

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates
North Platte, Nebraska**

**Consolidated Financial Statements
and Supplementary Information
December 31, 2018 and 2017**

Together with Independent Auditor's Report

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates**

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Independent Auditor's Report

To the Board of Directors of
North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates
North Platte, Nebraska:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of North Platte, Nebraska Hospital Corporation d/b/a Great Plains Health and Affiliates (the Organization) which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018 and 2017, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 19 to the financial statements, the Organization adopted new accounting guidance related to the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and FASB Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information in Exhibits 1 - 3 is presented for purposes of additional analysis rather than to present the financial position, the results of operations, changes in net assets, and cash flows of the individual organizations and is not a required part of the 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 financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 financial statements as a whole.

Spim Johnson, LLP

Omaha, Nebraska,
March 13, 2019.

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates**

**Consolidated Balance Sheets
December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 57,589,592	44,250,902
Short-term investments	94,900,385	99,812,844
Receivables -		
Patients	29,049,474	23,817,800
Other	1,445,258	2,716,220
Patient customer contracts	6,272,544	4,294,814
Inventories	5,967,433	5,901,521
Prepaid expenses	2,809,250	2,264,202
	<u>198,033,936</u>	<u>183,058,303</u>
Total current assets		
Investments limited as to use	<u>35,012,988</u>	<u>35,621,585</u>
Property and equipment, net	<u>132,495,630</u>	<u>135,938,718</u>
Other assets:		
Deferred compensation assets	3,872,268	4,227,696
Recruitment and relocation advances, net	496,589	583,974
Investment in affiliate	1,581,508	2,104,000
Interest in Foundation	9,474,062	12,642,607
Land held for future expansion and investment	647,594	647,594
	<u>16,072,021</u>	<u>20,205,871</u>
Total other assets		
Total assets	<u>\$ 381,614,575</u>	<u>374,824,477</u>

See notes to consolidated financial statements

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates**

**Consolidated Balance Sheets (Continued)
December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 2,676,967	2,549,008
Accounts payable -		
Trade	7,159,711	7,821,993
Construction	1,739,477	655,784
Other	35,000	830,000
Accrued salaries, vacation and vested benefits payable	10,004,311	10,116,354
Accrued interest payable	717,700	735,908
Estimated third-party payor settlements	1,767,788	1,965,821
	<u>24,100,954</u>	<u>24,674,868</u>
Total current liabilities		
Long-term debt, net	105,593,630	108,658,095
Deferred compensation liability	3,872,268	4,227,696
	<u>133,566,852</u>	<u>137,560,659</u>
Total liabilities		
Commitments and contingencies		
Net assets:		
Without donor restrictions	238,671,214	226,969,031
Non-controlling interest in consolidated subsidiary	733,129	886,906
With donor restrictions	8,643,380	9,407,881
	<u>248,047,723</u>	<u>237,263,818</u>
Total net assets		
Total liabilities and net assets	\$ <u>381,614,575</u>	<u>374,824,477</u>

See notes to consolidated financial statements

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates**

**Consolidated Statements of Operations
For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
REVENUE WITHOUT DONOR RESTRICTIONS:		
Patient care service revenue	\$ 220,462,247	202,360,620
Other operating revenue	2,942,995	3,096,976
	<u>223,405,242</u>	<u>205,457,596</u>
Total revenue without donor restrictions		
EXPENSES:		
Salaries and wages	81,137,393	78,248,655
Employee benefits	20,684,675	19,827,817
Fees - physicians	6,770,191	7,207,040
Contract labor and services	22,863,275	17,562,762
Supplies and drugs	40,400,825	38,069,347
Utilities	2,010,798	2,070,342
Repairs and maintenance	8,223,436	8,717,990
Leases and rentals	764,498	752,623
Insurance	650,589	648,687
Interest	4,601,523	4,646,056
Other	4,103,786	4,051,374
Depreciation	15,343,057	16,953,152
	<u>207,554,046</u>	<u>198,755,845</u>
Total expenses		
OPERATING INCOME	<u>15,851,196</u>	<u>6,701,751</u>
NONOPERATING GAINS (LOSSES):		
Investment income, including realized gains, net	7,034,097	4,422,969
Unrealized gains (losses) on investments, net	(12,155,890)	6,719,812
Other nonoperating gains, net	424,219	1,236,001
	<u>(4,697,574)</u>	<u>12,378,782</u>
Total nonoperating gains (losses), net		
EXCESS REVENUE OVER EXPENSES BEFORE GAIN		
ATTRIBUTABLE TO NONCONTROLLING INTEREST IN SUBSIDIARY	11,153,622	19,080,533
GAIN ATTRIBUTABLE TO NONCONTROLLING INTEREST IN SUBSIDIARY	<u>(91,180)</u>	<u>(46,050)</u>
EXCESS REVENUE OVER EXPENSES	11,062,442	19,034,483
GIFTS, GRANTS AND BEQUESTS FOR THE PURCHASE OF PROPERTY AND EQUIPMENT	3,043,785	210,203
CHANGE IN INTEREST IN FOUNDATION	<u>(2,404,044)</u>	<u>--</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ <u>11,702,183</u>	<u>19,244,686</u>

See notes to consolidated financial statements

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates**

**Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Excess of revenue over expenses	\$ 11,062,442	19,034,483
Gifts, grants and bequests for the purchase of property and equipment	3,043,785	210,203
Change in interest in Foundation	<u>(2,404,044)</u>	<u>--</u>
Increase in net assets without donor restrictions	<u>11,702,183</u>	<u>19,244,686</u>
UNRESTRICTED NONCONTROLLING INTEREST:		
Paid-in-capital to noncontrolling shareholders, net	(244,957)	(49,104)
Gain attributable to noncontrolling interest in subsidiary	<u>91,180</u>	<u>46,050</u>
Decrease in unrestricted noncontrolling interest	<u>(153,777)</u>	<u>(3,054)</u>
NET ASSETS WITH DONOR RESTRICTIONS, Change in interest in Foundation	<u>(764,501)</u>	<u>5,799,659</u>
CHANGE IN NET ASSETS	10,783,905	25,041,291
NET ASSETS, beginning of year, as restated	<u>237,263,818</u>	<u>212,222,527</u>
NET ASSETS, end of year	\$ <u><u>248,047,723</u></u>	<u><u>237,263,818</u></u>

See notes to consolidated financial statements

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates**

**Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 10,783,905	25,041,291
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in interest in Foundation	3,168,545	(5,799,659)
Depreciation	15,343,057	16,953,152
Amortization of debt issuance costs	43,980	43,980
Amortization of bond premium	(405,380)	(453,870)
Amortization of recruitment and relocation advances	247,294	476,709
Loss on disposal of property and equipment	67,403	26,571
Gain on investment in affiliate	(494,622)	(1,265,572)
Gifts, grants and bequests for the purchase of property and equipment	(3,043,785)	(210,203)
Increase (decrease) in trading securities, net	5,521,056	(15,748,063)
(Increase) decrease in current assets -		
Patient receivable	(5,231,674)	(3,397,861)
Other receivables	1,270,962	(736,514)
Patient customer contracts	(1,977,730)	(731,533)
Inventories	(65,912)	(381,622)
Prepaid expenses	(545,048)	1,107,067
Increase (decrease) in current liabilities -		
Accounts payable - trade	(662,282)	1,634,050
Accounts payable - other	(795,000)	660,000
Accrued salaries, vacation and vested benefits payable	(112,043)	495,127
Accrued interest payable	(18,208)	(14,034)
Estimated third-party payor settlements	(198,033)	(125,630)
	<u>22,896,485</u>	<u>17,573,386</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment, net	(10,883,679)	(2,729,545)
Recruitment and relocation advances, net	(159,909)	(373,932)
Distributions from investment in affiliate	1,017,114	986,702
	<u>(10,026,474)</u>	<u>(2,116,775)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	--	275,730
Principal payments on long-term debt	(2,575,106)	(2,490,460)
Proceeds from gifts, grants, and bequests for the purchase of property and equipment	3,043,785	210,203
	<u>468,679</u>	<u>(2,004,527)</u>
Net cash provided by (used in) financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,338,690	13,452,084
CASH AND CASH EQUIVALENTS, beginning of year	<u>44,250,902</u>	<u>30,798,818</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>57,589,592</u>	<u>44,250,902</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 5,025,111	5,113,960

See notes to consolidated financial statements

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates**

**Notes to Consolidated Financial Statements
December 31, 2018 and 2017**

(1) Description of Organization and Summary of Significant Accounting Policies

The following is a description of the organization and summary of significant accounting policies of the North Platte, Nebraska Hospital Corporation (d/b/a Great Plains Health) and Affiliates (the Organization). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. Description of Organization and Principals of Consolidation

The financial statements include the accounts of the following entities:

- North Platte, Nebraska Hospital Corporation, d/b/a Great Plains Health (GP Health)
- Great Plains Medical Arts Building, Inc. (GPMAI)
- Great Plains Homecare Equipment, Inc. (GPHEI)
- Regency Retirement Residence of North Platte (Regency)
- North Platte Nebraska Physicians Group, LLC (NPNPG)
- Great Plains PHO, Inc. d/b/a Great Plains Health Innovation Network (GPHIN)
- Mid-Nebraska Medical Ventures, LLC (MNMV)

GP Health, a not-for-profit organization, is licensed for 116 beds and currently is staffed for and operates 80 acute care beds, 19 licensed psychiatric care beds, a home health agency, and provides various outpatient and emergency medical treatment services.

GPMAI is a not-for-profit organization whose Board of Directors is the same as GP Health. Its purpose is to acquire and hold title to property and to manage properties held. This entity was dissolved and operations were merged into GP Health in 2018.

GPHEI, a wholly-owned taxable corporation, formed during 1995, leases and sells home medical equipment to the public.

Regency is a not-for-profit organization whose Board of Directors consists of five members, all of which are appointed by GP Health. Regency is an independent living facility.

NPNPG, a limited liability company, formed during 2008, provides physician professional medical services and other programs to patients. This entity was dissolved and operations were merged into GP Health in 2018.

GPHIN is a wholly-owned taxable subsidiary organized to develop a clinically integrated network composed of hospitals, physicians and other healthcare providers. GPHIN promotes systems to organize and integrate care.

During 2016, MNMV was formed as a joint venture to acquire a physician office building (POB), obtain related financing, and operate the POB. The POB was constructed by GP Health and upon completion, sold to MNMV. GP Health has a 60% interest in MNMV requiring consolidation and recognition of a non-controlling interest.

The financial statements include the accounts of these organizations (collectively referred to here as the "Organization"). All significant intercompany accounts and transactions have been eliminated in consolidation.

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates**

**Notes to Consolidated Financial Statements
December 31, 2018 and 2017**

B. Industry Environment

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Organization is in compliance with government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Organization's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. Management

GP Health is a not-for-profit provider of healthcare services. GP Health has an agreement for consulting services with Community Hospital Consulting (CHC). GP Health has had this agreement with CHC since April 2010.

Regency is a not-for-profit independent living facility. Regency has an agreement for management services with Paradigm Senior Living, Inc. (Paradigm). Regency has had this agreement with Paradigm since October 2006.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less, excluding assets limited as to use.

F. Patient Receivables

The Organization reports patient receivables for services rendered at amounts reflecting consideration to which the Organization expects to be entitled to from third-party payors, patients and others.

The Organization also maintains a financial assistance/charity care policy as described in Note 1(R).

G. Patient Customer Contracts

Patient customer contracts represent the Organization's right to consideration for goods or services transferred to a patient, before payment is due for those goods or services, in accordance with the terms of the contract between the Organization, the patient and any third-party payors.

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates**

**Notes to Consolidated Financial Statements
December 31, 2018 and 2017**

H. Inventories

Inventories are stated at the lower of cost (first-in, first-out valuation method) or net realizable value.

I. Investments

GP Health has designated its investments as trading securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. GP Health recognizes all investment income in excess of revenue over expenses.

J. Investments Limited as to Use

Investments limited as to use include the following:

By Board for Capital Improvements – These investments are set aside by the Board of Directors for future capital improvements. The Board retains control of these investments and may at its discretion subsequently use them for other purposes.

K. Property and Equipment, Net

Property and equipment acquisitions are recorded at cost. All acquisitions over \$3,000 are capitalized. Depreciation is provided over the estimated life of each class of depreciable asset and is computed using the straight-line method based upon useful lives set forth using the general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets.

Gifts of property and equipment assets such as land, buildings or equipment are reported as support without donor restrictions, and are excluded from the excess revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of property and equipment 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 support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

The Organization's property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

L. Recruitment and Relocation Advances, Net

GP Health has entered into several agreements to recruit and relocate needed physician specialists to the community of North Platte, Nebraska. All monies advanced under these agreements will be forgiven over a one to three year period in which the physician practices in the community. Advances must be repaid with interest if the physician fails to fulfill their contract responsibilities.

M. Investment in Affiliate

GP Health is accounting for its investment in North Platte Surgery Center, LLC, a 50% owned affiliate, by the equity method of accounting, under which, GP Health's share of the net income is recognized as income in the Organization's consolidated statements of operations and added to the investment in affiliate. Contributions to the affiliate are treated as additions to, and distributions received are treated as reductions of, the investment in affiliate.

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates**

**Notes to Consolidated Financial Statements
December 31, 2018 and 2017**

N. Net Assets

The financial statements report the changes in and totals of each net asset class based on the existence or absence of donor restrictions, as described below:

Net assets without donor restrictions are those net assets not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. Net assets without donor restrictions include undesignated net assets and net assets subject to designation by the Board of Directors.

Net assets with donor restrictions are net assets subject to stipulations imposed by donors. 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.

O. Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. The gifts are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires; that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

P. Patient Care Service Revenue

Patient care service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others, including variable consideration for 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.

Q. Rental Income

GP Health is the lessor of certain office space leased under various monthly or annually noncancelable operating leases. Rental income is recorded monthly as earned and is included in other operating revenue in the consolidated statements of operations.

Regency is the lessor of residential facilities for the aged under one year noncancelable operating leases. Rental income is recorded monthly as earned and is included in other operating revenue in the consolidated statements of operations.

MNMV is the lessor of clinic space in the POB leased under various monthly or annually noncancelable operating leases. Rental income is recorded monthly as earned and is included in other operating revenue in the consolidated statements of operations.

**North Platte, Nebraska Hospital Corporation d/b/a
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**Notes to Consolidated Financial Statements
December 31, 2018 and 2017**

R. Financial Assistance/Charity Care

The Organization provides care to patients who meet certain criteria under its financial assistance/charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient care service revenue. Management's disclosure of charity care costs are described in Note 3.

The Organization is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Organization provides a variety of community health services at or below cost.

S. Functional Allocation of Expenses

The costs of providing healthcare services and supporting services activities have been summarized on the basis of natural classification in the statements of operations. Note 15 presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

T. Group Health Insurance Costs

GP Health is self-insured under its employee group health program, up to certain limits. Included in the accompanying consolidated statements of operations is a provision for premiums for excess coverage and payments for claims, including estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year end.

U. Excess of Revenue over Expenses

The consolidated statements of operations include excess of revenue over expenses as a performance indicator. Changes in net assets without donor restrictions which are excluded from the performance indicator, consistent with industry practice, include gifts and bequests for the purchase of property and equipment and change in interest in Foundation.

V. Income Taxes

GP Health and Regency are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code. GP Health and Regency have received a determination letter that it is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. The Internal Revenue Service has established standards to be met to maintain tax-exempt status.

GPHEI is a for-profit corporation that recognized no federal and state income tax expense in 2018 and 2017, respectively. GPHEI did not recognize any federal and state income tax expense in 2018 and 2017 due to operating losses incurred during the year.

GPHIN is a for-profit corporation subject to federal and state income taxes. GPHIN did not recognize any federal and state income tax expense in 2018 and 2017 due to operating losses incurred during the year.

MNMV is a limited liability company of which GP Health owns a 60% interest.

The Organization accounts for uncertainties in accounting for income tax assets and liabilities using guidance included in FASB ASC 740, *Income Taxes*. The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. At December 31, 2018 and 2017, the Organization had no uncertain tax positions accrued.

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates**

**Notes to Consolidated Financial Statements
December 31, 2018 and 2017**

W. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard is effective for the Organization's fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Organization is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

X. Change in Accounting Principle

During 2018, the Organization adopted the provisions of FASB ASU 2014-09, *Revenue from Contracts with Customers*. FASB ASU 2014-09 requires the Organization to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers.

The Organization also adopted the provisions of FASB ASU 2016-14 Not-for-Profit Entities in 2018. This ASU made several changes to accounting and financial reporting standards for not-for-profit entities related to net assets, and disclosure requirements.

See Note 19 for additional information regarding the impact of these changes in the Organization's financial statements.

Y. Reclassification

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 reporting format.

Z. Subsequent Events

The Organization considered events occurring through March 13, 2019 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Patient Care Service Revenue

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

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The Organization measures the performance obligation from admission to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Organization does not believe it is required to provide additional goods or services to the patient.

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

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

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

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services are paid based on a prospectively determined rate per day. Outpatient services are paid based on ambulatory payment classifications or fee schedule amounts. Homecare services are paid at prospectively determined rates per episode of care. Physician clinic services provided to Medicare beneficiaries are paid on fee schedule amounts. GP Health is reimbursed for some items at a tentative rate with final settlement determined after submission of annual cost reports by GP Health and audits thereof by the Medicare Administrative Contractor. GP Health's Medicare cost reports have been audited by the Medicare Administrative Contractor through December 31, 2015.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, incur a two percent reduction in Medicare payment.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are reimbursed based on a percentage rate representing the average ratio of cost to charges.

Commercial Insurance. Commercial insurance carriers, health maintenance organizations and preferred provider organizations provide payment using either prospectively determined rates per discharge, discount from established charges or prospectively determined daily rates or fee schedule amounts.

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

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Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price increased patient care service revenue by \$801,000 and \$505,000 in 2018 and 2017, respectively due to final settlements and years that are no longer subject to audits, reviews and investigations.

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

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

Patients who meet the Organization's criteria for patient financial assistance are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as patient financial assistance are not reported as patient care service revenue.

Patient care service revenue by major payor class for the years ended December 31, is presented in the following table:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 74,452,672	64,662,532
Medicaid	8,888,592	11,152,093
Commercial insurance and other	<u>137,120,983</u>	<u>126,545,995</u>
Total	<u>\$ 220,462,247</u>	<u>202,360,620</u>

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

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Patient care service revenue, by service line is as follows, as of December 31, 2018:

	<u>2018</u>	<u>2017</u>
Hospital services	\$ 191,790,632	176,797,250
Physician services	27,355,342	24,341,037
Homecare equipment services	<u>1,316,273</u>	<u>1,222,333</u>
Total	<u>\$ 220,462,247</u>	<u>202,360,620</u>

The organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the estimated amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time service is provided to the patient and the time that the patient or third-party payor pays for that service will be one year or less.

The Organization has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Organization would otherwise have recognized is one year or less in duration.

Revenue from the Medicare and Medicaid programs accounted for approximately 34% and 4%, respectively, in 2018, and 32% and 5%, respectively, in 2017, of the Organization's patient revenue. Laws and regulations governing the Medicare and Medicaid 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.

(3) Financial Assistance/Charity Care

In accordance with its mission objectives, the Organization provides free care to patients who lack financial resources to pay for the services they receive. It is the policy of the Organization not to pursue collection of amounts determined to be patient financial assistance. Accordingly, the Organization does not report these amounts in patient care service revenue. The estimated cost incurred by the Organization to provide these services to patients who are unable to pay was approximately \$5,000,000 and \$3,800,000 for the year ended December 31, 2018 and 2017, respectively. The estimated cost of these services was determined using a ratio of costs to standard charges and applying that ratio to the standard charges associated with providing charity care for the period. Standard charges associated with providing care to charity patients includes only the related charges for those patients who are financially unable to pay and qualify under the Organization's patient financial assistance/charity care policy and that do not otherwise qualify for reimbursement from a governmental program.

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(4) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated balance sheet dates, comprise the following:

	<u>2018</u>	<u>2017</u>
Financial assets:		
Cash and cash equivalents	\$ 57,589,592	44,250,902
Short-term investments	94,900,385	99,812,844
Receivables -		
Patients	29,049,474	23,817,800
Other	1,445,258	2,716,220
Patient customer contracts	6,272,544	4,294,814
Investments limited as to use	<u>35,012,988</u>	<u>35,621,585</u>
Total financial assets	224,270,241	210,514,165
Less financial assets limited as to use, By board for capital improvements	<u>35,012,988</u>	<u>35,621,585</u>
Financial assets available for general expenditure	<u>\$ 189,257,253</u>	<u>174,892,580</u>

The Board of Directors of the Organization has set aside financial assets of \$35,012,988 for future capital improvements. At the discretion of the Board Directors of the Organization, these financial assets could be made available for general expenditures.

As part of the Organization's liquidity management plan, the Organization invests cash in excess of daily requirements in short-term investments, and money market funds.

(5) Fair Value

Fair Value Hierarchy

The Organization applies FASB ASC 820 for fair value measurements of financial assets and financial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted market 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 other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly through either corroboration or observable market data.

Level 3 inputs are unobservable for the asset or liability. Therefore, unobservable inputs shall reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances.

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The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Cash and cash equivalents – The fair value of cash and cash equivalents, consisting primarily of money market funds, is classified as Level 1 as these funds are valued using quoted market prices.

Fixed income securities – Investments in fixed income securities are comprised of U.S. government treasury obligations, U.S. government agency obligations, municipal bonds, and corporate bonds and notes. U.S. government treasury obligations are classified as Level 1 if they trade with sufficient frequency and volume to enable to the Organization to obtain pricing information on an ongoing basis. The remaining fixed income securities are classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Mutual / exchange traded funds – The fair value of mutual / exchange traded funds is classified as level 1 as the market value is based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Corporate stocks – The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

For the fiscal years ended December 31, 2018 and 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The following tables present the financial instruments that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at December 31, 2018 and 2017:

		December 31, 2018			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$	17,442,829	17,442,829	--	--
Fixed income securities		42,346,000	7,236,302	35,109,698	--
Mutual / exchange traded funds		10,879,858	10,879,858	--	--
Corporate stocks -					
Domestic		46,934,244	46,934,244	--	--
International		3,469,067	3,469,067	--	--
	\$	<u>121,071,998</u>	<u>85,962,300</u>	<u>35,109,698</u>	<u>--</u>
Investments valued at net asset value:					
Alternative investments		<u>12,713,643</u>			
	\$	<u>133,785,641</u>			

		December 31, 2017			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$	40,991,093	40,991,093	--	--
Fixed income securities		44,954,644	6,784,495	38,170,149	--
Mutual / exchange traded funds		11,357,677	11,357,677	--	--
Corporate stocks -					
Domestic		38,388,227	38,388,227	--	--
International		3,970,484	3,970,484	--	--
	\$	<u>139,662,125</u>	<u>101,491,976</u>	<u>38,170,149</u>	<u>--</u>

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Investment return for the years ended December 31, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 3,208,447	2,927,917
Investment management fees	(389,367)	(384,168)
Realized gains (losses), net	4,215,017	1,879,220
Change in unrealized gains (losses)	<u>(12,155,890)</u>	<u>6,719,812</u>
Total investment return, net	<u>\$ (5,121,793)</u>	<u>11,142,781</u>

(6) Investments Valued at Net Asset Value

The following table sets forth additional disclosures of the Organization's investments whose fair value is estimated using net asset value per share (or its equivalent) as of December 31, 2018.

	<u>December 31, 2018</u>			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Opportunities funds (a)	\$ 2,713,643	4,715,000	(a)	(a)
Global credit fund (b)	<u>10,000,000</u>	<u>--</u>	Monthly	30 days
	<u>\$ 12,713,643</u>	<u>4,715,000</u>		

- (a) These funds seek to take advantage of opportunities arising from financially distressed companies. The funds in this category are subject to a 10 year lock up period. Redemptions are received through the liquidation of the underlying assets of the funds. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.
- (b) This fund seeks to earn total returns and current income while limiting volatility through diversification. To achieve this objective the funds seeks to invest in a diversified portfolio of global investments in high yield bonds, senior loans, convertibles, real estate debt securities, structured credit and emerging markets debt. The fund seeks to enhance returns and control risk by actively allocating its assets across strategies, market sectors, and issuers. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

Although the underlying investment managers use their best judgment in estimating the fair value of investments in these funds, there are inherent limitations in any estimation technique. Accordingly, the estimated net asset value may differ significantly from values that would have been used had a ready market existed for these investments, and differences could be material.

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(7) Other Receivables

The composition of other receivables at December 31, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Employee loans and advances	\$ 1,022,780	1,078,264
Employee group health plan reinsurance receivable	100,228	322,587
Enhance Health Network	70,000	--
Professional liability policy receivable	35,000	830,000
Great Plains Health Care Foundation	26,300	109,744
Nebraska Medicaid Disproportionate Share Hospital	--	164,711
Credit card and other rebate receivables	--	9,731
Other	190,950	201,183
	<u>\$ 1,445,258</u>	<u>2,716,220</u>

(8) Property and Equipment

Property and equipment as of December 31, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 8,359,523	7,908,969
Buildings and fixed equipment	178,016,569	173,373,612
Equipment and furnishings	113,539,399	113,323,879
Construction in progress	5,904,215	1,307,233
	305,819,706	295,913,693
Less - Accumulated depreciation	173,324,076	159,974,975
	<u>\$ 132,495,630</u>	<u>135,938,718</u>

Depreciation expense of \$15,343,057 and \$16,953,152 in 2018 and 2017, respectively, is included in the accompanying consolidated statements of operations.

Costs included in construction in progress as of December 31, 2018, are primarily related to the remodel and expansion of the emergency department. Estimated costs for the project are \$15 million, which will be financed through operations, donations and fundraising. Completion is expected to be in fiscal year 2019.

(9) Recruitment and Relocation

GP Health has entered into several agreements to recruit, relocate and provide income guarantees to needed physician specialists for the community of North Platte, Nebraska. All monies advanced under these agreements will be forgiven over a one to three year period in which the physician practices in the community. Advances must be repaid with interest if the physician fails to fulfill their contract responsibilities.

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The following illustrates amounts advanced under these agreements and applicable amortization expense (included in other expenses in the accompanying consolidated statements of operations) for 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Recruitment and relocation advances -		
Beginning of year	\$ 583,974	686,751
Advances	159,909	373,932
Amortization	<u>(247,294)</u>	<u>(476,709)</u>
End of year	<u>\$ 496,589</u>	<u>583,974</u>

(10) Long-Term Debt

A summary of the long-term debt at December 31, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
3.50% - 5.00% Hospital Revenue Bonds, Series 2012, serial bonds due November 2025 and term bonds due through November 2042, payable in varying annual installments on November 15, interest payable semi-annually (including unamortized premium of \$3,580,843).	\$ 98,160,842	100,751,223
Term Loan Note, interest at 4.92%, monthly installments of \$79,649 with a balloon payment of \$7,255,633, due May 1, 2026.	<u>11,129,445</u>	<u>11,519,550</u>
	109,290,287	112,270,773
Less unamortized debt issuance costs	<u>1,019,690</u>	<u>1,063,670</u>
Total long-term debt, net	<u>\$ 108,270,597</u>	<u>111,207,103</u>

On November 1, 2012, \$102,840,000 of Hospital Revenue Bonds, Series 2012, (Series 2012 Bonds) were issued by Hospital Authority No. 1 of Lincoln County (Issuer), Nebraska pursuant to the Indenture, the Loan Agreement, the 2012 Note and Mortgage between the Issuer and First National Bank of Omaha, Omaha, Nebraska (Trustee). The Series 2012 Bonds were issued at a premium of \$6,720,864. This premium is being amortized using the effective interest method over the life of the bonds. At December 31, 2018 and 2017, \$405,380 and \$453,870, respectively, of the premium was amortized and included as a reduction in interest expense for the years then ended.

The 2012 bonds are collateralized equally and ratably by a first mortgage lien on the facilities and a security interest in GP Health's accounts, inventory and equipment. The revenue bond indentures places limits on the incurrence of additional borrowings and requires that GP Health satisfy certain measures of financial performance as long as the bonds are outstanding.

On May 1, 2016, MNMV entered into a bank loan with First National Bank of Omaha totaling \$12,150,000. The proceeds of the loan were used to purchase the POB project developed and constructed by GP Health, an equity member of MNMV. The loan agreement called for disbursement of the funds in two installments. The first advance was received May 1, 2016 and totaled \$11,874,270. The second advance was received July 31, 2017 and totaled \$275,730. The loan is secured by the real and personal property of MNMV.

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The loan agreement place limits on the incurrence of additional borrowings and requires that MNMV satisfy certain measures of performance and compliance with certain covenants as described under the terms of the agreement. As of December 31, 2018, MNMV was not in compliance with the financial covenant of the loan agreement which requires MNMV to maintain a debt service coverage ratio of 1.05x or more or the distribution covenant which limits distributions to members to the extent MNMV continues to maintain compliance with the financial covenant. On March 6, 2019, First National Bank of Omaha issued correspondence to MNMV waiving the non-compliance default for the year ended December 31, 2018.

Deferred debt issuance issue costs are amortized on a straight-line basis over the period of their respective debt issue, which approximates the interest rate method. Amortization expense of \$43,980 in 2018 and 2017, respectively, is included with interest expense in the accompanying consolidated statements of operations.

Scheduled principal payments on long-term debt for the next five years are as follows:

	<u>Long-Term Debt</u>
2019	\$ 2,676,967
2020	2,826,774
2021	2,943,755
2022	3,066,841
2023	3,191,090
Thereafter	<u>91,004,017</u>
	105,709,444
Add unamortized premium	3,580,843
Less unamortized debt issuance costs	<u>(1,019,690)</u>
	<u>\$ 108,270,597</u>

(11) Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2018, are restricted primarily for a future building and service expansion projects, hospital improvements, and support for various programs. These funds are currently held by the Great Plains Health Care Foundation and are available upon request of GP Health. These funds are comprised of cash and cash equivalents, pledges and investments.

(12) Professional Liability Insurance

GP Health carries a professional liability policy (including malpractice) which provides \$1,000,000 of coverage for injuries per occurrence and \$3,000,000 aggregate coverage. GP Health qualifies under the Nebraska Hospital Medical Liability Act (the Liability Act). The Excess Liability Fund under the Liability Act, on a claims-made basis, pays claims in excess of \$500,000 for losses up to \$2,250,000 per occurrence. The statutes limit covered claims above \$2,250,000 and, in connection therewith, GP Health carries an umbrella policy which also provides an additional \$5,000,000 of professional liability coverage per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only the claims which have occurred and are reported to the insurance company while the coverage is in force. GP Health could have exposure on possible incidents that have occurred for which claims will be made in the future, should professional liability insurance not be obtained, should coverage be limited and/or not available, or should the Act change.

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Accounting principles generally accepted in the United States of America require a healthcare provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. GP Health does evaluate all incidents and claims along with prior claims experienced to determine if a liability is to be recognized. For the years ended December 31, 2018 and 2017, management determined a liability of \$35,000 and \$830,000 should be recognized for asserted or unasserted claims. In accordance with FASB ASU No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, management has included this liability in other accounts payable on the consolidated balance sheets with a corresponding receivable for insurance recoveries which is included with other receivables (Note 7).

(13) 457(b) Deferred Compensation Plan

GP Health has established a deferred compensation plan for a select group of management or highly compensated employees in accordance with Internal Revenue Code 457(b). The plan permits eligible employees to defer a portion of their salaries until future years. The deferred compensation is not available to the employees until retirement, separation from employment, death, unforeseeable emergency or attaining age 70½. The employer is the beneficial owner of all assets the employee places in the plan. The employee is fully vested in all amounts credited to his or her account.

(14) 401(k) Retirement Plan

GP Health sponsors a 401(k) Retirement Plan for its employees. The plan covers all employees who have six months of service, are age 21 or older, and have elected to participate in the plan. The plan is funded through contributions by both employees and GP Health. The employee contribution may be up to 100% of their pre-tax qualified compensation and is fully vested. Matching contributions up to 4% are made by GP Health. Effective January 1, 2014, the Organization amended the plan to provide a three-year cliff vesting period. Pension expense was \$2,288,498 and \$2,043,949 for the years ended December 31, 2018 and 2017, respectively.

(15) Functional Expenses

The table presented below illustrates the Organization's expenses by both their nature and their function for the years ended December 31, 2018 and 2017:

2018						
	Program Services			Supporting Services		Total
	Healthcare Services	Real Estate Services	Programs Subtotal	Management and General	Fundraising	
Salaries and wages	\$ 74,932,500	140,289	75,072,789	5,938,118	126,486	81,137,393
Employee benefits	19,216,409	9,680	19,226,089	1,420,746	37,840	20,684,675
Fees - physicians	6,769,897	--	6,769,897	287	7	6,770,191
Contract labor and services	18,202,573	65,276	18,267,849	4,545,128	50,298	22,863,275
Supplies and drugs	40,031,648	63,792	40,095,440	262,563	42,822	40,400,825
Utilities	1,708,727	199,970	1,908,697	101,458	643	2,010,798
Repairs and maintenance	7,645,023	25,006	7,670,029	540,716	12,691	8,223,436
Leases and rentals	680,982	71,860	752,842	10,991	665	764,498
Insurance	603,578	13,226	616,804	33,679	106	650,589
Interest	3,746,921	581,941	4,328,862	271,639	1,022	4,601,523
Other	3,042,809	176,914	3,219,723	881,471	2,592	4,103,786
Depreciation	14,011,611	604,184	14,615,795	721,922	5,340	15,343,057
	<u>\$ 190,592,678</u>	<u>1,952,138</u>	<u>192,544,816</u>	<u>14,728,718</u>	<u>280,512</u>	<u>207,554,046</u>

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	2017					
	Program Services			Supporting Services		
	Healthcare Services	Real Estate Services	Programs Subtotal	Management and General	Fundraising	Total
Salaries and wages	\$ 72,283,646	139,883	72,423,529	5,720,315	104,811	78,248,655
Employee benefits	18,449,732	9,442	18,459,174	1,338,194	30,449	19,827,817
Fees - physicians	7,163,040	--	7,163,040	44,000	--	7,207,040
Contract labor and services	13,157,353	85,917	13,243,270	4,281,232	38,260	17,562,762
Supplies and drugs	37,698,482	77,504	37,775,986	265,363	27,998	38,069,347
Utilities	1,751,186	209,692	1,960,878	108,769	695	2,070,342
Repairs and maintenance	8,140,611	28,541	8,169,152	535,632	13,206	8,717,990
Leases and rentals	663,942	71,994	735,936	15,942	745	752,623
Insurance	609,393	12,792	622,185	26,391	111	648,687
Interest	3,836,935	586,587	4,423,522	221,502	1,032	4,646,056
Other	2,732,160	274,063	3,006,223	1,037,627	7,524	4,051,374
Depreciation	15,676,254	600,331	16,276,585	670,012	6,555	16,953,152
	<u>\$ 182,162,734</u>	<u>2,096,746</u>	<u>184,259,480</u>	<u>14,264,979</u>	<u>231,386</u>	<u>198,755,845</u>

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function of the Organization. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses allocated on the basis of square footage include grounds, security, insurance, utilities and depreciation. Expenses allocated on the basis of estimates of time and effort include employee benefits and costs of the information technology department.

(16) Commitments and Contingencies

Operating Leases and Service Agreements

GP Health and GPHEI lease facility space and equipment for operations under various noncancelable operating lease agreements which expire between February 2019 and April 2023, and require varying minimum annual lease payments.

The total future minimum lease commitments at December 31, 2018 are as follows:

2019	\$	526,082
2020		465,948
2021		393,230
2022		340,185
2023		85,046

Total operating lease expense included in the consolidated statements of operations for the years ended December 31, 2018 and 2017, was approximately \$764,000 and \$753,000, respectively.

During 2017, GP Health entered into a ten-year Founding Member Master Affiliation Agreement (MAA) with The Nebraska Medical Center (TNMC). The MAA was entered into to improve patient outcomes via entering into a Master Electronic Medical Records License Agreement (MRLA). Through the MRLA, TNMC will assist GP Health in implementing and maintaining electronic medical record software licensed by Epic Systems Corp (Epic) to TNMC. The MRLA represents a hosted solution maintained by TNMC. No sublicense or license of Epic software is made available to GP Health, therefore the MRLA is treated as a service agreement by GP Health. Expenses under this agreement totaled \$6,168,613 and \$1,870,277 for the years ended December 31, 2018 and 2017, respectively. Future minimum commitments under the agreement are as follows:

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**Notes to Consolidated Financial Statements
December 31, 2018 and 2017**

<u>December 31,</u>	
2019	\$ 2,597,058
2020	3,162,112
2021	2,715,723
2022	2,730,280
2023	3,027,044
Thereafter	10,288,689

Contingencies

The Organization is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse effect on the Organization's future financial position or results from operations.

(17) Concentrations of Credit Risk

The Organization is located in North Platte, Nebraska. The Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	22%	21%
Medicaid	6	8
Commercial insurers and other	72	71
	<u>100%</u>	<u>100%</u>

Financial instruments that potentially subject the Organization to concentrations of credit risk include cash and cash equivalents and investments. Investments and cash and cash equivalents are managed within guidelines established by the Board of Directors which, as a matter of policy, limit the amounts that may be invested with one issuer and the type of investment. Management believes the risks related to its investments and cash and cash equivalents is minimal.

The Organization, at times, maintains cash deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits. Management believes the risk relating to these deposits is minimal.

(18) Related Party Transactions

Great Plains Health Care Foundation (Foundation) was established exclusively for the purpose of supporting programs and services of GP Health and other organizations that provide or support health related programs. Because GP Health does not have the authority to appoint a majority of the Board Members of the Foundation, the financial statements do not include the accounts of this organization. All funds raised, except funds required for the operations of the Foundation, are to be distributed, or held for the purpose of supporting the programs and services of GP Health, or as required to comply with the purposes specified by donors. Total net assets of the Foundation as of December 31, 2018 and 2017 were approximately \$15,124,000 and \$18,300,000, respectively.

GP Health has recognized its transfers to the Foundation and net assets of the Foundation restricted for GP Health's use as an interest in Foundation, included as an other asset, in the accompanying consolidated balance sheets. Increases and decreases in the GP Health's interest in Foundation relating to investment income and contributions are recorded as a change in interest in Foundation in the accompanying financial statements.

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**Notes to Consolidated Financial Statements
December 31, 2018 and 2017**

(19) Change in Accounting Principle

Effective January 1, 2018, the Organization adopted the provisions of FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). The core principle of ASU 2014-09 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 adoption of ASU 2014-09 resulted in changes in the presentation and disclosure of patient care service revenue, primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, the financial statements included a provision for bad debts which was related to uninsured patients as well as deductibles, co-pays and co-insurance amounts owed by patients with third-party payor coverage. Under ASU 2014-09, the estimated uncollectable amounts due from these patients are considered implicit price concessions, and are a direct reduction to patient care service revenue.

The Organization also adopted the provisions of FASB ASU 2016-14 *Not-for-Profit Entities* in 2018. ASU 2016-14 made several changes to accounting and financial reporting for not-for-profit entities, including changes to the presentation of net assets, qualitative and quantitative information of how an entity manages liquidity and availability of financial assets to meet needs for expenditures, reporting of expenses by natural classification and functional classification, as well as expanded footnote disclosures. As a result of adopting ASU 2016-14, the following changes were made to the opening balances of net assets:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
Net assets, as previously reported, December 31, 2017	\$ 226,969,031	9,407,881	--	--	236,376,912
Adoption of ASU 2016-14	<u>(226,969,031)</u>	<u>(9,407,881)</u>	<u>226,969,031</u>	<u>9,407,881</u>	<u>--</u>
Net assets as restated, December 31, 2017	<u>\$ --</u>	<u>--</u>	<u>226,969,031</u>	<u>9,407,881</u>	<u>236,376,912</u>

North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates

Exhibit 1

Consolidating Balance Sheet
December 31, 2018

	Great Plains Health	Great Plains Medical Arts Building, Inc.	Great Plains Homecare Equipment, Inc.	Regency Retirement Residence of North Platte	North Platte Nebraska Physician Group, LLC	Great Plains Health Innovation Network	Mid-Nebraska Medical Ventures, LLC	Eliminations	Consolidated
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 57,022,203	--	290,049	25,553	--	4,652	247,135	--	57,589,592
Short-term investments	94,900,385	--	--	--	--	--	--	--	94,900,385
Receivables -									
Patients	28,973,391	--	76,083	--	--	--	--	--	29,049,474
Affiliates	2,244,536	--	--	--	--	--	--	(2,244,536)	--
Other	1,444,318	--	--	--	--	--	940	--	1,445,258
Patient customer contracts	6,272,544	--	--	--	--	--	--	--	6,272,544
Inventories	5,761,554	--	205,879	--	--	--	--	--	5,967,433
Prepaid expenses	2,803,404	--	2	5,844	--	--	--	--	2,809,250
Total current assets	199,422,335	--	572,013	31,397	--	4,652	248,075	(2,244,536)	198,033,936
Investments limited as to use	35,012,988	--	--	--	--	--	--	--	35,012,988
Property and equipment, net	120,153,503	--	153,844	1,216,664	--	17,063	12,898,037	(1,943,481)	132,495,630
Other assets -									
Deferred compensation assets	3,872,268	--	--	--	--	--	--	--	3,872,268
Recruitment and relocation advances, net	496,589	--	--	--	--	--	--	--	496,589
Investment in affiliate	3,081,980	--	--	--	--	--	--	(1,500,472)	1,581,508
Interest in Foundation	9,474,062	--	--	--	--	--	--	--	9,474,062
Land held for future expansion and investment	647,594	--	--	--	--	--	--	--	647,594
Total other assets	17,572,493	--	--	--	--	--	--	(1,500,472)	16,072,021
Total assets	\$ 372,161,319	--	725,857	1,248,061	--	21,715	13,146,112	(5,688,489)	381,614,575

North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates

Exhibit 1

Consolidating Balance Sheet (Continued)
December 31, 2018

	Great Plains Health	Great Plains Medical Arts Building, Inc.	Great Plains Homecare Equipment, Inc.	Regency Retirement Residence of North Platte	North Platte Nebraska Physician Group, LLC	Great Plains Health Innovation Network	Mid-Nebraska Medical Ventures, LLC	Eliminations	Consolidated
LIABILITIES AND NET ASSETS									
Current liabilities:									
Current maturities of long-term debt	\$ 2,295,000	--	--	--	--	--	381,967	--	2,676,967
Accounts payable -									
Trade	6,590,175	--	193,562	39,660	--	70,677	265,637	--	7,159,711
Construction	1,739,477	--	--	--	--	--	--	--	1,739,477
Affiliates	--	--	50,677	2,172,978	--	20,881	--	(2,244,536)	--
Other	35,000	--	--	--	--	--	--	--	35,000
Accrued salaries, vacation and vested benefits payable	10,001,593	--	--	2,718	--	--	--	--	10,004,311
Accrued interest payable	717,700	--	--	--	--	--	--	--	717,700
Estimated third-party payor settlements	1,767,788	--	--	--	--	--	--	--	1,767,788
Total current liabilities	23,146,733	--	244,239	2,215,356	--	91,558	647,604	(2,244,536)	24,100,954
Long-term debt, net	94,927,944	--	--	--	--	--	10,665,686	--	105,593,630
Deferred compensation liability	3,872,268	--	--	--	--	--	--	--	3,872,268
Total liabilities	121,946,945	--	244,239	2,215,356	--	91,558	11,313,290	(2,244,536)	133,566,852
Commitments									
Net assets:									
Common stock and paid-in-capital	--	--	475,000	--	--	4,314,816	799,435	(5,589,251)	--
Without donor restrictions	241,570,994	--	6,618	(967,295)	--	(4,384,659)	300,258	2,145,298	238,671,214
Non-controlling interest in consolidated subsidiary	--	--	--	--	--	--	733,129	--	733,129
With donor restrictions	8,643,380	--	--	--	--	--	--	--	8,643,380
Total net assets	250,214,374	--	481,618	(967,295)	--	(69,843)	1,832,822	(3,443,953)	248,047,723
Total liabilities and net assets	\$ 372,161,319	--	725,857	1,248,061	--	21,715	13,146,112	(5,688,489)	381,614,575

**North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates**

Exhibit 2

**Consolidating Statement of Operations
For the Year Ended December 31, 2018**

	Great Plains Health	Great Plains Medical Arts Building, Inc.	Great Plains Homecare Equipment, Inc.	Regency Retirement Residence of North Platte	North Platte Nebraska Physician Group, LLC	Great Plains Health Innovation Network	Mid-Nebraska Medical Ventures, LLC	Eliminations	Consolidated
REVENUE WITHOUT DONOR RESTRICTIONS:									
Patient care service revenue	\$ 215,009,107	--	1,316,273	--	4,136,867	--	--	--	220,462,247
Other operating revenue	1,767,383	85,966	52,958	438,232	91,039	188,951	1,728,634	(1,410,168)	2,942,995
Total revenue without donor restrictions	216,776,490	85,966	1,369,231	438,232	4,227,906	188,951	1,728,634	(1,410,168)	223,405,242
EXPENSES:									
Salaries and wages	75,283,712	--	451,838	140,289	4,472,835	813,049	--	(24,330)	81,137,393
Employee benefits	19,241,608	--	113,984	9,680	1,127,301	192,102	--	--	20,684,675
Fees - physicians	5,871,335	--	--	--	902,576	--	--	(3,720)	6,770,191
Contract labor and services	22,553,011	1,800	36,156	88,977	154,585	138,438	44,599	(154,291)	22,863,275
Supplies and drugs	40,017,931	--	37,584	63,792	279,440	15,691	--	(13,613)	40,400,825
Utilities	1,780,797	(4,803)	12,637	43,294	15,160	2,234	161,479	--	2,010,798
Repairs and maintenance	7,963,432	1,236	60,229	1,016	158,886	16,090	22,754	(207)	8,223,436
Leases and rentals	1,479,883	--	59,805	38,596	338,048	28,207	33,264	(1,213,305)	764,498
Insurance	628,917	291	4,339	3,387	1,373	2,734	9,548	--	650,589
Interest	4,031,144	--	--	11,562	--	--	570,379	(11,562)	4,601,523
Other	3,257,622	12,371	588,353	37,536	27,649	53,956	127,008	(709)	4,103,786
Depreciation	14,362,889	2,402	11,777	69,642	388,719	27,314	532,140	(51,826)	15,343,057
Total expenses	196,472,281	13,297	1,376,702	507,771	7,866,572	1,289,815	1,501,171	(1,473,563)	207,554,046
OPERATING INCOME (LOSS)	20,304,209	72,669	(7,471)	(69,539)	(3,638,666)	(1,100,864)	227,463	63,395	15,851,196
NONOPERATING GAINS (LOSSES):									
Investment income, including realized gains, net	7,030,708	6,966	4,495	1	3,002	--	487	(11,562)	7,034,097
Unrealized losses on investments	(12,155,890)	--	--	--	--	--	--	--	(12,155,890)
Other nonoperating gains (losses), net	(4,173,672)	--	--	--	(42,354)	--	--	4,640,245	424,219
Total nonoperating gains (losses), net	(9,298,854)	6,966	4,495	1	(39,352)	--	487	4,628,683	(4,697,574)
EXCESS REVENUE OVER (UNDER) EXPENSES BEFORE GAIN ATTRIBUTABLE TO NONCONTROLLING INTEREST OF SUBSIDIARY									
	11,005,355	79,635	(2,976)	(69,538)	(3,678,018)	(1,100,864)	227,950	4,692,078	11,153,622
GAIN ATTRIBUTABLE TO NONCONTROLLING INTEREST OF SUBSIDIARY									
	--	--	--	--	--	--	(91,180)	--	(91,180)
EXCESS REVENUE OVER (UNDER) EXPENSES	11,005,355	79,635	(2,976)	(69,538)	(3,678,018)	(1,100,864)	136,770	4,692,078	11,062,442
DIVIDENDS PAID TO AFFILIATE	--	--	(800,000)	--	--	--	--	800,000	--
GIFTS, GRANTS AND BEQUESTS FOR THE PURCHASE OF PROPERTY AND EQUIPMENT									
	3,043,785	--	--	--	--	--	--	--	3,043,785
CHANGE IN INTEREST IN FOUNDATION	(2,404,044)	--	--	--	--	--	--	--	(2,404,044)
EQUITY TRANSFERS FROM (TO) AFFILIATE, NET	1,004,956	(1,004,956)	--	--	592,898	2,687,000	(367,436)	(2,912,462)	--
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 12,650,052	(925,321)	(802,976)	(69,538)	(3,085,120)	1,586,136	(230,666)	2,579,616	11,702,183

North Platte, Nebraska Hospital Corporation d/b/a
Great Plains Health and Affiliates

Exhibit 3

Consolidating Statement of Changes in Net Assets
For the Year Ended December 31, 2018

	Great Plains Health	Great Plains Medical Arts Building, Inc.	Great Plains Homecare Equipment, Inc.	Regency Retirement Residence of North Platte	North Platte Nebraska Physician Group, LLC	Great Plains Health Innovation Network	Mid-Nebraska Medical Ventures, LLC	Eliminations	Consolidated
NET ASSETS WITHOUT DONOR RESTRICTIONS:									
Excess revenue over (under) expense	\$ 11,005,355	79,635	(2,976)	(69,538)	(3,678,018)	(1,100,864)	136,770	4,692,078	11,062,442
Dividends paid to affiliate	--	--	(800,000)	--	--	--	--	800,000	--
Gifts, grants and bequests for the purchase of property and equipment	3,043,785	--	--	--	--	--	--	--	3,043,785
Change in interest in Foundation	(2,404,044)	--	--	--	--	--	--	--	(2,404,044)
Equity transfers from (to) affiliate, net	1,004,956	(1,004,956)	--	--	592,898	2,687,000	(367,436)	(2,912,462)	--
Change in net assets without donor restrictions	12,650,052	(925,321)	(802,976)	(69,538)	(3,085,120)	1,586,136	(230,666)	2,579,616	11,702,183
UNRESTRICTED NONCONTROLLING INTEREST:									
Paid-in-capital to noncontrolling shareholders	--	--	--	--	--	--	(244,957)	--	(244,957)
Gain attributable to noncontrolling interest of subsidiary	--	--	--	--	--	--	91,180	--	91,180
Decrease in unrestricted noncontrolling interest	--	--	--	--	--	--	(153,777)	--	(153,777)
NET ASSETS WITH DONOR RESTRICTIONS,									
Change in interest in Foundation	(764,501)	--	--	--	--	--	--	--	(764,501)
CHANGE IN NET ASSETS	11,885,551	(925,321)	(802,976)	(69,538)	(3,085,120)	1,586,136	(384,443)	2,579,616	10,783,905
NET ASSETS, beginning of year, as restated	238,328,823	925,321	1,284,594	(897,757)	3,085,120	(1,655,979)	2,217,265	(6,023,569)	237,263,818
NET ASSETS, end of year	\$ 250,214,374	--	481,618	(967,295)	--	(69,843)	1,832,822	(3,443,953)	248,047,723