



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, 2019 and 2018



Table of Contents

	PAGE
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Consolidated Balance Sheets	3-4
Consolidated Statements of Operations and Changes in Net Assets	5
Consolidated Statements of Cash Flows	6–7
Notes to Consolidated Financial Statements	8–28
Supplementary Information	
Consolidating Balance Sheet – Assets, June 30, 2019	29
Consolidating Balance Sheet – Liabilities and Net Assets, June 30, 2019	30
Consolidating Statements of Operations and Changes in Net Assets - 2019	31
Consolidating Balance Sheet – Assets, June 30, 2018	32
Consolidating Balance Sheet – Liabilities and Net Assets, June 30, 2018	33
Consolidating Statements of Operations and Changes in Net Assets - 2018	34
Schedule of Net Patient Service Revenue, 2019	35
Schedule of Net Patient Service Revenue, 2018	36

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 sheets as of June 30, 2019 and 2018, 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Otero County Hospital Association d/b/a Gerald Champion Regional Medical Center, as of June 30, 2019 and 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.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, as of June 30, 2019, Otero County Hospital Association d/b/a Gerald Champion Regional Medical Center adopted Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASU) 2016-14, *Presenting Financial Statement for Not-for Profit Entities*, and FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Both FASB ASU 2016-14 and 2014-09 have been applied retrospectively to all periods presented, with exception to the omission of certain information as permitted by FASB ASU 2016-14. Our opinion is not modified with respect to this matter.

Other Matters

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
November 20, 2019

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

ASSETS

	June 30,	
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,546,460	\$ 10,264,727
Marketable securities	118,996,502	103,866,960
Receivables		
Patient, net of estimated price concessions	22,024,187	21,226,046
Other	12,621,393	4,028,440
Estimated third-party payor settlements	2,615,618	-
Supplies	6,357,922	6,379,915
Prepaid expenses	<u>3,889,404</u>	<u>3,745,628</u>
Total current assets	<u>172,051,486</u>	<u>149,511,716</u>
ASSETS LIMITED AS TO USE	<u>6,656,238</u>	<u>6,086,622</u>
PROPERTY AND EQUIPMENT, net	<u>87,002,229</u>	<u>88,611,492</u>
OTHER ASSETS		
Investment in affiliates	486,531	263,133
Goodwill	713,085	713,085
Other intangible assets, net of accumulated amortization of \$298,282 in 2019 and \$294,250 in 2018	<u>32,062</u>	<u>36,094</u>
Total other assets	<u>1,231,678</u>	<u>1,012,312</u>
Total assets	<u>\$ 266,941,631</u>	<u>\$ 245,222,142</u>

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

LIABILITIES AND NET ASSETS

	June 30,	
	2019	2018
CURRENT LIABILITIES		
Line of credit	\$ 131,031	\$ 205,025
Current maturities of long-term debt	1,727,218	1,645,786
Accounts payable		
Trade	7,895,264	9,040,299
Estimated third-party payor settlements	-	2,623,501
Accrued expenses		
Salaries and wages	3,089,593	3,679,173
Vacation	3,328,569	3,064,229
Payroll taxes and other benefits	527,376	223,605
Other	112,319	114,875
	16,811,370	20,596,493
LONG-TERM DEBT, less current maturities, unamortized discount and unamortized debt issuance costs	61,598,399	63,205,362
	78,409,769	83,801,855
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Gerald Champion Regional Medical Center	184,622,855	157,814,333
Noncontrolling interests in controlled entities	3,909,007	3,605,954
	188,531,862	161,420,287
	\$ 266,941,631	\$ 245,222,142

**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,	
	2019	2018
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT		
Net patient service revenue	\$ 172,088,164	\$ 168,524,427
Other revenue	6,504,796	5,490,222
Total revenues, gains and other support	<u>178,592,960</u>	<u>174,014,649</u>
EXPENSES		
Salaries and wages	59,853,905	54,590,792
Employee benefits	12,047,724	11,740,677
Professional fees and purchased services	29,254,994	27,263,890
Utilities	8,093,787	6,757,610
Supplies	21,350,431	20,114,328
Insurance	3,813,945	3,633,893
Leases and rentals	2,038,072	1,578,347
Taxes	1,412,229	1,410,688
Interest	3,740,234	3,891,501
Depreciation and amortization	12,246,793	12,112,133
Other	3,396,463	3,272,547
Total expenses	<u>157,248,577</u>	<u>146,366,406</u>
OPERATING INCOME	<u>21,344,383</u>	<u>27,648,243</u>
OTHER INCOME		
Investment income	6,550,294	4,481,293
Other, net	178,648	198,925
Total other income	<u>6,728,942</u>	<u>4,680,218</u>
REVENUES IN EXCESS OF EXPENSES	28,073,325	32,328,461
DISTRIBUTIONS TO NONCONTROLLING INTERESTS	<u>(961,750)</u>	<u>(1,690,500)</u>
CHANGE IN NET ASSETS	27,111,575	30,637,961
NET ASSETS, beginning of year	<u>161,420,287</u>	<u>130,782,326</u>
NET ASSETS, end of year	<u>\$ 188,531,862</u>	<u>\$ 161,420,287</u>

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

	Years Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 27,111,575	\$ 30,637,961
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	12,246,793	12,112,133
Amortization of original issue discount and debt issuance costs included in interest expense	126,109	126,110
Net realized gains and losses on investments	(2,534,563)	(6,080,055)
Net change in unrealized gains and losses on investments	(1,212,366)	3,254,340
Gain on disposal of property and equipment	(22,092)	(84,202)
Gain from investment in affiliates included in investment income	(56,311)	(45,149)
Distributions to noncontrolling interests	961,750	1,690,500
Changes in assets and liabilities		
Patient accounts receivable	(798,141)	(4,085,263)
Other accounts receivable	(8,592,953)	(3,513,378)
Supplies	21,993	(1,051,820)
Prepaid expenses	(143,776)	(1,558,254)
Accounts payable	(1,145,035)	(1,711,046)
Accrued expenses	(24,025)	1,246,514
Estimated third party payor settlements	(5,239,119)	(2,930,593)
Net cash provided by operating activities	<u>20,699,839</u>	<u>28,007,798</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and purchase of property and equipment	(10,911,284)	(11,210,158)
Proceeds from the sale of property and equipment	299,878	164,801
(Contributions) distributions from affiliates, net	(167,087)	29,787
Sales (purchases) of assets limited as to use, net	(569,616)	(693,326)
Purchases of marketable securities, net	(11,382,613)	(31,756,771)
Net cash used in investing activities	<u>(22,730,722)</u>	<u>(43,465,667)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in line of credit	(73,994)	50,186
Distributions to noncontrolling interests	(961,750)	(1,690,500)
Principal payments on long-term debt	(1,651,640)	(1,547,721)
Net cash used in financing activities	<u>(2,687,384)</u>	<u>(3,188,035)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,718,267)	(18,645,904)
CASH AND CASH EQUIVALENTS, beginning of year	<u>10,264,727</u>	<u>28,910,631</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,546,460</u>	<u>\$ 10,264,727</u>

See accompanying notes.

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

	Years Ended June 30,	
	2019	2018
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Interest	<u>\$ 3,614,125</u>	<u>\$ 3,765,391</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES		
Equipment financed through capital lease arrangements	<u>\$ -</u>	<u>\$ 320,429</u>

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

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 9).

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 2015.

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

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, 2019 or 2018.

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 receivables are reduced by implicit and explicit price concessions that reflects management’s estimate of amounts that will not be collected from patients and third-party payors.

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

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

Note 1 – Organization and Significant Accounting Policies (continued)

The Medical Center's estimated implicit price concession is 89% of the related self-pay receivables at June 30, 2019, compared to 90% of self-pay receivables at June 30, 2018. In addition, self-pay implicit price concessions decreased \$1,000,000 from approximately \$7,323,000 for the year ended June 30, 2018, to \$8,323,000 for the year ended June 30, 2019.

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

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, 2019 or 2018.

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, 2019 and 2018.

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.

Basis of presentation – The Organization’s financial statements are presented in accordance with standards established by the Financial Accounting Standards Board (FASB). The Medical Center has implemented Accounting Standards Codification (ASC) 958, *Not-for-Profit-Entities*, and has adjusted the presentation in these financial statements accordingly, including changes to the presentation of net asset classification on the financial statements, inclusion of information about liquidity and availability of resources (Note 12), and inclusion of information provided about expenses (Note 13). Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor restrictions. The Medical Center has two components of net assets without donor restrictions: Gerald Champion Regional Medical Center and noncontrolling interests in controlled entities.

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

Note 1 – Organization and Significant Accounting Policies (continued)

- *Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. These are reported as reclassifications between the applicable classes of net assets. As of June 30, 2019 and 2018, there were no net assets with donor restrictions.

In accordance with ASC 958, net assets at June 30, 2018, have been reclassified as follows:

	Without Donor Restriction
Unrestricted	<u><u>\$ 161,420,287</u></u>

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

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

Otero County Hospital Association

d/b/a Gerald Champion Regional Medical Center

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

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

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Medical Center's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2019 or 2018.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Medical Center also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Medical Center estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended June 30, 2019 and 2018, no additional revenue was recognized due to changes in the Medical Center's estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

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

Note 1 – Organization and Significant Accounting Policies (continued)

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

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 \$2,289,000 and \$1,925,000 for the years ended June 30, 2019 and 2018, respectively. Total direct and indirect costs related to these foregone charges were approximately \$493,000 and \$401,000 for the years ended June 30, 2019 and 2018, 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 \$2,423,000 and \$3,208,000 for the years ended June 30, 2019 and 2018, 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.

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, 2019, which is the date the consolidated financial statements were available to be issued.

Otero County Hospital Association

d/b/a Gerald Champion Regional Medical Center

Notes to Consolidated Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

New accounting pronouncements – In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in the ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. The Medical Center evaluated the impact of ASU No. 2014-09 and has implemented this ASU beginning July 1, 2018, with retrospective application. The adoption of ASU No. 2014-09 did not result in any change to net patient service revenue in total as of and for the year ended June 30, 2018.

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

Reclassifications – Certain reclassifications have been made to the 2018 balances to conform to the 2019 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.

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

Note 2 – Net Patient Service Revenue (continued)

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.

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.

A summary of gross patient service revenue and explicit and implicit price concessions for the years ended June 30, 2019 and 2018 is as follows:

	2019	2018
Total gross patient service charges	\$ 729,747,470	\$ 703,987,548
Price concessions		
Explicit price concessions	(550,336,643)	(527,080,612)
Implicit price concessions	(7,322,663)	(8,382,509)
	(557,659,306)	(535,463,121)
Net patient service revenue less provision for bad debts	\$ 172,088,164	\$ 168,524,427

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

Note 2 – Net Patient Service Revenue (continued)

The composition of net patient service revenue by primary payor for the years ended June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 42,955,029	\$ 42,065,482
Medicaid	19,057,710	18,663,048
Blue Cross Blue Shield	37,448,429	36,672,917
Other	<u>72,626,996</u>	<u>71,122,980</u>
	<u>\$ 172,088,164</u>	<u>\$ 168,524,427</u>

The composition of net patient service revenue based on its lines of business for the years ended June 30, are as follows:

	<u>2019</u>	<u>2018</u>
Hospital	\$ 160,010,740	\$ 155,050,485
ASV	5,535,640	6,251,200
GCSP Cath Lab	<u>6,541,784</u>	<u>7,222,742</u>
	<u>\$ 172,088,164</u>	<u>\$ 168,524,427</u>

Note 3 – Other Receivables

The composition of other receivables as of June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Estimated recovery of short pays	\$ 7,642,113	\$ 581,058
Estimated insurance recoveries	1,239,535	710,004
340B program	608,741	540,493
Receivable from Gerald Champion Memorial Hospital Foundation	580,493	-
Other	<u>2,550,511</u>	<u>2,196,885</u>
	<u>\$ 12,621,393</u>	<u>\$ 4,028,440</u>

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

Note 3 – Other Receivables (continued)

Receivables for short pays represent claims that have been adjudicated at amounts other than the contracted rates. The recorded balance is due from multiple health plans and is recorded at the estimated net recoverable amounts based on facts and circumstances known as of the date of this report.

Note 4 – Investments and Investment Income

Assets Limited as to Use – The composition of assets limited as to use at June 30, 2019 and 2018 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.

	<u>2019</u>	<u>2018</u>
Restricted Under Bond Indenture for Debt Service		
Cash and cash equivalents	\$ 5,651,760	\$ 5,394,607
Designated for Deferred Compensation		
Mutual funds	<u>1,004,478</u>	<u>692,015</u>
	<u>\$ 6,656,238</u>	<u>\$ 6,086,622</u>

Marketable Securities – Marketable securities consisted of the following at June 30, 2019 and 2018. Cash and cash equivalents are measured at cost. Other long-term investments are measured at fair value.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 44,156,845	\$ 34,082,784
Mutual funds	64,644,677	47,267,276
Certificates of deposit	722,148	796,866
Equities	9,472,832	13,349,562
Corporate bonds	-	4,249,141
U.S. government securities	-	3,593,363
Mortgage backed securities	-	527,968
	<u>\$ 118,996,502</u>	<u>\$ 103,866,960</u>

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

Note 4 – Investments and Investment Income (continued)

Fair Value of Investments – Investments measured at fair value on a recurring basis at June 30, 2019 and 2018 are as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2019				
Mutual funds	\$ 64,644,677	\$ 64,644,677	\$ -	\$ -
Certificates of deposit	722,148	-	722,148	-
Equities	9,472,832	9,472,832	-	-
	<u>\$ 74,839,657</u>	<u>\$ 74,117,509</u>	<u>\$ 722,148</u>	<u>\$ -</u>

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2018				
Mutual funds	\$ 47,267,276	\$ 47,267,276	\$ -	\$ -
Certificates of deposit	796,866	-	796,866	-
Equities	13,349,562	13,349,562	-	-
Corporate bonds	4,249,141	-	4,249,141	-
U.S. government securities	3,593,363	-	3,593,363	-
Mortgage backed securities	527,968	-	527,968	-
	<u>\$ 69,784,176</u>	<u>\$ 60,616,838</u>	<u>\$ 9,167,338</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**

Note 4 – 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Other income		
Interest and dividend income	\$ 2,747,054	\$ 1,610,429
Realized gains on investments, net	2,534,563	6,080,055
Change in unrealized gains and losses on investments	1,212,366	(3,254,340)
Income from investment in affiliates (Note 6)	<u>56,311</u>	<u>45,149</u>
	<u>\$ 6,550,294</u>	<u>\$ 4,481,293</u>

Note 5 – Property and Equipment

A summary of property and equipment at June 30, 2019 and 2018 is as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ 3,580,825	\$ -	\$ 3,437,282	\$ -
Land improvements	4,699,632	3,523,196	3,887,601	3,345,882
Buildings and fixed equipment	140,388,213	83,072,717	118,216,712	58,298,024
Equipment	77,721,038	56,948,974	94,374,515	70,624,513
Construction in progress	<u>4,157,408</u>	<u>-</u>	<u>963,801</u>	<u>-</u>
	<u>\$ 230,547,116</u>	<u>\$ 143,544,887</u>	<u>\$ 220,879,911</u>	<u>\$ 132,268,419</u>
Net property and equipment		<u>\$ 87,002,229</u>		<u>\$ 88,611,492</u>

Depreciation expense for the years ending June 30, 2019 and 2018 totaled \$12,242,761 and \$12,058,102, respectively.

Note 6 – Investment in Affiliates

The Medical Center's owns 29.8% of Alamogordo Imaging Center, LLC and 50.0% of White Sands Community Health. The Medical Center's share of income from these affiliates recorded as investment income was \$56,311 and \$45,149 for the years ended June 30, 2019 and 2018, respectively (Note 4).

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

Note 6 – Investment in Affiliates (continued)

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, 2019 and 2018, 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, 2019 and 2018 is as follows:

	2019		2018	
	White Sands Community Health <u>(unaudited)</u>	Alamogordo Imaging Center <u>(unaudited)</u>	White Sands Community Health <u>(unaudited)</u>	Alamogordo Imaging Center <u>(unaudited)</u>
Total assets	\$ 391,660	\$ 272,258	\$ 411,110	\$ 282,117
Total liabilities	965	135,881	605	158,990
Equity	390,695	136,377	410,506	123,127
Total revenues	120,088	1,853,476	107,140	1,675,913
Total expenses	117,394	1,640,225	133,194	1,551,678

Note 7 – 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, 2019 and 2018 for all operating leases was \$2,038,072 and \$1,578,347, respectively. Minimum future lease payments for the operating leases are as follows:

Fiscal Year End	
2020	\$ 425,997
2021	328,032
2022	187,657
2023	182,252
2024	85,255
Thereafter	170,510
	<u>\$ 1,379,703</u>

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

Note 7 – Leases (continued)

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

Fiscal Year End			
2020	\$	112,789	
2021		112,788	
2022		87,145	
2023		20,550	
		333,272	
Less: amounts representing interest		(26,125)	
	\$	307,147	

Assets held under capital lease consist of:

	2019	2018
Major movable equipment	\$ 489,049	\$ 489,049
Less accumulated amortization (included as depreciation) in the accompanying financial statements	(228,520)	(130,710)
	\$ 260,529	\$ 358,339

Note 8 – Line of Credit and Long-Term Debt

Line of Credit – ASV has a 5.29% line of credit with a local bank with total available borrowing of \$500,000 and a maturity of September 2019. The ASV had \$131,031 and \$205,025 outstanding as of June 30, 2019 and 2018, respectively.

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

Note 8 – Line of Credit and Long-Term Debt (continued)

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

	<u>2019</u>	<u>2018</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	\$ 5,115,000	\$ 6,670,000
4.75% 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	(1,343,823)	(1,401,830)
Unamortized debt issuance costs	<u>(1,577,707)</u>	<u>(1,645,809)</u>
	63,018,470	64,447,361
Capital lease obligations - Note 7	<u>307,147</u>	<u>403,787</u>
	63,325,617	64,851,148
Less current maturities	<u>(1,727,218)</u>	<u>(1,645,786)</u>
Long-term debt, less current maturities	<u>\$ 61,598,399</u>	<u>\$ 63,205,362</u>

Long-term debt maturities are as follows:

<u>Fiscal Year End</u>	
2020	\$ 1,727,218
2021	1,809,114
2022	1,869,217
2023	1,886,598
2024	1,975,000
Thereafter	<u>56,980,000</u>
	66,247,147
Unamortized original issue discount	(1,343,823)
Unamortized debt issuance costs	<u>(1,577,707)</u>
	<u>\$ 63,325,617</u>

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

Note 8 – Line of Credit and Long-Term Debt (continued)

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 4). 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 9 – 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, 2017	<u>\$ 130,782,326</u>	<u>\$ 127,406,134</u>	<u>\$ 3,376,192</u>
Revenues in excess of expenses	32,328,461	30,408,199	1,920,262
Distributions to noncontrolling shareholders	<u>(1,690,500)</u>	<u>-</u>	<u>(1,690,500)</u>
Change in net assets	<u>30,637,961</u>	<u>30,408,199</u>	<u>229,762</u>
Net assets balance, June 30, 2018	<u>161,420,287</u>	<u>157,814,333</u>	<u>3,605,954</u>
Revenues in excess of expenses	28,073,325	26,808,522	1,264,803
Distributions to noncontrolling shareholders	<u>(961,750)</u>	<u>-</u>	<u>(961,750)</u>
Change in net assets	<u>27,111,575</u>	<u>26,808,522</u>	<u>303,053</u>
Net assets balance, June 30, 2019	<u><u>\$ 188,531,862</u></u>	<u><u>\$ 184,622,855</u></u>	<u><u>\$ 3,909,007</u></u>

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

Note 10 – 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, 2019 and 2018 were \$1,484,615 and \$1,354,870, respectively.

Note 11 – 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, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Medicare	35%	36%
Medicaid	21%	17%
Blue Cross Blue Shield	7%	8%
Other	<u>37%</u>	<u>39%</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, 2019, approximately 12% of the Medical Center’s employees are working under a collective bargaining agreement.

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

Note 12 – Liquidity and Availability

Financial assets available for general expenditure that are without donor or other restrictions limiting their use within one year of June 30, 2019, comprise the following:

Cash and cash equivalents	\$ 5,546,460
Marketable securities	118,996,502
Assets limited to use, designated	<u>1,004,478</u>
	<u><u>\$ 125,547,440</u></u>

The Medical Center has \$125,547,440 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures, consisting of cash of \$5,546,460 and short-term investments of \$120,000,980. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date. In the calculation of financial assets, The Medical Center includes board-designated investments that are available for expenditure per the Medical Center investment policy.

The Medical Center maintains financial assets, which consist of cash and short-term investments, on hand to meet at least 60 days of normal operating expenses. There are certain debt covenant compliances that the Medical Center must adhere to per its debt agreements, and as of June 30, 2019, the Medical Center is in compliance with its debt covenants.

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

Note 13 – 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, 2019 and 2018 are as follows:

	Patient Healthcare Services	General and Administrative	Total
2019			
Salaries and wages	\$ 42,355,077	\$ 17,498,828	\$ 59,853,905
Employee benefits	4,659,559	7,388,165	12,047,724
Professional fees and purchased services	24,197,169	5,057,825	29,254,994
Utilities	2,441,626	5,652,161	8,093,787
Supplies	18,842,408	2,508,023	21,350,431
Insurance	478,530	3,335,415	3,813,945
Leases and rentals	1,329,750	708,322	2,038,072
Taxes	948,303	463,926	1,412,229
Interest	-	3,740,234	3,740,234
Depreciation and amortization	-	12,246,793	12,246,793
Other	2,010,252	1,386,211	3,396,463
	<u>\$ 97,262,674</u>	<u>\$ 59,985,903</u>	<u>\$ 157,248,577</u>
2018			
Patient healthcare services			\$ 88,803,260
General and administrative			<u>57,563,146</u>
			<u>\$ 146,366,406</u>

Note 14 – 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.

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

Note 14 – Contingencies (continued)

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, 2019 or 2018.

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 year, with aggregate stop loss limits of \$7,015,044 for the plan year ended December 31, 2019 and \$5,768,351 for the plan year ended December 31, 2018. Health insurance expense is recorded on an accrual basis. Amounts accrued for outstanding medical claims as of June 30, 2019 and 2018 were approximately \$667,000 and \$997,000, respectively, which were included in trade accounts payable in the accompanying consolidated financial statements.

Supplementary Information

**Otero County Hospital Association
d/b/a Gerald Champion Regional Medical Center
Consolidating Balance Sheet – Assets
June 30, 2019**

	Hospital	ASV	Cath Lab	Total	Eliminations	Consolidated
CURRENT ASSETS						
Cash and cash equivalents	\$ 5,212,314	\$ 283,748	\$ 50,398	\$ 5,546,460	\$ -	\$ 5,546,460
Marketable securities	118,996,502	-	-	118,996,502	-	118,996,502
Receivables						
Patient, net	22,024,187	-	-	22,024,187	-	22,024,187
Other	8,363,088	416,888	4,242,687	13,022,663	(401,270)	12,621,393
Estimated third-party payor settlements	2,615,618	-	-	2,615,618	-	2,615,618
Supplies	5,916,629	207,955	233,338	6,357,922	-	6,357,922
Prepaid expenses	3,698,462	97,132	131,867	3,927,461	(38,057)	3,889,404
Total current assets	166,826,800	1,005,723	4,658,290	172,490,813	(439,327)	172,051,486
ASSETS LIMITED AS TO USE	6,656,238	-	-	6,656,238	-	6,656,238
PROPERTY AND EQUIPMENT, net	84,543,831	590,606	1,867,792	87,002,229	-	87,002,229
OTHER ASSETS						
Investment in affiliates	4,368,672	-	-	4,368,672	(3,882,141)	486,531
Goodwill	713,085	-	-	713,085	-	713,085
Other intangible assets, net	32,062	-	718,688	750,750	(718,688)	32,062
Total other assets	5,113,819	-	718,688	5,832,507	(4,600,829)	1,231,678
Total assets	\$ 263,140,688	\$ 1,596,329	\$ 7,244,770	\$ 271,981,787	\$ (5,040,156)	\$ 266,941,631

Otero County Hospital Association
d/b/a Gerald Champion Regional Medical Center
Consolidating Balance Sheet – Liabilities and Net Assets
June 30, 2019

	<u>Hospital</u>	<u>ASV</u>	<u>Cath Lab</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT LIABILITIES						
Line of credit	\$ -	\$ 131,031	\$ -	\$ 131,031	\$ -	\$ 131,031
Current maturities of long-term debt	1,625,000	102,218	-	1,727,218	-	1,727,218
Accounts payable						
Trade	7,789,888	103,808	402,838	8,296,534	(401,270)	7,895,264
Accrued expenses						
Salaries and wages	3,030,800	58,793	-	3,089,593	-	3,089,593
Vacation	3,286,776	41,793	-	3,328,569	-	3,328,569
Payroll taxes and other benefits	522,835	4,541	-	527,376	-	527,376
Other	332,338	-	-	332,338	(220,019)	112,319
Total current liabilities	16,587,637	442,184	402,838	17,432,659	(621,289)	16,811,370
LONG-TERM DEBT, less current maturities	61,393,470	204,929	-	61,598,399	-	61,598,399
UNEARNED REVENUE	536,726	-	-	536,726	(536,726)	-
Total liabilities	78,517,833	647,113	402,838	79,567,784	(1,158,015)	78,409,769
NET ASSETS WITHOUT DONOR RESTRICTION						
Gerald Champion Regional Medical Center	184,622,855	949,216	6,841,932	192,414,003	(7,791,148)	184,622,855
Noncontrolling interests in controlled entities	-	-	-	-	3,909,007	3,909,007
Total unrestricted net assets	184,622,855	949,216	6,841,932	192,414,003	(3,882,141)	188,531,862
Total liabilities and net assets	\$ 263,140,688	\$ 1,596,329	\$ 7,244,770	\$ 271,981,787	\$ (5,040,156)	\$ 266,941,631

**Otero County Hospital Association
d/b/a Gerald Champion Regional Medical Center
Consolidating Statements of Operations and Changes in Net Assets
Year Ended June 30, 2019**

	Hospital	ASV	Cath Lab	Total	Eliminations	Consolidated
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT						
Net patient service revenue	\$ 172,088,164	\$ 5,535,640	\$ 6,541,784	\$ 184,165,588	\$ (12,077,424)	\$ 172,088,164
Other revenue	7,136,856	-	249,996	7,386,852	(882,056)	6,504,796
Total revenues, gains, and other support	179,225,020	5,535,640	6,791,780	191,552,440	(12,959,480)	178,592,960
EXPENSES						
Salaries and wages	57,752,795	1,589,685	249,607	59,592,087	261,818	59,853,905
Employee benefits	11,547,864	443,226	-	11,991,090	56,634	12,047,724
Professional fees and purchased services	39,578,183	334,134	2,395,353	42,307,670	(13,052,676)	29,254,994
Utilities	7,695,566	243,547	154,674	8,093,787	-	8,093,787
Supplies	19,415,905	680,662	1,147,924	21,244,491	105,940	21,350,431
Insurance	3,659,457	23,523	130,965	3,813,945	-	3,813,945
Leases and rentals	1,853,173	640,790	176,169	2,670,132	(632,060)	2,038,072
Taxes	463,926	429,385	518,918	1,412,229	-	1,412,229
Interest	3,711,552	28,682	-	3,740,234	-	3,740,234
Depreciation and amortization	11,626,360	181,798	438,635	12,246,793	-	12,246,793
Other	3,014,375	42,595	38,629	3,095,599	300,864	3,396,463
Total expenses	160,319,156	4,638,027	5,250,874	170,208,057	(12,959,480)	157,248,577
OPERATING INCOME	18,905,864	897,613	1,540,906	21,344,383	-	21,344,383
OTHER INCOME (LOSSES)						
Investment income	7,737,244	-	-	7,737,244	(1,186,950)	6,550,294
Other	165,414	13,234	-	178,648	-	178,648
Other income, net	7,902,658	13,234	-	7,915,892	(1,186,950)	6,728,942
REVENUES IN EXCESS OF EXPENSES	26,808,522	910,847	1,540,906	29,260,275	(1,186,950)	28,073,325
DISTRIBUTIONS TO SHAREHOLDERS	-	(600,000)	(1,275,000)	(1,875,000)	913,250	(961,750)
CHANGE IN NET ASSETS	26,808,522	310,847	265,906	27,385,275	(273,700)	27,111,575
NET ASSETS, beginning of year	157,814,333	638,369	6,576,026	165,028,728	(3,608,441)	161,420,287
NET ASSETS, end of year	\$ 184,622,855	\$ 949,216	\$ 6,841,932	\$ 192,414,003	\$ (3,882,141)	\$ 188,531,862

Otero County Hospital Association
d/b/a Gerald Champion Regional Medical Center
Consolidating Balance Sheet – Assets
June 30, 2018

	Hospital	ASV	Cath Lab	Total	Eliminations	Consolidated
CURRENT ASSETS						
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, net	21,226,046	-	-	21,226,046	-	21,226,046
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
Total current assets	145,658,775	745,280	3,624,038	150,028,093	(516,377)	149,511,716
ASSETS LIMITED AS TO USE	6,086,622	-	-	6,086,622	-	6,086,622
PROPERTY AND EQUIPMENT, net	85,567,321	746,781	2,297,390	88,611,492	-	88,611,492
OTHER ASSETS						
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
Total other assets	4,620,753	-	894,068	5,514,821	(4,502,509)	1,012,312
Total assets	\$ 241,933,471	\$ 1,492,061	\$ 6,815,496	\$ 250,241,028	\$ (5,018,886)	\$ 245,222,142

**Otero County Hospital Association
d/b/a Gerald Champion Regional Medical Center
Consolidating Balance Sheet – Liabilities and Net Assets
June 30, 2018**

	Hospital	ASV	Cath Lab	Total	Eliminations	Consolidated
CURRENT LIABILITIES						
Note payable	\$ -	\$ 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
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	20,508,095	540,691	239,470	21,288,256	(691,763)	20,596,493
LONG-TERM DEBT, less current maturities	62,892,361	313,001	-	63,205,362	-	63,205,362
UNEARNED REVENUE	718,682	-	-	718,682	(718,682)	-
Total liabilities	84,119,138	853,692	239,470	85,212,300	(1,410,445)	83,801,855
NET ASSETS WITHOUT DONOR RESTRICTIONS						
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	-	-	-	-	3,605,954	3,605,954
Total net assets	127,406,134	699,006	6,576,026	134,681,166	(3,608,441)	161,420,287
Total liabilities and net assets	\$ 218,941,794	\$ 1,552,698	\$ 6,815,496	\$ 227,309,988	\$ (5,018,886)	\$ 245,222,142

Otero County Hospital Association
d/b/a Gerald Champion Regional Medical Center
Consolidating Statements of Operations and Changes in Net Assets
Year Ended June 30, 2018

	<u>Hospital</u>	<u>ASV</u>	<u>Cath Lab</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT						
Net patient service revenue	\$ 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>
EXPENSES						
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>
OTHER INCOME (LOSSES)						
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	<u>-</u>	<u>(1,400,000)</u>	<u>(1,750,000)</u>	<u>(3,150,000)</u>	<u>1,459,500</u>	<u>(1,690,500)</u>
CHANGE IN NET ASSETS	30,408,199	(60,637)	542,531	30,890,093	(252,132)	30,637,961
NET ASSETS, beginning of year	<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>
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>

Otero County Hospital Association
d/b/a Gerald Champion Regional Medical Center
Schedule of Net Patient Service Revenue
Year Ended June 30, 2019

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
PATIENT SERVICE REVENUE			
Routine Services			
Adults and pediatrics	\$ 76,861,107	\$ 5,387,773	\$ 82,248,880
Nursery	2,293,458	270,437	2,563,895
	<u>79,154,565</u>	<u>5,658,210</u>	<u>84,812,775</u>
Ancillary Services			
Emergency room	7,004,445	47,595,182	54,599,627
Surgical services	120,551,498	33,702,289	154,253,787
Anesthesiology	18,875,511	22,432,678	41,308,189
Recovery room	6,833,306	11,776,163	18,609,469
Pharmacy	17,591,892	38,194,477	55,786,369
IV Solutions	223,020	2,340,754	2,563,774
Laboratory	20,716,630	61,862,149	82,578,779
Central service supplies	1,589,446	1,359,397	2,948,843
Cardiopulmonary	17,293,359	5,656,232	22,949,591
Stress testing	49,001	7,897,719	7,946,720
EKG/EEG	2,623,621	9,144,311	11,767,932
Cardiac cath lab	11,126,890	18,857,393	29,984,283
Sleep studies	7,953	5,384,115	5,392,068
Physical therapy	1,962,360	139,607	2,101,967
Radiology	3,062,870	11,979,891	15,042,761
CT scan	8,534,843	41,044,470	49,579,313
MRI	1,070,196	6,643,057	7,713,253
Ultrasound	954,648	5,521,478	6,476,126
Nuclear imaging	219,543	1,330,851	1,550,394
Behavioral medicine	719	3,270,486	3,271,205
Wound care	87,934	9,869,896	9,957,830
Other patient revenue	1,936,184	980,290	2,916,474
Physician practices	-	55,501,604	55,501,604
	<u>242,315,869</u>	<u>402,484,489</u>	<u>644,800,358</u>
	<u>\$ 321,470,434</u>	<u>\$ 408,142,699</u>	<u>729,613,133</u>
Charity care, at charges foregone			<u>134,337</u>
Total patient service revenue			<u>729,747,470</u>
CONTRACTUAL ADJUSTMENTS			
Hospital			(508,538,527)
Physician practices			(41,798,116)
Total contractual adjustments			<u>(550,336,643)</u>
PROVISION FOR BAD DEBTS			
			<u>(7,322,663)</u>
NET PATIENT SERVICE REVENUE			
			<u>\$ 172,088,164</u>

Otero County Hospital Association
d/b/a Gerald Champion Regional Medical Center
Schedule of Net Patient Service Revenue
Year Ended June 30, 2018

	Inpatient	Outpatient	Total
PATIENT SERVICE REVENUE			
Routine Services			
Adults and pediatrics	\$ 71,845,751	\$ 4,850,646	\$ 76,696,397
Nursery	2,149,442	276,686	2,426,128
	73,995,193	5,127,332	79,122,525
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
	149,036,756	474,544,794	623,581,550
	\$ 223,031,949	\$ 479,672,126	702,704,075
Charity care, at charges foregone			1,283,473
Total patient service revenue			703,987,548
CONTRACTUAL ADJUSTMENTS			
Hospital			(487,226,340)
Physician practices			(39,854,272)
Total contractual adjustments			(527,080,612)
PROVISION FOR BAD DEBTS			(8,382,509)
NET PATIENT SERVICE REVENUE			\$ 168,524,427