months or less, excluding assets limited as to use and marketable securities.

Marketable Securities and Investment Income

Marketable securities include equity and debt securities which are measured at fair value in the consolidated balance sheets. Investments in cash and money markets or certificates of deposit held as time deposits are measured at historical cost, plus any accrued interest. Management considers its investments to be trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in revenues in excess of expenses.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified in the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid). 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 Medical Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Medical Center's process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from June 30, 2016 to June 30, 2017. The Medical Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third-party payors. The Medical Center has not significantly changed its charity care or uninsured discount policies during fiscal year 2017.

Supplies

Supplies are stated at lower of cost or market using the most recent cost.

Investments in Affiliates

Investments in entities in which the Medical Center has the ability to exercise significant influence over operating and financial policies but does not have operational control are recorded under the equity method of accounting. Under the equity method, the initial investments are recorded at cost and adjusted annually to recognize the Medical Center's share of undistributed earnings or losses of the entities, net of any additional investments or distributions. The Medical Center's share of net earnings or losses of the entities is included in investment income.

Assets Limited as to Use

Assets limited as to use include assets held by a trustee under the bond indenture agreements.

Property and Equipment

Property and equipment acquisitions in excess of \$1,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the consolidated financial statements. The estimated useful lives of property and equipment are as follows:

Land improvements	5-30 years
Buildings and fixed equipment	5-30 years
Equipment	3-20 years
Equipment under capital leases	3-5 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net assets and are excluded from revenues in excess of expenses unless explicit donor stipulations specify how the donated assets must be used. 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 donated or when acquired long-lived assets are placed in service.

Debt Issuance Costs and Original Issue Discount

Debt issuance costs and original issue discount are amortized over the period the related obligation is outstanding using the straight line method, which is considered a reasonable estimate of the effective interest method. Debt issuance costs and original issue discount are included within long-term debt on the consolidated balance sheets. Amortization of debt issuance costs and original issue discount is included in interest expense in the consolidated financial statements.

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets acquired through the acquisitions of various businesses. On an annual basis and at interim periods when circumstances require, the Medical Center tests the recoverability of its goodwill. The Medical Center recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value. The fair value of the reporting unit is estimated, if required under applicable accounting guidance, using the net present value of discounted cash flows, excluding any financing costs or dividends, generated by each reporting unit. The discounted cash flows are based upon reasonable and appropriate assumptions about the underlying business activities of the respective reporting unit. The Medical Center performs its evaluation for recoverability for goodwill at the same time each year, unless circumstances require additional analysis. There was no impairment loss recognized for the year ended June 30, 2017. An impairment loss of \$19,926 was recognized for the year ended June 30, 2016.

Other Intangible Assets

Other intangible assets consist of a noncompete agreement and patient records. Intangible assets are recorded at cost and amortized using a straight line method. The useful lives of other intangible assets range from 5 to 20 years. Intangible assets are considered annually for indicators of impairment. There was no impairment loss recognized for the years ended June 30, 2017 and 2016.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity. At June 30, 2017 and 2016, the Medical Center did not have any temporarily or permanently restricted net assets.

Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Medical Center 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, as noted above. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of its standard rates for services provided, reduced by discounts, if negotiated or provided by policy. On the basis of historical experience, a significant portion of the Medical Center’s uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Medical Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized for the years ended June 30, 2017 and 2016 from these major payor sources, is as follows:

	2017	2016
Patient service revenue		
Third-party payors	\$ 143,543,064	\$ 140,454,183
Uninsured	11,992,226	16,542,567
Total all payors	\$ 155,535,290	\$ 156,996,750

Charity Care

To fulfill its mission of community service, the Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue. The amount of charges foregone for services provided under the Medical Center’s charity care policy were approximately \$4,187,000 and \$2,185,000 for the years ended June 30, 2017 and 2016. Total direct and indirect costs related to these foregone charges were approximately \$898,000 and \$492,000 for the years ended June 30, 2017 and 2016, calculated by multiplying the ratio of cost to gross charges for the Medical Center by the gross uncompensated charges associated with providing charity care to its patients.

The Medical Center receives funds to offset or subsidize charity care services. The amount of funds received was approximately \$915,000 and \$2,162,000 for the years ended June 30, 2017 and 2016, which is included as net patient service revenue in the consolidated financial statements.

Revenues in Excess of Expenses

Revenues in excess of expenses excludes unrealized gains and losses on investments other than trading securities, transfers of assets to and from related parties for other than goods and services.

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 (“ARRA”) established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record (“EHR”) technology. The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR “meaningful use” criteria that become more stringent over three stages as determined by the Centers for Medicare & Medicaid Services (CMS).

During the years ended June 30, 2017 and 2016, the Medical Center recorded \$(141,014) and \$996,636 related to the Medicare and Medicaid programs in other operating revenue for meaningful use incentives. These incentives have been recognized into income as management becomes reasonably assured of meeting the required criteria. The Medical Center has continued to use EHR technology in a meaningful way under the Medicare program criteria and concluded there is reasonable assurance that historical attestations are appropriately supported.

Amounts recognized represent management's best estimates for payments ultimately expected to be received based on estimated discharges, charity care, and other input data. Subsequent changes to these estimates will be recognized in other operating revenue in the period in which additional information is available. Such estimates are subject to audit by the federal government or its designee.

Note 2 - Net Patient Service Revenue

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

Medicare. Inpatient acute care services and outpatient services provided to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor (MAC). The Medical Center's Medicare cost reports have been audited by the MAC through the year ended June 30, 2014.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment methodology. The Medical Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audit thereof by the Medicaid fiscal intermediary. The Medical Center has an agreement with White Sands Health Care Systems, LLC (White Sands), a related party, to negotiate the reimbursement rates for inpatient and outpatient services with the third party payors involved in the State of New Mexico's Medicaid managed care program, Centennial Care.

Blue Cross. Inpatient services provided to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at a percent of charges. The prospectively determined discount is not subject to retroactive adjustment.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Gerald Champion Regional Medical Center
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Gross revenues from the Medicare, Medicaid and Blue Cross Blue Shield programs and other payors accounted for the following percentages of the Medical Center's gross patient service revenues for the years ended June 30, 2017 and 2016:

	2017	2016
Medicare	40%	40%
Medicaid	23%	22%
Blue Cross Blue Shield	8%	10%
Other	29%	28%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased for the years ended June 30, 2017 and 2016 by approximately \$159,000 and \$315,000, due to changes in estimates and final settlements of prior year cost reports.

A summary of patient service revenue and contractual adjustments and discounts for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
Total patient service revenue	\$ 597,741,850	\$ 524,854,717
Contractual adjustments and discounts		
Hospital		
Medicare	(179,220,818)	(148,467,299)
Medicaid	(117,588,413)	(95,728,997)
Tricare	(36,863,017)	(33,205,411)
Blue Cross	(10,907,418)	(10,534,212)
Other	(70,771,742)	(54,755,411)
Physician practices	(26,855,152)	(25,166,637)
Total contractual adjustments and discounts	(442,206,560)	(367,857,967)
Net patient service revenue	155,535,290	156,996,750
Less provision for bad debts	(5,458,408)	(5,660,918)
Net patient service revenue less provision for bad debts	\$ 150,076,882	\$ 151,335,832

Note 3 - Investments and Investment Income

Assets Limited as to Use

The composition of assets limited as to use at June 30, 2017 and 2016 is shown in the following table. Investments in cash and cash equivalents and certain certificates of deposit are stated at historical cost due to the nearness to maturity. All other certificates of deposit and mutual funds are stated at fair value.

	2017	2016
Under Bond Indenture for Debt Service		
Certificates of deposit - fair value	\$ 5,393,296	\$ 3,807,736
Cash and cash equivalents	-	1,599,192
	\$ 5,393,296	\$ 5,406,928

Marketable Securities

Marketable securities consisted of the following at June 30, 2017 and 2016. Cash and cash equivalents and certificates of deposit held to maturity at financial institutions are measured at cost. Other long-term investments are measured at fair value.

	2017	2016
Cash and cash equivalents	\$ 555,005	\$ 3,982,175
Mutual funds	46,856,744	30,060,978
Certificates of deposit	1,283,783	1,148,748
Equities	11,442,847	6,895,485
Corporate bonds	4,442,056	1,512,532
U.S. government securities	2,667,708	1,145,638
Mortgage backed securities	1,515,657	294,214
Real estate investment trusts	520,674	122,419
Total long-term investments	\$ 69,284,474	\$ 45,162,189

Fair Value of Investments

Investments measured at fair value on a recurring basis at June 30, 2017 and 2016 are as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2017			
Mutual funds	\$ 46,856,744	\$ -	\$ -
Certificates of deposit	-	6,174,829	-
Equities	11,442,847	-	-
Corporate bonds	-	4,442,056	-
U.S. government securities	-	2,667,708	-
Mortgage backed securities	-	1,515,657	-
Real estate investment trusts	520,674	-	-
	<u>\$ 58,820,265</u>	<u>\$ 14,800,250</u>	<u>\$ -</u>
June 30, 2016			
Mutual funds	\$ 30,060,978	\$ -	\$ -
Certificates of deposit	-	4,454,234	-
Equities	6,895,485	-	-
Corporate bonds	-	1,512,532	-
U.S. government securities	-	1,145,638	-
Mortgage backed securities	-	294,214	-
Real estate investment trusts	122,419	-	-
	<u>\$ 37,078,882</u>	<u>\$ 7,406,618</u>	<u>\$ -</u>

The fair value of mutual funds, equities, and real estate investment trusts is based on quoted market prices for identical securities. The fair value of traded certificates of deposit, corporate bonds, U.S. government securities and mortgage backed securities is based on quoted market prices for similar securities.

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 June 30, 2017 and 2016:

	2017	2016
Other income		
Interest and dividend income	\$ 1,571,950	\$ 178,377
Realized gains on investments, net	122,207	12,016
Change in unrealized gains and losses on investments	3,670,230	907,457
Income from investment in affiliates (Note 5)	4,943	147,466
	\$ 5,369,330	\$ 1,245,316

Note 4 - Property and Equipment

A summary of property and equipment at June 30, 2017 and 2016 is as follows:

	2017		2016	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 3,437,282	\$ -	\$ 3,237,050	\$ -
Land improvements	3,816,489	3,113,039	3,711,195	2,881,913
Buildings and fixed equipment	111,905,757	52,602,082	106,727,007	47,815,443
Equipment	81,575,412	64,113,061	75,434,656	59,892,025
Construction in progress	8,819,540	-	8,168,576	-
	\$ 209,554,480	\$ 119,828,182	\$ 197,278,484	\$ 110,589,381
Net property and equipment		\$ 89,726,298		\$ 86,689,103

Depreciation expense for the years ending June 30, 2017 and 2016 totaled \$10,238,674 and \$10,356,287, respectively.

Construction in progress at June 30, 2017 represents costs for the second phase of expansion of the Urgent Care/Family Medicine Residency Clinic, outpatient behavioral health unit, information technology upgrades, remodel of several leased properties for new service lines and various smaller projects. The estimated cost to complete construction in progress is approximately \$3,800,000, which will be paid for with cash. The projects are expected to be completed by December 2017.

Note 5 - Investment in Affiliates

The Medical Center's ownership interest in affiliated companies, with the respective investment basis at June 30, 2017 and 2016, are as follows.

	2017		2016	
	Ownership	Balance	Ownership	Balance
Alamogordo Imaging Center, LLC	29.80%	\$ 14,970	29.80%	\$ 54,158
White Sands Community Health	50.00%	232,801	50.00%	233,353
		\$ 247,771		\$ 287,511

The Medical Center's share of income from these affiliates recorded as investment income was \$4,943 and \$147,466 for the years ended June 30, 2017 and 2016 (Note 3). The Medical Center received distributions of \$44,683 and \$134,043 from these investments for the years ended June 30, 2017 and 2016.

The Medical Center leases space in an on-campus building to Alamogordo Imaging Center, LLC under a lease agreement which calls for monthly payments of \$11,092. The lease ended in February 2015 and is month-to-month until a revised lease is agreed upon. During the years ended June 30, 2017 and 2016, the Medical Center recorded rental revenue totaling approximately \$133,000 under the terms of this lease.

Unaudited, condensed financial information for these entities as of and for the years ended June 30, 2017 and 2016 is as follows:

	2017		2016	
	White Sands Community Health (unaudited)	Alamogordo Imaging Center (unaudited)	White Sands Community Health (unaudited)	Alamogordo Imaging Center (unaudited)
Total assets	\$ 431,232	\$ 213,597	\$ 432,771	\$ 172,136
Total liabilities	878	207,346	1,128	65,701
Equity	430,354	6,251	431,643	106,435
Total revenues	131,799	1,920,495	124,925	2,024,549
Total expenses	132,588	1,797,311	126,644	1,424,882

Note 6 - Leases

The Medical Center leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capital leases and others as operating leases. Total lease expense for the years ended June 30, 2017 and 2016 for all operating leases was \$1,622,562 and \$1,758,310. The capitalized lease assets consist of:

	2017	2016
Major movable equipment	\$ 168,619	\$ 1,936,557
Less accumulated amortization (included as depreciation in the accompanying financial statements)	(39,344)	(1,645,948)
	\$ 129,275	\$ 290,609

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

Year Ending June 30,	Amount
2018	\$ 38,463
2019	38,463
2020	38,463
2021	35,258
Total minimum lease payments	150,647
Less interest	(4,568)
Present value of minimum lease payments - Note 7	\$ 146,079

Note 7 - Line of Credit and Long-Term Debt

The ASV had a 5% line of credit with a local bank with total available borrowing of \$500,000 and a maturity date of August 28, 2016. The ASV had \$154,839 and \$154,694 outstanding as of June 30, 2017 and 2016.

Long-term debt consists of:

	2017	2016
Hospital Improvement and Refunding Revenue Bonds		
Series 2012A Bonds (1)		
4.75% term bonds, due July 2022, with semi-annual interest payments and varying annual sinking fund requirements	\$ 8,155,000	\$ 9,570,000
5.5% term bonds, due July 2042, with semi-annual interest payments and principal payments commencing July 2023, varying annual sinking fund requirements	60,825,000	60,825,000
Original issue discount (2)	(1,459,837)	(1,517,843)
Debt issuance costs (3)	(1,713,912)	(1,782,105)
	65,806,251	67,095,052
Capital lease obligations - Note 6	146,079	279,940
	65,952,330	67,374,992
Less current maturities	(1,515,388)	(1,556,619)
Long term debt, less current maturities	\$ 64,436,942	\$ 65,818,373

(1) The effective interest rate on the Series 2012A Bonds is 5.63%.

(2) Accumulated amortization on original issue discount totaled \$280,366 and \$222,360 at June 30, 2017 and 2016.

(3) Accumulated amortization on debt issuance costs totaled \$324,205 and \$256,012 at June 30, 2017 and 2016.

Long-term debt maturities are as follows:

Year Ending June 30,	Amount
2018	\$ 1,515,388
2019	1,588,778
2020	1,660,613
2021	1,751,300
2022	1,785,000
Thereafter	60,825,000
Total	\$ 69,126,079

Under the terms of the Series 2012A Bonds loan agreement, the Medical Center is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the consolidated financial statements (Note 3). The loan agreement also places limits on the incurrence of additional borrowings and requires that the Medical Center satisfy certain measures of financial performance. The Series 2012A Bonds are secured by all assets and revenues of Otero County Hospital Association, d/b/a Gerald Champion Regional Medical Center.

Note 8 - Ownership Interests in Controlled Entities

The effects of changes in the Medical Center’s ownership interest in ASV and GCSP Cath Lab on the Medical Center’s net assets are as follows:

	Total	Medical Center	Noncontrolling Interests
Net Assets Balance, June 30, 2015	\$ 66,692,538	\$ 64,275,923	\$ 2,416,615
Revenues in excess of expenses	36,482,065	35,291,703	1,190,362
Contributions from noncontrolling shareholders	611,590	-	611,590
Distributions to noncontrolling shareholders	(850,000)	-	(850,000)
Change in net assets	36,243,655	35,291,703	951,952
Net Assets Balance, June 30, 2016	102,936,193	99,567,626	3,368,567
Revenues in excess of expenses	29,459,632	27,838,508	1,621,124
Distributions to noncontrolling shareholders	(1,613,499)	-	(1,613,499)
Change in net assets	27,846,133	27,838,508	7,625
Net Assets Balance, June 30, 2017	\$ 130,782,326	\$ 127,406,134	\$ 3,376,192

Note 9 - Defined Contribution Plan

The Medical Center has a voluntary 401(k) defined contribution pension plan under which employees may elect to become participants upon reaching age 18 and completion of 90 days of service. Eligible employees may contribute up to 100% of their eligible annual compensation to the plan (limited to annual maximum set by IRS regulations). Effective January 1, 2015, the Medical Center reinstated the employer match for 3% of compensation for eligible participants. Effective January 1, 2016, the Medical Center increased the employer match to 3.5% of compensation for eligible participants and instituted changes necessary to meet safe harbor requirements. Employer and employee contributions are deposited with the plan trustee who invests the plan assets. Total employer contributions made to the defined contribution pension plan for the years ended June 30, 2017 and 2016 were \$1,110,286 and \$806,022.

Note 10 - Concentrations of Credit Risk

The Medical Center 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 June 30, 2017 and 2016 was as follows:

	2017	2016
Medicare	38%	36%
Medicaid	20%	19%
Blue Cross	8%	7%
Commercial insurance	7%	5%
Champus	3%	5%
Other third-party payors and patients	24%	28%
	100%	100%

The Medical Center's cash balances are maintained in various bank deposit accounts. At various times during the year, the balance of these deposits may be in excess of federally insured limits.

At June 30, 2017, approximately 13% of the Medical Center's employees are working under a collective bargaining agreement. The collective bargaining agreement is effective through July 13, 2019.

Note 11 - Functional Expenses

The Medical Center provides health care services to residents within its geographic location. Expenses related to providing these services by functional class for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Patient healthcare services	\$ 110,283,175	\$ 102,706,216
General and administrative	19,000,541	17,696,602
	\$ 129,283,716	\$ 120,402,818

Note 12 - Contingencies

Malpractice Insurance

Prior to March 2, 2017, the Medical Center had malpractice insurance for professional liability losses on a claims made and reported basis subject to a limit of \$1 million per claim and \$3 million annual aggregate limit, with additional umbrella and excess liability coverage of \$35 million, thereby providing total coverage limits of \$36 million per claim and \$38 million annual aggregate. Should the claims made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Effective March 2, 2017, the Medical Center bound coverage under the New Mexico Patient Compensation Fund (PCF). Under the PCF, the Medical Center obtained occurrence based coverage with statutory limits on professional liability of \$600,000 per claim/no aggregate (\$200,000 by commercial insurance and the next \$400,000 by the PCF). Because the PCF does not cover punitive damages or general liability, a separate “wrap” policy was bound to cover this risk and provide coverage with respect to the “tail period” as described above, with limits of \$35 million per claim and \$38 million annual aggregate. In addition, the Medical Center provided a \$600,000 letter of credit to guarantee payment of any deductibles due under the PCF policy, and signed a three year agreement with a certified Third Party Claims Administrator that meets the requirements under the PCF.

The Medical Center has accrued estimated malpractice losses of \$0 and \$1,000,000 at June 30, 2017 and 2016. As of June 30, 2017 and 2016, receivables of \$0 and \$1,000,000 have been recorded for expected insurance recoveries related to the estimated malpractice claims.

General Litigation, Claims, and Disputes

The Medical Center is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. Management assesses the ultimate settlement of any litigation, claims, and disputes in process in determining whether a liability should be recorded or a disclosure should be presented.

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

Self-Funded Medical Insurance Plan

The Medical Center offers self-funded health benefits for eligible employees and their dependents. Effective May 1, 2013, the HMO Plan was discontinued for all non-bargaining unit employees, and a high deductible plan with a Health Savings Account (HSA Plan) was offered to non-bargaining employees instead. Effective April 1, 2014, the HMO Plan was discontinued for all employees. Also effective April 1, 2014, an Exclusive Provider Organization (EPO) Plan was offered to employees, in addition to the HSA Plan. The EPO Plan provides for co-pays for a number of commonly used services, slightly lower annual deductibles, a separate benefit for prescription drugs, and a slightly higher monthly contribution by the employee to the monthly premium.

The terms of all of the health plans called for reimbursement to the plan administrator for all claims paid, up to a maximum amount of \$100,000 per employee per period, with aggregate stop loss limits of \$5,307,285 for the plan year ended December 31, 2017 and \$3,003,193 for the plan year ended December 31, 2016. Health insurance expense is recorded on an accrual basis. Amounts accrued for outstanding medical claims as of June 30, 2017 and 2016 were approximately \$531,000 and \$460,000, which were included in trade accounts payable in the accompanying consolidated financial statements.

Note 13 - Petition for Relief Under Chapter 11

Personal Injury Claims Settlement

From June 2010 to October 2010, the Medical Center was served with lawsuits involving two physicians, one employed and one independent, resulting from certain procedures performed during the 2006 to 2008 time period. The employed physician left the Medical Center in November 2008 and the independent physician left in February 2011. The procedures noted above are no longer performed at the Medical Center. The lawsuits were covered under the Medical Center's insurance at the time the claims were made, subject to a stated deductible amount per claim, up to a maximum of \$8 million. For the first 13 months after the initial lawsuits were filed, the Medical Center attempted to settle the claims out of court. However, once it was established that a settlement could not be reached, the Corporation filed a voluntary petition for relief as protection from the actual and potential long-term costs and burdens of these lawsuits. On August 16, 2011, the Medical Center filed the petition for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the District of New Mexico (Bankruptcy Court). The ASV was not included within the scope of the reorganization proceedings and GCSP Cath Lab had not yet been established.

Confirmed Plan of Reorganization

In connection with the Medical Center's petition for relief under Chapter 11 of the federal bankruptcy laws, a Plan of Reorganization was submitted to the Bankruptcy Court and approved on August 7, 2012. The Plan of Reorganization had an effective date as of the date of issuance of the Series 2012 Bonds, which was September 19, 2012 (Effective Date). As part of the exit from Chapter 11, the Medical Center settled personal injury claims with payments totaling \$7.5 million. In addition to the personal injury settlement, the Medical Center was required to pay a number of pre-Chapter 11 reorganization claims and administrative expenses, which were not related to the personal injury claims, but owed by the Medical Center.

Finally, the Plan of Reorganization included the issuance of the Series 2012A Revenue Bonds (Note 7) through the New Mexico Hospital Equipment Loan Council in order to refinance Series 2007A notes, fully satisfy Letter of Credit claims, and reimburse the Medical Center for capital expenditures associated with the construction of the new patient tower.

The Medical Center has classified expenditures directly related to the reorganization as nonoperating expenses in the consolidated statements of operations and changes in net assets.

As of November 12, 2015, the Bankruptcy Court approved an order granting final decree and closing the chapter 11 case involving the Medical Center.

Note 14 - Subsequent Events

The Medical Center has evaluated subsequent events through October 20, 2017, the date which the consolidated financial statements were available to be issued.



Consolidating and Supplementary Information
June 30, 2017 and 2016

**Otero County Hospital Association
d/b/a Gerald Champion Regional
Medical Center**



Independent Auditor's Report on Consolidating and Supplementary Information

The Board of Directors
Otero County Hospital Association
d/b/a Gerald Champion Regional Medical Center
Alamogordo, New Mexico

We have audited the consolidated financial statements of Otero County Hospital Association d/b/a Gerald Champion Regional Medical Center as of and for the years ended June 30, 2017 and 2016, and our report thereon dated October 20, 2017, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 26 through 31 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. The supplementary information on page 32 is presented for purposes of additional analysis and is 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 consolidating and supplementary information has been subjected to the auditing 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 consolidating and supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
October 20, 2017

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	<u>Hospital</u>	<u>ASV</u>	<u>Cath Lab</u>
Current Assets			
Cash and cash equivalents	\$ 28,802,497	\$ 9,852	\$ 98,282
Marketable securities	69,284,474	-	-
Receivables			
Patient	73,957,251	-	-
Less allowances	(56,816,468)	-	-
Other	513,832	511,740	2,159,125
Supplies	4,916,354	191,972	219,769
Prepaid expenses	2,088,392	36,421	62,561
	<u>122,746,332</u>	<u>749,985</u>	<u>2,539,737</u>
Assets Limited as to Use	<u>5,393,296</u>	<u>-</u>	<u>-</u>
Property and Equipment, Net	<u>86,394,876</u>	<u>512,327</u>	<u>2,819,095</u>
Other Assets			
Investment in affiliates	3,604,080	-	-
Goodwill	713,085	-	-
Other intangible assets, net	90,125	-	1,063,100
	<u>4,407,290</u>	<u>-</u>	<u>1,063,100</u>
Total assets	<u>\$ 218,941,794</u>	<u>\$ 1,262,312</u>	<u>\$ 6,421,932</u>

Gerald Champion Regional Medical Center
 Consolidating Balance Sheet – Assets
 June 30, 2017

<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 28,910,631	\$ -	\$ 28,910,631
69,284,474	-	69,284,474
73,957,251	-	73,957,251
(56,816,468)	-	(56,816,468)
3,184,697	(2,669,635)	515,062
5,328,095	-	5,328,095
2,187,374	-	2,187,374
126,036,054	(2,669,635)	123,366,419
5,393,296	-	5,393,296
89,726,298	-	89,726,298
3,604,080	(3,356,309)	247,771
713,085	-	713,085
1,153,225	(1,063,100)	90,125
5,470,390	(4,419,409)	1,050,981
\$ 226,626,038	\$ (7,089,044)	\$ 219,536,994

	<u>Hospital</u>	<u>ASV</u>	<u>Cath Lab</u>
Current Liabilities			
Note payable	\$ -	\$ 154,839	\$ -
Current maturities of long-term debt	1,485,000	30,388	-
Accounts payable			
Trade	12,812,610	181,876	388,437
Estimated third-party payor settlements	5,554,094	-	-
Construction and equipment	506,692	-	-
Accrued expenses			
Salaries and wages	2,403,898	-	-
Vacation	2,883,718	-	-
Payroll taxes and other benefits	452,832	7,309	-
Other	221,503	73,203	-
Total current liabilities	26,320,347	447,615	388,437
Long-Term Debt, Less Current Maturities	64,321,251	115,691	-
Unearned Revenue	894,062	-	-
Total liabilities	91,535,660	563,306	388,437
Unrestricted Net Assets			
Gerald Champion Regional Medical Center	127,406,134	699,006	6,033,495
Noncontrolling interests in controlled entities	-	-	-
Total unrestricted net assets	127,406,134	699,006	6,033,495
Total liabilities and net assets	\$ 218,941,794	\$ 1,262,312	\$ 6,421,932

Gerald Champion Regional Medical Center
Consolidating Balance Sheet – Liabilities and Net Assets
June 30, 2017

<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 154,839	\$ -	\$ 154,839
1,515,388	-	1,515,388
13,382,923	(2,631,578)	10,751,345
5,554,094	-	5,554,094
506,692	-	506,692
2,403,898	-	2,403,898
2,883,718	-	2,883,718
460,141	-	460,141
294,706	(207,095)	87,611
27,156,399	(2,838,673)	24,317,726
64,436,942	-	64,436,942
894,062	(894,062)	-
92,487,403	(3,732,735)	88,754,668
134,138,635	(6,732,501)	127,406,134
-	3,376,192	3,376,192
134,138,635	(3,356,309)	130,782,326
<u>\$ 226,626,038</u>	<u>\$ (7,089,044)</u>	<u>\$ 219,536,994</u>

	<u>Hospital</u>	<u>ASV</u>	<u>Cath Lab</u>
Unrestricted Revenues, Gains, and Other Support			
Net patient service revenue	\$ 155,535,290	\$ 5,942,080	\$ 5,419,073
Provision for bad debts	(5,458,408)	-	-
Net patient service revenue less provision for bad debts	150,076,882	5,942,080	5,419,073
Other revenue	3,972,270	-	250,010
Total revenues, gains, and other support	154,049,152	5,942,080	5,669,083
Expenses			
Salaries and wages	47,506,094	1,567,141	432,883
Employee benefits	8,952,839	-	-
Professional fees and purchased services	30,864,655	666,109	1,327,998
Utilities and maintenance	6,071,418	197,825	134,168
Supplies	16,885,634	635,889	1,225,854
Insurance	2,920,770	62,362	64,055
Leases and rentals	1,622,562	596,769	172,179
Taxes	311,214	445,139	421,224
Interest	3,927,064	13,624	-
Depreciation and amortization	9,674,665	124,692	493,289
Other	4,131,799	32,274	32,881
Total expenses	132,868,714	4,341,824	4,304,531
Operating Income	21,180,438	1,600,256	1,364,552
Other Income (Losses)			
Reorganization costs	(141,488)	-	-
Investment income	6,713,592	-	-
Other	85,966	578	-
Other income, net	6,658,070	578	-
Revenues in Excess of Expenses	27,838,508	1,600,834	1,364,552
Distributions to Shareholders	-	(1,600,000)	(1,350,000)
Change in Unrestricted Net Assets	27,838,508	834	14,552
Net Assets, Beginning of Year	99,567,626	698,172	6,018,943
Net Assets, End of Year	\$ 127,406,134	\$ 699,006	\$ 6,033,495

Gerald Champion Regional Medical Center
Consolidating Statements of Operations and Changes in Net Assets
Year Ended June 30, 2017

<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 166,896,443 (5,458,408)	\$ (11,361,153) -	\$ 155,535,290 (5,458,408)
161,438,035 4,222,280	(11,361,153) (870,200)	150,076,882 3,352,080
<u>165,660,315</u>	<u>(12,231,353)</u>	<u>153,428,962</u>
49,506,118 8,952,839 32,858,762 6,403,411 18,747,377 3,047,187 2,391,510 1,177,577 3,940,688 10,292,646 4,196,954	123,806 28,317 (11,966,674) - 52,970 - (620,204) - - - 150,432	49,629,924 8,981,156 20,892,088 6,403,411 18,800,347 3,047,187 1,771,306 1,177,577 3,940,688 10,292,646 4,347,386
<u>141,515,069</u>	<u>(12,231,353)</u>	<u>129,283,716</u>
<u>24,145,246</u>	<u>-</u>	<u>24,145,246</u>
(141,488) 6,713,592 86,544	- (1,344,262) -	(141,488) 5,369,330 86,544
<u>6,658,648</u>	<u>(1,344,262)</u>	<u>5,314,386</u>
30,803,894	(1,344,262)	29,459,632
<u>(2,950,000)</u>	<u>1,336,501</u>	<u>(1,613,499)</u>
27,853,894	(7,761)	27,846,133
<u>106,284,741</u>	<u>(3,348,548)</u>	<u>102,936,193</u>
<u>\$ 134,138,635</u>	<u>\$ (3,356,309)</u>	<u>\$ 130,782,326</u>

	<u>Hospital</u>	<u>ASV</u>	<u>Cath Lab</u>
Current Assets			
Cash and cash equivalents	\$ 24,490,670	\$ 121,900	\$ 98,696
Marketable securities	45,162,189	-	-
Receivables			
Patient	69,043,820	-	-
Less allowances	(54,434,796)	-	-
Other	471,595	522,387	1,344,279
Supplies	4,543,515	-	218,807
Prepaid expenses	2,020,419	43,150	48,488
Total current assets	<u>91,297,412</u>	<u>687,437</u>	<u>1,710,270</u>
Assets Limited as to Use	<u>5,406,928</u>	<u>-</u>	<u>-</u>
Property and Equipment, Net	<u>82,881,679</u>	<u>548,062</u>	<u>3,259,362</u>
Other Assets			
Investment in affiliates	3,636,059	-	-
Insurance recovery receivable	1,000,000	-	-
Goodwill	713,085	-	-
Other intangible assets, net	144,156	-	1,226,024
Total other assets	<u>5,493,300</u>	<u>-</u>	<u>1,226,024</u>
Total assets	<u>\$ 185,079,319</u>	<u>\$ 1,235,499</u>	<u>\$ 6,195,656</u>

Gerald Champion Regional Medical Center
 Consolidating Balance Sheet- Assets
 June 30, 2016

<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 24,711,266	\$ -	\$ 24,711,266
45,162,189	-	45,162,189
69,043,820	-	69,043,820
(54,434,796)	-	(54,434,796)
2,338,261	(1,873,594)	464,667
4,762,322	-	4,762,322
2,112,057	-	2,112,057
93,695,119	(1,873,594)	91,821,525
5,406,928	-	5,406,928
86,689,103	-	86,689,103
3,636,059	(3,348,548)	287,511
1,000,000	-	1,000,000
713,085	-	713,085
1,370,180	(1,226,024)	144,156
6,719,324	(4,574,572)	2,144,752
\$ 192,510,474	\$ (6,448,166)	\$ 186,062,308

	<u>Hospital</u>	<u>ASV</u>	<u>Cath Lab</u>
Current Liabilities			
Note payable	\$ -	\$ 154,694	\$ -
Current maturities of long-term debt	1,526,231	30,388	-
Accounts payable			
Trade	8,475,372	140,794	176,713
Estimated third-party payor settlements	1,949,907	-	-
Construction and equipment	716,589	-	-
Accrued expenses			
Salaries and wages	1,673,276	-	-
Vacation	2,768,417	-	-
Payroll taxes and other benefits	378,310	7,134	-
Other	280,355	66,086	-
Total current liabilities	17,768,457	399,096	176,713
Long-Term Debt, Less Current Maturities	65,680,142	138,231	-
Insurance Claims Liability	1,000,000	-	-
Unearned Revenue	1,063,094	-	-
Total liabilities	85,511,693	537,327	176,713
Unrestricted Net Assets			
Gerald Champion Regional Medical Center	99,567,626	698,172	6,018,943
Noncontrolling interests in controlled entities	-	-	-
Total unrestricted net assets	99,567,626	698,172	6,018,943
Total liabilities and net assets	\$ 185,079,319	\$ 1,235,499	\$ 6,195,656

Gerald Champion Regional Medical Center
Consolidating Balance Sheet – Liabilities and Net Assets
June 30, 2016

<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 154,694	\$ -	\$ 154,694
1,556,619	-	1,556,619
8,792,879	(1,835,537)	6,957,342
1,949,907	-	1,949,907
716,589	-	716,589
1,673,276	-	1,673,276
2,768,417	-	2,768,417
385,444	-	385,444
346,441	(200,987)	145,454
18,344,266	(2,036,524)	16,307,742
65,818,373	-	65,818,373
1,000,000	-	1,000,000
1,063,094	(1,063,094)	-
86,225,733	(3,099,618)	83,126,115
106,284,741	(6,717,115)	99,567,626
-	3,368,567	3,368,567
106,284,741	(3,348,548)	102,936,193
<u>\$ 192,510,474</u>	<u>\$ (6,448,166)</u>	<u>\$ 186,062,308</u>

	<u>Hospital</u>	<u>ASV</u>	<u>Cath Lab</u>
Unrestricted Revenues, Gains, and Other Support			
Net patient service revenue	\$ 156,996,750	\$ 5,988,420	\$ 3,354,283
Provision for bad debts	<u>(5,660,918)</u>	<u>-</u>	<u>-</u>
Net patient service revenue less provision for bad debts	151,335,832	5,988,420	3,354,283
Other revenue	<u>4,993,141</u>	<u>-</u>	<u>249,998</u>
Total revenues, gains, and other support	<u>156,328,973</u>	<u>5,988,420</u>	<u>3,604,281</u>
Expenses			
Salaries and wages	43,451,874	1,440,375	422,523
Employee benefits	7,281,235	-	1,309
Professional fees and purchased services	28,120,855	912,242	563,852
Utilities and maintenance	6,206,782	213,395	73,876
Supplies and other	16,094,275	828,423	853,902
Insurance	2,892,384	56,656	64,055
Leases and rentals	1,758,310	567,271	157,032
Taxes	269,272	441,574	266,539
Interest	4,039,311	8,449	-
Depreciation and amortization	10,095,034	105,050	484,621
Other	<u>2,868,205</u>	<u>36,916</u>	<u>34,232</u>
Total expenses	<u>123,077,537</u>	<u>4,610,351</u>	<u>2,921,941</u>
Operating Income	<u>33,251,436</u>	<u>1,378,069</u>	<u>682,340</u>
Other Income (Losses)			
Reorganization costs	(125,578)	-	-
Investment income	2,175,967	-	-
Other	<u>(10,122)</u>	<u>60,604</u>	<u>-</u>
Other income (loss), net	<u>2,040,267</u>	<u>60,604</u>	<u>-</u>
Revenues in Excess of (Less Than) Expenses	35,291,703	1,438,673	682,340
Contributions from Shareholders	-	-	1,456,311
Distributions to Shareholders	<u>-</u>	<u>(1,600,000)</u>	<u>-</u>
Change in Unrestricted Net Assets	35,291,703	(161,327)	2,138,651
Net Assets, Beginning of Year	<u>64,275,923</u>	<u>859,499</u>	<u>3,880,292</u>
Net Assets, End of Year	<u>\$ 99,567,626</u>	<u>\$ 698,172</u>	<u>\$ 6,018,943</u>

Gerald Champion Regional Medical Center
Consolidating Statements of Operations and Changes in Net Assets
Year Ended June 30, 2016

<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 166,339,453 (5,660,918)	\$ (9,342,703) -	\$ 156,996,750 (5,660,918)
<u>160,678,535</u> <u>5,243,139</u>	<u>(9,342,703)</u> <u>(864,308)</u>	<u>151,335,832</u> <u>4,378,831</u>
<u>165,921,674</u>	<u>(10,207,011)</u>	<u>155,714,663</u>
45,314,772 7,282,544 29,596,949 6,494,053 17,776,600 3,013,095 2,482,613 977,385 4,047,760 10,684,705 2,939,353	130,909 28,317 (9,955,327) - 90,566 - (614,312) - - - 112,836	45,445,681 7,310,861 19,641,622 6,494,053 17,867,166 3,013,095 1,868,301 977,385 4,047,760 10,684,705 3,052,189
<u>130,609,829</u>	<u>(10,207,011)</u>	<u>120,402,818</u>
<u>35,311,845</u>	<u>-</u>	<u>35,311,845</u>
(125,578) 2,175,967 50,482	- (930,651) -	(125,578) 1,245,316 50,482
<u>2,100,871</u>	<u>(930,651)</u>	<u>1,170,220</u>
37,412,716 1,456,311 (1,600,000)	(930,651) (844,721) 750,000	36,482,065 611,590 (850,000)
<u>37,269,027</u>	<u>(1,025,372)</u>	<u>36,243,655</u>
<u>69,015,714</u>	<u>(2,323,176)</u>	<u>66,692,538</u>
<u>\$ 106,284,741</u>	<u>\$ (3,348,548)</u>	<u>\$ 102,936,193</u>

	2017		
	Inpatient	Outpatient	Total
Patient Service Revenue			
Routine services			
Adults and pediatrics	\$ 16,452,411	\$ 2,246,254	\$ 18,698,665
Nursery	2,135,495	126,111	2,261,606
	<u>18,587,906</u>	<u>2,372,365</u>	<u>20,960,271</u>
Ancillary services			
Emergency room	6,409,857	43,097,357	49,507,214
Intensive care / progressive care	7,894,555	126,850	8,021,405
Surgical services	39,628,524	97,339,450	136,967,974
Anesthesiology	19,946,401	14,050,008	33,996,409
Recovery room	6,774,417	9,572,806	16,347,223
OB/GYN	4,768,349	408,198	5,176,547
Delivery room	1,844,486	469,510	2,313,996
Pharmacy	14,268,475	26,671,305	40,939,780
IV Solutions	511,061	2,422,405	2,933,466
Chemo infusion	10,658	2,343,238	2,353,896
Radiation oncology	11,869	8,414,469	8,426,338
Laboratory	16,472,412	55,259,570	71,731,982
Central service supplies	1,706,119	2,684,038	4,390,157
Cardiopulmonary	13,476,790	3,982,720	17,459,510
Stress testing	15,182	4,281,547	4,296,729
EKG/EEG	2,266,589	6,693,595	8,960,184
Cardiac cath lab	8,944,656	14,405,705	23,350,361
Sleep studies	-	3,578,150	3,578,150
Physical therapy	1,684,173	146,233	1,830,406
Radiology	2,819,882	10,795,384	13,615,266
CT scan	4,339,233	27,995,664	32,334,897
MRI	736,530	4,684,667	5,421,197
Ultrasound	748,925	4,527,916	5,276,841
Nuclear imaging	251,569	1,480,329	1,731,898
Life transitions	21,297,292	627,756	21,925,048
Inpatient rehabilitation facility	11,968,070	-	11,968,070
Joint center	2,897,323	133,010	3,030,333
Wound care	9,016	1,801,120	1,810,136
Other patient revenue	2,675,666	2,429,995	5,105,661
Physician practices	-	35,252,507	35,252,507
	<u>194,378,079</u>	<u>385,675,502</u>	<u>580,053,581</u>
	<u>\$ 212,965,985</u>	<u>\$ 388,047,867</u>	<u>601,013,852</u>
Charity care, at charges foregone			<u>(3,272,002)</u>
Total patient service revenue			<u>597,741,850</u>
Contractual Adjustments			
Hospital			(415,351,408)
Physician practices			<u>(26,855,152)</u>
Total contractual adjustments			<u>(442,206,560)</u>
Net Patient Service Revenue			<u>\$ 155,535,290</u>

Gerald Champion Regional Medical Center
Schedules of Net Patient Service Revenue
Years Ended June 30, 2016 and 2015

2016		
Inpatient	Outpatient	Total
\$ 14,047,884	\$ 2,819,107	\$ 16,866,991
<u>1,287,035</u>	<u>119,807</u>	<u>1,406,842</u>
15,334,919	2,938,914	18,273,833
5,663,073	37,015,116	42,678,189
6,873,986	126,975	7,000,961
33,212,166	93,316,253	126,528,419
17,052,467	10,917,930	27,970,397
4,145,376	4,914,488	9,059,864
3,765,121	608,288	4,373,409
1,555,976	494,459	2,050,435
11,518,989	27,563,229	39,082,218
376,607	2,399,919	2,776,526
15,226	2,714,765	2,729,991
1,306	8,776,050	8,777,356
13,587,492	50,447,623	64,035,115
1,372,526	2,338,684	3,711,210
12,817,276	3,410,167	16,227,443
36,735	2,156,002	2,192,737
1,797,757	4,724,385	6,522,142
3,687,912	10,445,681	14,133,593
2,987	3,530,944	3,533,931
1,392,938	100,710	1,493,648
2,224,878	9,786,460	12,011,338
3,667,607	23,058,371	26,725,978
642,750	4,700,411	5,343,161
574,336	3,920,478	4,494,814
293,629	1,797,593	2,091,222
16,624,090	894,257	17,518,347
10,153,049	-	10,153,049
2,577,892	150,700	2,728,592
19,204	3,887,999	3,907,203
2,384,823	1,744,753	4,129,576
<u>-</u>	<u>32,622,545</u>	<u>32,622,545</u>
<u>158,038,174</u>	<u>348,565,235</u>	<u>506,603,409</u>
<u>\$ 173,373,093</u>	<u>\$ 351,504,149</u>	524,877,242
		<u>(22,525)</u>
		<u>524,854,717</u>
		(342,691,330)
		<u>(25,166,637)</u>
		<u>(367,857,967)</u>
		<u>\$ 156,996,750</u>