



REPORT OF INDEPENDENT AUDITORS  
AND CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION

**OTERO COUNTY HOSPITAL ASSOCIATION**  
**d/b/a GERALD CHAMPION REGIONAL MEDICAL CENTER**

June 30, 2018 and 2017

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## Report of Independent Auditors

To the Board of Directors  
Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center

### **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 sheet as of June 30, 2018, and the related consolidated statements of operations and changes in net assets and cash flows for the year 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 audit. We conducted our audit 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, 2018, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*2017 Financial Statements*

The accompanying financial statements of the Medical Center as of and for the year ended June 30, 2017 were audited by other auditors whose report thereon dated October 20, 2017, expressed an unmodified opinion on those financial statements.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the foregoing table of contents is 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 information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Mess Adams LLP*

Albuquerque, New Mexico  
October 29, 2018

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

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**ASSETS**

	June 30,	
	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 10,264,727	\$ 28,910,631
Marketable securities	103,866,960	69,284,474
Receivables		
Patient, net of estimated uncollectibles of		
\$16,508,000 in 2018 and \$9,875,000 in 2017	21,226,046	17,140,783
Other	4,028,440	515,062
Supplies	6,379,915	5,328,095
Prepaid expenses	<u>3,745,628</u>	<u>2,187,374</u>
Total current assets	<u>149,511,716</u>	<u>123,366,419</u>
<b>ASSETS LIMITED AS TO USE</b>	<u>6,086,622</u>	<u>5,393,296</u>
<b>PROPERTY AND EQUIPMENT, net</b>	<u>88,611,492</u>	<u>89,726,298</u>
<b>OTHER ASSETS</b>		
Investment in affiliates	263,133	247,771
Goodwill	713,085	713,085
Other intangible assets, net of accumulated amortization		
of \$294,250 in 2018 and \$240,219 in 2017	<u>36,094</u>	<u>90,125</u>
Total other assets	<u>1,012,312</u>	<u>1,050,981</u>
Total assets	<u>\$ 245,222,142</u>	<u>\$ 219,536,994</u>

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

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**LIABILITIES AND NET ASSETS**

	June 30,	
	2018	2017
<b>CURRENT LIABILITIES</b>		
Line of credit	\$ 205,025	\$ 154,839
Current maturities of long-term debt	1,645,786	1,515,388
Accounts payable		
Trade	9,040,299	10,751,345
Estimated third-party payor settlements	2,623,501	5,554,094
Construction and equipment	-	506,692
Accrued expenses		
Salaries and wages	3,679,173	2,403,898
Vacation	3,064,229	2,883,718
Payroll taxes and other benefits	223,605	460,141
Other	114,875	87,611
	20,596,493	24,317,726
<b>LONG-TERM DEBT, less current maturities, unamortized discount and unamortized debt issuance costs</b>	63,205,362	64,436,942
	83,801,855	88,754,668
<b>UNRESTRICTED NET ASSETS</b>		
Gerald Champion Regional Medical Center	157,814,333	127,406,134
Noncontrolling interests in controlled entities	3,605,954	3,376,192
	161,420,287	130,782,326
	\$ 245,222,142	\$ 219,536,994

**Otero County Hospital Association**  
**d/b/a Gerald Champion Regional Medical Center**  
**Consolidated Statements of Operations and Changes in Net Assets**

	Years Ended June 30,	
	2018	2017
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT		
Net patient service revenue	\$ 176,906,936	\$ 155,535,290
Provision for bad debts	(8,382,509)	(5,458,408)
Net patient service revenue less provision for bad debts	168,524,427	150,076,882
Other revenue	5,490,222	3,352,080
Total revenues, gains and other support	174,014,649	153,428,962
EXPENSES		
Salaries and wages	54,590,792	49,629,924
Employee benefits	11,740,677	8,981,156
Professional fees and purchased services	27,263,890	20,892,088
Utilities	6,757,610	6,403,411
Supplies	20,114,328	18,800,347
Insurance	3,633,893	3,047,187
Leases and rentals	1,578,347	1,771,306
Taxes	1,410,688	1,177,577
Interest	3,891,501	3,940,688
Depreciation and amortization	12,112,133	10,292,646
Other	3,272,547	4,347,386
Total expenses	146,366,406	129,283,716
OPERATING INCOME	27,648,243	24,145,246
OTHER INCOME (LOSSES)		
Investment income	4,481,293	5,369,330
Other	198,925	(54,944)
Total other income (loss), net	4,680,218	5,314,386
REVENUES IN EXCESS OF EXPENSES	32,328,461	29,459,632
DISTRIBUTIONS TO NONCONTROLLING INTERESTS	(1,690,500)	(1,613,499)
CHANGE IN UNRESTRICTED NET ASSETS	30,637,961	27,846,133
NET ASSETS, beginning of year	130,782,326	102,936,193
NET ASSETS, end of year	\$ 161,420,287	\$ 130,782,326

**Otero County Hospital Association**  
**d/b/a Gerald Champion Regional Medical Center**  
**Consolidated Statements of Cash Flows**

	Years Ended June 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 30,637,961	\$ 27,846,133
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	12,112,133	10,292,646
Provision for bad debts	8,382,509	5,458,408
Amortization of original issue discount and debt issuance costs included in interest expense	126,110	126,199
Net realized gains and losses on investments	(6,080,055)	(122,207)
Net change in unrealized gains and losses on investments	3,254,340	(3,670,230)
Loss on disposal of property and equipment	(84,202)	14,894
Gain from investment in affiliates included in investment income	(45,149)	(4,943)
Distributions to noncontrolling interests	1,690,500	1,613,499
Changes in assets and liabilities		
Patient accounts receivable	(12,467,772)	(7,990,167)
Other accounts receivable	(3,513,378)	(50,395)
Supplies	(1,051,820)	(565,773)
Prepaid expenses	(1,558,254)	(75,317)
Accounts payable	(1,711,046)	3,794,003
Accrued expenses	1,246,514	862,777
Estimated third party payor settlements	(2,930,593)	3,604,187
Net cash provided by operating activities	<u>28,007,798</u>	<u>41,133,714</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction and purchase of property and equipment	(11,210,158)	(13,500,601)
Proceeds from the sale of property and equipment	164,801	-
Distributions from affiliates	29,787	44,683
Sales (purchases) of assets limited as to use, net	(693,326)	13,632
Purchases of marketable securities, net	(31,756,771)	(20,329,848)
Net cash used in investing activities	<u>(43,465,667)</u>	<u>(33,772,134)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in line of credit	50,186	145
Distributions to noncontrolling interests	(1,690,500)	(1,613,499)
Principal payments on long-term debt	(1,547,721)	(1,548,861)
Net cash provided by financing activities	<u>(3,188,035)</u>	<u>(3,162,215)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(18,645,904)	4,199,365
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>28,910,631</u>	<u>24,711,266</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 10,264,727</u>	<u>\$ 28,910,631</u>

See accompanying notes.

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Consolidated Statements of Cash Flows**

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	Years Ended June 30,	
	<u>2018</u>	<u>2017</u>
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Interest	<u>\$ 3,765,391</u>	<u>\$ 3,814,489</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES		
Equipment financed through capital lease arrangements	<u>\$ 320,429</u>	<u>\$ -</u>
Equipment financed through construction payables	<u>\$ -</u>	<u>\$ 506,692</u>

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**Note 1 – Organization and Significant Accounting Policies**

**Organization and Principles of Consolidation** – Otero County Hospital Association, d/b/a Gerald Champion Regional 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 Otero County Hospital Association, d/b/a Gerald Champion Regional 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.

**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.

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

## Notes to Consolidated Financial Statements

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### Note 1 – Organization and Significant Accounting Policies (continued)

**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.

**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 as of June 30, 2018 or 2017.

**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.

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**Note 1 – Organization and Significant Accounting Policies (continued)**

The Medical Center’s process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from June 30, 2017 to June 30, 2018. 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.

**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.

**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.

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**Note 1 – Organization and Significant Accounting Policies (continued)**

**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 years ended June 30, 2018 or 2017.

**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, 2018 and 2017.

**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.

**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, 2018 and 2017, 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.

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**Note 1 – Organization and Significant Accounting Policies (continued)**

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, 2018 and 2017 from these major payor sources, is as follows:

	<u>2018</u>	<u>2017</u>
Patient service revenue		
Third-party payors	\$ 159,662,429	\$ 143,543,064
Uninsured	<u>17,244,507</u>	<u>11,992,226</u>
 Total all payors	 <u><u>\$ 176,906,936</u></u>	 <u><u>\$ 155,535,290</u></u>

**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 \$1,925,000 and \$4,187,000 for the years ended June 30, 2018 and 2017, respectively. Total direct and indirect costs related to these foregone charges were approximately \$401,000 and \$898,000 for the years ended June 30, 2018 and 2017, 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 \$3,208,000 and \$915,000 for the years ended June 30, 2018 and 2017, 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.

# Otero County Hospital Association

## d/b/a Gerald Champion Regional Medical Center

### Notes to Consolidated Financial Statements

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#### Note 1 – Organization and Significant Accounting Policies (continued)

**Subsequent Events** – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are available to be issued. The Company 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 sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company'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 sheet but arose after the consolidated balance sheet date and before consolidated financial statements are available to be issued. The Company has evaluated subsequent events through October 29, 2018, which is the date the consolidated financial statements were available to be issued.

**Reclassifications** – Certain reclassifications have been made to the 2017 balances to conform to the 2018 presentation.

#### 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, 2015.

**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.

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**Note 2 – Net Patient Service Revenue (continued)**

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.

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Medicare	51%	48%
Medicaid	22%	24%
Blue Cross Blue Shield	8%	8%
Other	<u>19%</u>	<u>20%</u>
Total all payors	<u><u>100%</u></u>	<u><u>100%</u></u>

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.

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**Note 2 – Net Patient Service Revenue (continued)**

A summary of patient service revenue and contractual adjustments and discounts for the years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Total gross patient service revenue	<u>\$ 703,987,548</u>	<u>\$ 597,741,850</u>
Contractual adjustments and discounts		
Hospital		
Medicare	(222,277,602)	(179,220,818)
Medicaid	(125,340,290)	(117,588,413)
Tricare	(47,569,137)	(36,863,017)
Blue Cross	(11,709,337)	(10,907,418)
Other	(80,329,974)	(70,771,742)
Physician practices	<u>(39,854,272)</u>	<u>(26,855,152)</u>
Total contractual adjustments and discounts	<u>(527,080,612)</u>	<u>(442,206,560)</u>
Net patient service revenue	176,906,936	155,535,290
Less provision for bad debts	<u>(8,382,509)</u>	<u>(5,458,408)</u>
Net patient service revenue less provision for bad debts	<u><u>\$ 168,524,427</u></u>	<u><u>\$ 150,076,882</u></u>

**Note 3 – Investments and Investment Income**

**Assets Limited as to Use** – The composition of assets limited as to use at June 30, 2018 and 2017 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.

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**Note 3 – Investments and Investment Income (continued)**

	<u>2018</u>	<u>2017</u>
Restricted Under Bond Indenture for Debt Service		
Cash and cash equivalents	\$ 5,394,607	\$ -
Certificates of deposit	-	5,393,296
Designated for Deferred Compensation		
Mutual funds	692,015	-
	<u>\$ 6,086,622</u>	<u>\$ 5,393,296</u>

**Marketable Securities** – Marketable securities consisted of the following at June 30, 2018 and 2017. 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.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 34,082,784	\$ 555,005
Mutual funds	47,267,276	46,856,744
Certificates of deposit	796,866	1,283,783
Equities	13,349,562	11,442,847
Corporate bonds	4,249,141	4,442,056
U.S. government securities	3,593,363	2,667,708
Mortgage backed securities	527,968	1,515,657
Real estate investment trusts	-	520,674
	<u>\$ 103,866,960</u>	<u>\$ 69,284,474</u>

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**Note 3 – Investments and Investment Income (continued)**

**Fair Value of Investments** – Investments measured at fair value on a recurring basis at June 30, 2018 and 2017 are as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b><u>June 30, 2018</u></b>			
Mutual funds	\$ 47,959,291	\$ -	\$ -
Certificates of deposit	-	796,866	-
Equities	13,349,562	-	-
Corporate bonds	-	4,249,141	-
U.S. government securities	-	3,593,363	-
Mortgage backed securities	-	527,968	-
	<u>\$ 61,308,853</u>	<u>\$ 9,167,338</u>	<u>\$ -</u>
<b><u>June 30, 2017</u></b>			
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>

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.

**Otero County Hospital Association**  
**d/b/a Gerald Champion Regional Medical Center**  
**Notes to Consolidated Financial Statements**

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**Note 3 – Investments and Investment Income (continued)**

**Investment Income** – Investment income and gains and losses on assets limited as to use, cash equivalents, and other investments consist of the following for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Other income (loss)		
Interest and dividend income	\$ 1,610,429	\$ 1,571,950
Realized gains on investments, net	6,080,055	122,207
Change in unrealized gains and losses on investments	(3,254,340)	3,670,230
Income from investment in affiliates (Note 5)	45,149	4,943
	<u>\$ 4,481,293</u>	<u>\$ 5,369,330</u>

**Note 4 – Property and Equipment**

A summary of property and equipment at June 30, 2018 and 2017 is as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ 3,437,282	\$ -	\$ 3,437,282	\$ -
Land improvements	3,887,601	3,345,882	3,816,489	3,113,039
Buildings and fixed equipment	118,216,712	58,298,024	113,618,272	52,941,308
Equipment	94,374,515	70,624,513	83,604,752	64,751,746
Construction in progress	963,801	-	6,055,596	-
	<u>\$ 220,879,911</u>	<u>\$ 132,268,419</u>	<u>\$ 210,532,391</u>	<u>\$ 120,806,093</u>
Net property and equipment		<u>\$ 88,611,492</u>		<u>\$ 89,726,298</u>

Depreciation expense for the years ending June 30, 2018 and 2017 totaled \$12,058,102 and \$10,238,674, respectively.

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**Note 5 – Investment in Affiliates**

The Medical Center’s ownership interest in affiliated companies, with the respective investment basis at June 30, 2018 and 2017, are as follows.

	2018		2017	
	Ownership	Balance	Ownership	Balance
Alamogordo Imaging Center, LLC	29.80%	\$ 36,139	29.80%	\$ 14,970
White Sands Community Health	50.00%	226,994	50.00%	232,801
	79.80%	\$ 263,133	79.80%	\$ 247,771

The Medical Center’s share of income from these affiliates recorded as investment income was \$45,149 and \$4,943 for the years ended June 30, 2018 and 2017, respectively (Note 3). The Medical Center received distributions of \$29,787 and \$44,683 from these investments for the years ended June 30, 2018 and 2017, respectively.

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 each of the years ended June 30, 2018 and 2017, 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, 2018 and 2017 is as follows:

	2018		2017	
	White Sands Community Health (unaudited)	Alamogordo Imaging Center (unaudited)	White Sands Community Health (unaudited)	Alamogordo Imaging Center (unaudited)
Total assets	\$ 411,110	\$ 282,117	\$ 431,232	\$ 213,597
Total liabilities	605	158,990	878	207,346
Equity	410,506	123,127	430,354	6,251
Total revenues	107,140	1,675,913	131,799	1,920,495
Total expenses	133,194	1,551,678	132,588	1,797,311

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**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.

**Operating Leases** – Total lease expense for the years ended June 30, 2018 and 2017 for all operating leases was \$1,578,347 and \$1,622,562, respectively. Minimum future lease payments for the capital leases are as follows:

Fiscal Year End		
2019	\$	488,623
2020		357,977
2021		328,032
2022		187,657
2023		182,252
Thereafter		277,079
	\$	1,821,620

**Capital Leases** – Minimum future lease payments for the capital leases are as follows:

Fiscal Year End		
2019	\$	112,788
2020		112,788
2021		112,788
2022		87,145
2023		24,355
		449,864
Less: amounts representing interest		(46,077)
	\$	403,787

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**Note 6 – Leases (continued)**

Assets held under capital lease consist of:

	<u>2018</u>	<u>2017</u>
Major movable equipment	\$ 489,049	\$ 168,619
Less accumulated amortization (included as depreciation) in the accompanying financial statements	<u>(130,710)</u>	<u>(39,344)</u>
	<u>\$ 358,339</u>	<u>\$ 129,275</u>

**Note 7 – Line of Credit and Long-Term Debt**

**Line of Credit** – ASV has a 5.09% line of credit with a local bank with total available borrowing of \$500,000 and a maturity of September 2019. The ASV had \$205,025 and \$154,839 outstanding as of June 30, 2018 and 2017, respectively.

**Long-Term Debt** – The outstanding balance of long-term debt is made up of the following:

	<u>2018</u>	<u>2017</u>
Hospital Improvement and Refunding Revenue Bonds		
Series 2012A Bonds		
4.75% term bonds, due July 2022, with semi-annual interest payments and varying annual sinking fund requirements	\$ 6,670,000	\$ 8,155,000
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
Unamortized original issue discount	(1,401,830)	(1,459,837)
Unamortized debt issuance costs	<u>(1,645,809)</u>	<u>(1,713,912)</u>
	64,447,361	65,806,251
Capital lease obligations - Note 6	<u>403,787</u>	<u>146,079</u>
	64,851,148	65,952,330
Less current maturities	<u>(1,645,786)</u>	<u>(1,515,388)</u>
Long-term debt, less current maturities	<u>\$ 63,205,362</u>	<u>\$ 64,436,942</u>

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**Note 7 – Line of Credit and Long-Term Debt (continued)**

Long-term debt maturities are as follows:

Fiscal Year End		
2019	\$	1,647,835
2020		1,723,313
2021		1,809,114
2022		1,869,217
2023		1,894,308
Thereafter		58,955,000
		67,898,787
Unamortized original issue discount		(1,401,830)
Unamortized debt issuance costs		(1,645,809)
	\$	64,851,148

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.

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**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:

	<u>Total</u>	<u>Medical Center</u>	<u>Noncontrolling Interests</u>
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	<u>(1,613,499)</u>	<u>-</u>	<u>(1,613,499)</u>
Change in net assets	<u>27,846,133</u>	<u>27,838,508</u>	<u>7,625</u>
Net assets balance, June 30, 2017	<u>130,782,326</u>	<u>127,406,134</u>	<u>3,376,192</u>
Revenues in excess of expenses	32,314,300	30,394,038	1,920,262
Distributions to noncontrolling shareholders	<u>(1,690,500)</u>	<u>-</u>	<u>(1,690,500)</u>
Change in net assets	<u>30,623,800</u>	<u>30,394,038</u>	<u>229,762</u>
Net assets balance, June 30, 2018	<u>\$ 161,406,126</u>	<u>\$ 157,800,172</u>	<u>\$ 3,605,954</u>

**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, 2018 and 2017 were \$1,354,870 and \$1,110,286, respectively.

**Otero County Hospital Association**  
**d/b/a Gerald Champion Regional Medical Center**  
**Notes to Consolidated Financial Statements**

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**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, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	36%	38%
Medicaid	17%	20%
Blue Cross Blue Shield	8%	8%
Commercial insurance	7%	7%
Champus	6%	3%
Other third-party payors and patients	<u>26%</u>	<u>24%</u>
 Total all payors	 <u><u>100%</u></u>	 <u><u>100%</u></u>

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, 2018, approximately 12% 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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Patient healthcare services	\$ 124,855,260	\$ 110,283,175
General and administrative	<u>21,511,146</u>	<u>19,000,541</u>
	<u><u>\$ 146,366,406</u></u>	<u><u>\$ 129,283,716</u></u>

# Otero County Hospital Association

## d/b/a Gerald Champion Regional Medical Center

### Notes to Consolidated Financial Statements

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#### 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 not accrued estimated malpractice losses at June 30, 2018 or 2017.

**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.

**Otero County Hospital Association  
d/b/a Gerald Champion Regional Medical Center  
Notes to Consolidated Financial Statements**

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**Note 12 – Contingencies (continued)**

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 \$6,004,473 for the plan year ended December 31, 2018 and \$5,307,285 for the plan year ended December 31, 2017. Health insurance expense is recorded on an accrual basis. Amounts accrued for outstanding medical claims as of June 30, 2018 and 2017 were approximately \$997,000 and \$531,000, respectively, which were included in trade accounts payable in the accompanying consolidated financial statements.

## **Supplementary Information**

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**Gerald Champion Regional Medical Center**  
**Consolidating Balance Sheet – Assets**  
**June 30, 2018**

	Hospital	ASV	Cath Lab	Total	Eliminations	Consolidated
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 10,223,067	\$ 738	\$ 40,922	\$ 10,264,727	\$ -	\$ 10,264,727
Marketable securities	103,866,960	-	-	103,866,960	-	103,866,960
Receivables						
Patient	102,168,598	-	-	102,168,598	-	102,168,598
Less allowances	(80,942,552)	-	-	(80,942,552)	-	(80,942,552)
Other	797,771	483,027	3,225,962	4,506,760	(478,320)	4,028,440
Supplies	5,944,917	204,472	230,526	6,379,915	-	6,379,915
Prepaid expenses	3,600,014	57,043	126,628	3,783,685	(38,057)	3,745,628
<b>Total current assets</b>	<b>145,658,775</b>	<b>745,280</b>	<b>3,624,038</b>	<b>150,028,093</b>	<b>(516,377)</b>	<b>149,511,716</b>
<b>ASSETS LIMITED AS TO USE</b>	<b>6,086,622</b>	<b>-</b>	<b>-</b>	<b>6,086,622</b>	<b>-</b>	<b>6,086,622</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>85,567,321</b>	<b>746,781</b>	<b>2,297,390</b>	<b>88,611,492</b>	<b>-</b>	<b>88,611,492</b>
<b>OTHER ASSETS</b>						
Investment in affiliates	3,871,574	-	-	3,871,574	(3,608,441)	263,133
Goodwill	713,085	-	-	713,085	-	713,085
Other intangible assets, net	36,094	-	894,068	930,162	(894,068)	36,094
<b>Total other assets</b>	<b>4,620,753</b>	<b>-</b>	<b>894,068</b>	<b>5,514,821</b>	<b>(4,502,509)</b>	<b>1,012,312</b>
<b>Total assets</b>	<b>\$ 241,933,471</b>	<b>\$ 1,492,061</b>	<b>\$ 6,815,496</b>	<b>\$ 250,241,028</b>	<b>\$ (5,018,886)</b>	<b>\$ 245,222,142</b>

**Gerald Champion Regional Medical Center**  
**Consolidating Balance Sheet – Liabilities and Net Assets**  
**June 30, 2018**

	<u>Hospital</u>	<u>ASV</u>	<u>Cath Lab</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>CURRENT LIABILITIES</b>						
Line of credit	\$ -	\$ 205,025	\$ -	\$ 205,025	\$ -	\$ 205,025
Current maturities of long-term debt	1,555,000	90,786	-	1,645,786	-	1,645,786
Accounts payable						
Trade	9,150,515	128,634	239,470	9,518,619	(478,320)	9,040,299
Estimated third-party payor settlements	2,623,501	-	-	2,623,501	-	2,623,501
Construction and equipment	-	-	-	-	-	-
Accrued expenses						
Salaries and wages	3,620,774	58,399	-	3,679,173	-	3,679,173
Vacation	3,014,857	49,372	-	3,064,229	-	3,064,229
Payroll taxes and other benefits	219,213	4,392	-	223,605	-	223,605
Other	324,235	4,083	-	328,318	(213,443)	114,875
Total current liabilities	<u>20,508,095</u>	<u>540,691</u>	<u>239,470</u>	<u>21,288,256</u>	<u>(691,763)</u>	<u>20,596,493</u>
LONG-TERM DEBT, less current maturities	62,892,361	313,001	-	63,205,362	-	63,205,362
UNEARNED REVENUE	<u>718,682</u>	<u>-</u>	<u>-</u>	<u>718,682</u>	<u>(718,682)</u>	<u>-</u>
Total liabilities	<u>84,119,138</u>	<u>853,692</u>	<u>239,470</u>	<u>85,212,300</u>	<u>(1,410,445)</u>	<u>83,801,855</u>
<b>UNRESTRICTED NET ASSETS</b>						
Gerald Champion Regional Medical Center	157,814,333	638,369	6,576,026	165,028,728	(7,214,395)	157,814,333
Noncontrolling interests in controlled entities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,605,954</u>	<u>3,605,954</u>
Total unrestricted net assets	<u>157,814,333</u>	<u>638,369</u>	<u>6,576,026</u>	<u>165,028,728</u>	<u>(3,608,441)</u>	<u>161,420,287</u>
Total liabilities and net assets	<u>\$ 241,933,471</u>	<u>\$ 1,492,061</u>	<u>\$ 6,815,496</u>	<u>\$ 250,241,028</u>	<u>\$ (5,018,886)</u>	<u>\$ 245,222,142</u>

**Gerald Champion Regional Medical Center**  
**Consolidating Statements of Operations and Changes in Net Assets**  
**Year Ended June 30, 2018**

	Hospital	ASV	Cath Lab	Total	Eliminations	Consolidated
<b>UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT</b>						
Net patient service revenue	\$ 176,906,936	\$ 6,251,200	\$ 7,222,742	\$ 190,380,878	\$ (13,473,942)	\$ 176,906,936
Provision for bad debts	(8,382,509)	-	-	(8,382,509)	-	(8,382,509)
Net patient service revenue less provision for bad debts	168,524,427	6,251,200	7,222,742	181,998,369	(13,473,942)	168,524,427
Other revenue	6,115,777	132	249,996	6,365,905	(875,683)	5,490,222
Total revenues, gains and other support	<u>174,640,204</u>	<u>6,251,332</u>	<u>7,472,738</u>	<u>188,364,274</u>	<u>(14,349,625)</u>	<u>174,014,649</u>
<b>EXPENSES</b>						
Salaries and wages	52,308,061	1,801,510	350,312	54,459,883	130,909	54,590,792
Employee benefits	11,373,721	338,639	-	11,712,360	28,317	11,740,677
Professional fees and purchased services	39,250,148	258,746	1,841,562	41,350,456	(14,086,566)	27,263,890
Utilities	6,353,958	209,325	194,327	6,757,610	-	6,757,610
Supplies	17,724,511	908,871	1,427,976	20,061,358	52,970	20,114,328
Insurance	3,479,813	51,003	103,077	3,633,893	-	3,633,893
Leases and rentals	1,401,311	622,773	179,950	2,204,034	(625,687)	1,578,347
Taxes	392,687	463,685	554,316	1,410,688	-	1,410,688
Interest	3,858,847	32,654	-	3,891,501	-	3,891,501
Depreciation and amortization	11,438,982	177,472	495,679	12,112,133	-	12,112,133
Other	3,041,816	47,291	33,008	3,122,115	150,432	3,272,547
Total expenses	<u>150,623,855</u>	<u>4,911,969</u>	<u>5,180,207</u>	<u>160,716,031</u>	<u>(14,349,625)</u>	<u>146,366,406</u>
OPERATING INCOME	<u>24,016,349</u>	<u>1,339,363</u>	<u>2,292,531</u>	<u>27,648,243</u>	<u>-</u>	<u>27,648,243</u>
<b>OTHER INCOME (LOSSES)</b>						
Investment income	6,192,925	-	-	6,192,925	(1,711,632)	4,481,293
Other	198,925	-	-	198,925	-	198,925
Other income, net	<u>6,391,850</u>	<u>-</u>	<u>-</u>	<u>6,391,850</u>	<u>(1,711,632)</u>	<u>4,680,218</u>
REVENUES IN EXCESS OF EXPENSES	30,408,199	1,339,363	2,292,531	34,040,093	(1,711,632)	32,328,461
DISTRIBUTIONS TO SHAREHOLDERS	-	(1,400,000)	(1,750,000)	(3,150,000)	1,459,500	(1,690,500)
CHANGE IN UNRESTRICTED NET ASSETS	30,408,199	(60,637)	542,531	30,890,093	(252,132)	30,637,961
NET ASSETS, beginning of year	127,406,134	699,006	6,033,495	134,138,635	(3,356,309)	130,782,326
NET ASSETS, end of year	<u>\$ 157,814,333</u>	<u>\$ 638,369</u>	<u>\$ 6,576,026</u>	<u>\$ 165,028,728</u>	<u>\$ (3,608,441)</u>	<u>\$ 161,420,287</u>

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

	<u>Hospital</u>	<u>ASV</u>	<u>Cath Lab</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 28,802,497	\$ 9,852	\$ 98,282	\$ 28,910,631	\$ -	\$ 28,910,631
Marketable securities	69,284,474	-	-	69,284,474	-	69,284,474
Receivables						
Patient	73,957,251	-		73,957,251	-	73,957,251
Less allowances	(56,816,468)	-	-	(56,816,468)	-	(56,816,468)
Other	513,832	511,740	2,159,125	3,184,697	(2,669,635)	515,062
Supplies	4,916,354	191,972	219,769	5,328,095	-	5,328,095
Prepaid expenses	2,088,392	36,421	62,561	2,187,374	-	2,187,374
				-		
Total current assets	<u>122,746,332</u>	<u>749,985</u>	<u>2,539,737</u>	<u>126,036,054</u>	<u>(2,669,635)</u>	<u>123,366,419</u>
				-		
ASSETS LIMITED AS TO USE	<u>5,393,296</u>	<u>-</u>	<u>-</u>	<u>5,393,296</u>	<u>-</u>	<u>5,393,296</u>
PROPERTY AND EQUIPMENT, net	<u>86,394,876</u>	<u>512,327</u>	<u>2,819,095</u>	<u>89,726,298</u>	<u>-</u>	<u>89,726,298</u>
<b>OTHER ASSETS</b>						
Investment in affiliates	3,604,080	-	-	3,604,080	(3,356,309)	247,771
Goodwill	713,085	-	-	713,085	-	713,085
Other intangible assets, net	90,125	-	1,063,100	1,153,225	(1,063,100)	90,125
Total other assets	<u>4,407,290</u>	<u>-</u>	<u>1,063,100</u>	<u>5,470,390</u>	<u>(4,419,409)</u>	<u>1,050,981</u>
Total assets	<u>\$ 218,941,794</u>	<u>\$ 1,262,312</u>	<u>\$ 6,421,932</u>	<u>\$ 226,626,038</u>	<u>\$ (7,089,044)</u>	<u>\$ 219,536,994</u>

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

	Hospital	ASV	Cath Lab	Total	Eliminations	Consolidated
<b>CURRENT LIABILITIES</b>						
Note payable	\$ -	\$ 154,839	\$ -	\$ 154,839	\$ -	\$ 154,839
Current maturities of long-term debt	1,485,000	30,388	-	1,515,388	-	1,515,388
Accounts payable						
Trade	12,812,610	181,876	388,437	13,382,923	(2,631,578)	10,751,345
Estimated third-party payor settlements	5,554,094	-	-	5,554,094	-	5,554,094
Construction and equipment	506,692	-	-	506,692	-	506,692
Accrued expenses						
Salaries and wages	2,403,898	-	-	2,403,898	-	2,403,898
Vacation	2,883,718	-	-	2,883,718	-	2,883,718
Payroll taxes and other benefits	452,832	7,309	-	460,141	-	460,141
Other	221,503	73,203	-	294,706	(207,095)	87,611
<b>Total current liabilities</b>	<b>26,320,347</b>	<b>447,615</b>	<b>388,437</b>	<b>27,156,399</b>	<b>(2,838,673)</b>	<b>24,317,726</b>
LONG-TERM DEBT, less current maturities	64,321,251	115,691	-	64,436,942	-	64,436,942
UNEARNED REVENUE	894,062	-	-	894,062	(894,062)	-
<b>Total liabilities</b>	<b>91,535,660</b>	<b>563,306</b>	<b>388,437</b>	<b>92,487,403</b>	<b>(3,732,735)</b>	<b>88,754,668</b>
<b>UNRESTRICTED NET ASSETS</b>						
Gerald Champion Regional Medical Center	127,406,134	699,006	6,033,495	134,138,635	(6,732,501)	127,406,134
Noncontrolling interests in controlled entities	-	-	-	-	3,376,192	3,376,192
<b>Total unrestricted net assets</b>	<b>127,406,134</b>	<b>699,006</b>	<b>6,033,495</b>	<b>134,138,635</b>	<b>(3,356,309)</b>	<b>130,782,326</b>
<b>Total liabilities and net assets</b>	<b>\$ 218,941,794</b>	<b>\$ 1,262,312</b>	<b>\$ 6,421,932</b>	<b>\$ 226,626,038</b>	<b>\$ (7,089,044)</b>	<b>\$ 219,536,994</b>

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

	Hospital	ASV	Cath Lab	Total	Eliminations	Consolidated
<b>UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT</b>						
Net patient service revenue	\$ 155,535,290	\$ 5,942,080	\$ 5,419,073	\$ 166,896,443	\$ (11,361,153)	\$ 155,535,290
Provision for bad debts	(5,458,408)	-	-	(5,458,408)	-	(5,458,408)
Net patient service revenue less provision for bad debts	150,076,882	5,942,080	5,419,073	161,438,035	(11,361,153)	150,076,882
Other revenue	3,972,270	-	250,010	4,222,280	(870,200)	3,352,080
Total revenues, gains and other support	<u>154,049,152</u>	<u>5,942,080</u>	<u>5,669,083</u>	<u>165,660,315</u>	<u>(12,231,353)</u>	<u>153,428,962</u>
<b>EXPENSES</b>						
Salaries and wages	47,506,094	1,567,141	432,883	49,506,118	123,806	49,629,924
Employee benefits	8,952,839	-	-	8,952,839	28,317	8,981,156
Professional fees and purchased services	30,864,655	666,109	1,327,998	32,858,762	(11,966,674)	20,892,088
Utilities	6,071,418	197,825	134,168	6,403,411	-	6,403,411
Supplies	16,885,634	635,889	1,225,854	18,747,377	52,970	18,800,347
Insurance	2,920,770	62,362	64,055	3,047,187	-	3,047,187
Leases and rentals	1,622,562	596,769	172,179	2,391,510	(620,204)	1,771,306
Taxes	311,214	445,139	421,224	1,177,577	-	1,177,577
Interest	3,927,064	13,624	-	3,940,688	-	3,940,688
Depreciation and amortization	9,674,665	124,692	493,289	10,292,646	-	10,292,646
Other	4,131,799	32,274	32,881	4,196,954	150,432	4,347,386
Total expenses	<u>132,868,714</u>	<u>4,341,824</u>	<u>4,304,531</u>	<u>141,515,069</u>	<u>(12,231,353)</u>	<u>129,283,716</u>
<b>OPERATING INCOME</b>	<u>21,180,438</u>	<u>1,600,256</u>	<u>1,364,552</u>	<u>24,145,246</u>	<u>-</u>	<u>24,145,246</u>
<b>OTHER INCOME (LOSSES)</b>						
Investment income	6,713,592	-	-	6,713,592	(1,344,262)	5,369,330
Other	(55,522)	578	-	(54,944)	-	(54,944)
Other income, net	<u>6,658,070</u>	<u>578</u>	<u>-</u>	<u>6,658,648</u>	<u>(1,344,262)</u>	<u>5,314,386</u>
<b>REVENUES IN EXCESS OF EXPENSES</b>	27,838,508	1,600,834	1,364,552	30,803,894	(1,344,262)	29,459,632
<b>DISTRIBUTIONS TO SHAREHOLDERS</b>	-	(1,600,000)	(1,350,000)	(2,950,000)	1,336,501	(1,613,499)
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	27,838,508	834	14,552	27,853,894	(7,761)	27,846,133
<b>NET ASSETS, beginning of year</b>	99,567,626	698,172	6,018,943	106,284,741	(3,348,548)	102,936,193
<b>NET ASSETS, end of year</b>	<u>\$ 127,406,134</u>	<u>\$ 699,006</u>	<u>\$ 6,033,495</u>	<u>\$ 134,138,635</u>	<u>\$ (3,356,309)</u>	<u>\$ 130,782,326</u>

**Gerald Champion Regional Medical Center**  
**Schedule of Net Patient Service Revenue**  
**Year Ended June 30, 2018**

	2018		
	Inpatient	Outpatient	Total
<b>PATIENT SERVICE REVENUE</b>			
Routine Services			
Adults and pediatrics	\$ 71,845,751	\$ 4,850,646	\$ 76,696,397
Nursery	2,149,442	276,686	2,426,128
	<u>73,995,193</u>	<u>5,127,332</u>	<u>79,122,525</u>
Ancillary Services			
Emergency room	6,166,039	46,034,212	52,200,251
Surgical services	41,318,965	115,970,117	157,289,082
Anesthesiology	18,454,180	24,954,678	43,408,858
Recovery room	6,576,576	13,099,675	19,676,251
Pharmacy	16,420,263	36,917,684	53,337,947
IV Solutions	198,318	2,233,322	2,431,640
Laboratory	16,745,492	57,657,458	74,402,950
Central service supplies	1,705,439	1,929,927	3,635,366
Cardiopulmonary	13,202,995	5,521,038	18,724,033
Stress testing	46,345	7,302,207	7,348,552
EKG/EEG	2,288,161	9,575,013	11,863,174
Cardiac cath lab	9,078,596	22,196,328	31,274,924
Sleep studies	800	3,152,343	3,153,143
Physical therapy	2,184,580	148,004	2,332,584
Radiology	3,158,318	12,545,738	15,704,056
CT scan	6,581,029	34,597,620	41,178,649
MRI	784,118	4,607,394	5,391,512
Ultrasound	956,222	5,139,592	6,095,814
Nuclear imaging	174,495	1,337,553	1,512,048
Behavioral medicine	3,379	7,128,086	7,131,465
Wound care	65,502	8,944,154	9,009,656
Other patient revenue	2,161,471	1,199,905	3,361,376
Physician practices	765,473	52,352,746	53,118,219
	<u>149,036,756</u>	<u>474,544,794</u>	<u>623,581,550</u>
	<u>\$ 223,031,949</u>	<u>\$ 479,672,126</u>	<u>702,704,075</u>
Charity care, at charges foregone			<u>1,283,473</u>
Total patient service revenue			<u>703,987,548</u>
<b>CONTRACTUAL ADJUSTMENTS</b>			
Hospital			(487,226,340)
Physician practices			<u>(39,854,272)</u>
Total contractual adjustments			<u>(527,080,612)</u>
<b>NET PATIENT SERVICE REVENUE</b>			<u>\$ 176,906,936</u>

**Gerald Champion Regional Medical Center**  
**Schedule of Net Patient Service Revenue**  
**Year Ended June 30, 2017**

	2017		
	Inpatient	Outpatient	Total
<b>PATIENT SERVICE REVENUE</b>			
Routine Services			
Adults and pediatrics	\$ 67,111,982	\$ 3,383,822	\$ 70,495,804
Nursery	2,135,495	126,111	2,261,606
	<u>69,247,477</u>	<u>3,509,933</u>	<u>72,757,410</u>
Ancillary Services			
Emergency room	6,409,857	43,097,357	49,507,214
Surgical services	40,192,804	98,156,915	138,349,719
Anesthesiology	19,946,401	14,050,008	33,996,409
Recovery room	6,774,417	9,572,806	16,347,223
Pharmacy	14,147,560	26,671,305	40,818,865
IV Solutions	511,061	2,422,405	2,933,466
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	372,484	1,480,329	1,852,813
Behavioral medicine	-	3,194,465	3,194,465
Wound care	9,016	2,043,317	2,052,333
Other patient revenue	2,111,386	1,097,396	3,208,782
Physician practices	22,527	43,726,946	43,749,473
	<u>143,708,004</u>	<u>384,548,438</u>	<u>528,256,442</u>
	<u>\$ 212,955,481</u>	<u>\$ 388,058,371</u>	601,013,852
Charity care, at charges foregone			<u>(3,272,002)</u>
Total patient service revenue			<u>597,741,850</u>
<b>CONTRACTUAL ADJUSTMENTS</b>			
Hospital			(415,351,408)
Physician practices			<u>(26,855,152)</u>
Total contractual adjustments			<u>(442,206,560)</u>
<b>NET PATIENT SERVICE REVENUE</b>			<u>\$ 155,535,290</u>