

Hutchinson Regional Medical Center, Inc.

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2018 and 2017



Hutchinson Regional Medical Center, Inc.
June 30, 2018 and 2017

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Independent Auditor's Report

Board of Directors
Hutchinson Regional Medical Center, Inc.
Hutchinson, Kansas

We have audited the accompanying consolidated financial statements of Hutchinson Regional Medical Center, Inc. (Medical Center), which comprise the consolidated balance sheets as of June 30, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Emphasis of Matter

As described in *Note 17* to the financial statements, in 2018, the Medical Center adopted 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 this matter.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hutchinson Regional Medical Center, Inc. as of June 30, 2018 and 2017, and the results of its operations, the 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.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Schedule – Balance Sheet, Consolidating Schedule – Statement of Operations and Consolidating Schedule – Statement of Changes in Net Assets listed in the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits 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 or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BKD, LLP

Wichita, Kansas
October 22, 2018

Hutchinson Regional Medical Center, Inc.
Consolidated Balance Sheets
June 30, 2018 and 2017

Assets

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 23,080,570	\$ 33,079,646
Assets limited as to use, current	1,902,146	1,963,282
Funds held on deposit with the Hutchinson Regional Medical Foundation	6,930,640	6,393,550
Patient accounts receivable, net of allowance; 2018 - \$25,116,791, 2017 - \$14,157,818	31,723,444	34,031,014
Other receivables	1,853,579	1,196,667
Net investment in direct financing leases	1,191,934	1,203,475
Supplies	5,533,324	5,091,431
Prepaid expenses and other	<u>3,576,386</u>	<u>2,970,835</u>
Total current assets	<u>75,792,023</u>	<u>85,929,900</u>
Assets Limited As To Use		
Internally designated		
For capital improvements	25,002,472	23,565,115
For self-funded employee health, workers' compensation and professional liability insurance	6,499,872	5,999,555
Interests in net assets of foundations	<u>30,114,701</u>	<u>32,057,911</u>
	61,617,045	61,622,581
Less amount required to meet current obligations	<u>1,902,146</u>	<u>1,963,282</u>
	<u>59,714,899</u>	<u>59,659,299</u>
Property and Equipment, Net	<u>94,711,327</u>	<u>64,205,038</u>
Other Assets		
Net investment in direct financing leases	16,142,660	17,288,695
Long-term investments	71,641,642	84,831,645
Deposits	<u>24,465</u>	<u>24,465</u>
	<u>87,808,767</u>	<u>102,144,805</u>
Total assets	<u><u>\$ 318,027,016</u></u>	<u><u>\$ 311,939,042</u></u>

Liabilities and Net Assets

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Outstanding checks in excess of bank balance	\$ 59,566	\$ -
Current maturities of long-term debt	785,000	720,000
Current maturities of capital lease obligations	57,831	57,113
Accounts payable	9,595,958	7,346,552
Accrued expenses	9,411,792	9,012,773
Deferred revenue	1,724	2,971
Estimated amounts due to third-party payers	<u>1,992,204</u>	<u>818,437</u>
 Total current liabilities	 21,904,075	 17,957,846
 Long-term Debt	 35,485,184	 36,290,227
 Capital Lease Obligations	 <u>90,643</u>	 <u>143,769</u>
 Total liabilities	 <u>57,479,902</u>	 <u>54,391,842</u>
 Net Assets		
Without donor restrictions		
Undesignated	<u>231,728,115</u>	<u>226,814,770</u>
With donor restrictions		
Purpose restrictions	28,768,393	30,681,824
Perpetual in nature	<u>50,606</u>	<u>50,606</u>
	<u>28,818,999</u>	<u>30,732,430</u>
 Total net assets	 <u>260,547,114</u>	 <u>257,547,200</u>
 Total liabilities and net assets	 <u><u>\$ 318,027,016</u></u>	 <u><u>\$ 311,939,042</u></u>

Hutchinson Regional Medical Center, Inc.
Consolidated Statements of Operations
Years Ended June 30, 2018 and 2017

	2018	2017
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 162,674,213	\$ 161,014,143
Provision for uncollectible accounts	25,224,131	17,990,944
Net patient service revenue less provision for uncollectible accounts	137,450,082	143,023,199
Electronic health records incentive	35,491	13,385
Other	7,466,991	6,649,130
Net assets released from restriction used for operations	1,903	183,424
Total unrestricted revenues, gains and other support	144,954,467	149,869,138
Expenses and Losses		
Salaries and wages	58,131,099	56,123,391
Employee benefits	15,674,877	14,500,202
Purchased services, supplies and other	67,471,527	67,611,665
Depreciation and amortization	8,425,113	8,268,377
Income tax expense	46,000	120,518
Interest	140,719	142,711
Total expenses and losses	149,889,335	146,766,864
Operating Income (Loss)	(4,934,868)	3,102,274
Other Income (Expense)		
Investment return, net	5,640,390	8,912,583
Contributions received	335,526	295,662
Insurance recoveries	89,132	109,617
Other	(330,929)	192,476
Total other income	5,734,119	9,510,338
Excess of Revenues Over Expenses	799,251	12,612,612
Investment return - change in unrealized gains (losses) on other than trading securities	114,094	(22,673)
Net assets released from restriction used for purchase of property and equipment	4,000,000	35,574
Increase in Net Assets Without Donor Restrictions	\$ 4,913,345	\$ 12,625,513

Hutchinson Regional Medical Center, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2018 and 2017

	2018	2017
Net Assets Without Donor Restrictions		
Excess of revenues over expenses	\$ 799,251	\$ 12,612,612
Investment return - change in unrealized gains (losses) on other than trading securities	114,094	(22,673)
Net assets released from restriction used for purchase of property and equipment	4,000,000	35,574
Increase in net assets without donor restrictions	4,913,345	12,625,513
Net Assets With Donor Restrictions		
Investment return, net	3,318	-
Contributions received	4,024,702	178,004
Change in interests in net assets of foundations	(1,939,548)	3,012,438
Net assets released from restrictions used for operations	(1,903)	(183,424)
Net assets released from restrictions used for purchase of property and equipment	(4,000,000)	(35,574)
Increase (decrease) in net assets with donor restrictions	(1,913,431)	2,971,444
Change in Net Assets	2,999,914	15,596,957
Net Assets, Beginning of Year	257,547,200	241,950,243
Net Assets, End of Year	\$ 260,547,114	\$ 257,547,200

Hutchinson Regional Medical Center, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ 2,999,914	\$ 15,596,957
Items not requiring (providing) operating cash flow		
Loss on disposal of property and equipment	175,429	-
Depreciation	8,425,113	8,268,377
Amortization of bond issuance costs and bond premium	(20,043)	11,196
Provision for uncollectible accounts	25,224,131	17,990,944
Restricted contributions and investment income	(4,028,020)	(167,743)
Net assets released from restriction used for purchase of property and equipment	(4,000,000)	(35,574)
Net realized and unrealized gains on trading securities	(3,440,822)	(6,794,429)
Net realized and unrealized (gains) losses on investments other than trading securities	(114,094)	22,673
Change in interests in net assets of foundations	1,939,548	(3,012,438)
Changes in		
Patient accounts receivable	(22,916,561)	(19,738,567)
Other receivables	(656,912)	252,229
Supplies	(441,893)	(800,216)
Prepaid expenses and other	(605,551)	(111,911)
Estimated amounts due from and to third-party payers	1,173,767	(52,437)
Accounts payable	1,215,643	549,927
Accrued expenses	399,019	315,655
Other liabilities	(1,247)	(5,484)
	5,327,421	12,289,159
Investing Activities		
Purchase of investments	(1,937,674)	(20,233,886)
Proceeds from disposition of investments	16,748,581	35,690
Change in funds held on deposit with the Hutchinson Regional Medical Foundation	(537,090)	(747,968)
Purchase of property and equipment	(38,203,704)	(16,726,525)
Proceeds from disposal of property and equipment	130,636	-
Principal payments received on leases	1,197,521	1,193,102
Direct financing leases funded	(42,170)	(387,154)
Proceeds from disposition of leased assets	2,225	18,687
	(22,641,675)	(36,848,054)

Hutchinson Regional Medical Center, Inc.
Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Financing Activities		
Outstanding checks in excess of bank balance	\$ 59,566	\$ -
Proceeds from issuance of long-term debt	-	43,443,028
Proceeds from restricted contributions and investment income	4,028,020	167,743
Principal payments on long-term debt	(720,000)	(12,145,087)
Principal payments on capital lease obligations	(52,408)	(59,388)
Bond issuance costs paid	-	(421,593)
Net assets released from restrictions used for purchase of property and equipment	4,000,000	35,574
Net cash provided by financing activities	7,315,178	31,020,277
Increase (Decrease) in Cash and Cash Equivalents	(9,999,076)	6,461,382
Cash and Cash Equivalents, Beginning of Year	33,079,646	26,618,264
Cash and Cash Equivalents, End of Year	\$ 23,080,570	\$ 33,079,646
Supplemental Cash Flows Information		
Purchases of property and equipment in accounts payable	\$ 2,618,536	\$ 1,584,773
Interest paid (net of amount capitalized)	\$ 160,762	\$ 131,515
Income taxes paid	\$ 240,000	\$ 126,728

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Hutchinson Regional Medical Center, Inc. (Medical Center) is a Kansas not-for-profit membership corporation organized for the purpose of owning and operating a health care facility located in Hutchinson, Kansas. The Medical Center is the sole member or sole shareholder of the following corporations:

Not-for-profit

Horizons Mental Health Center, Inc. (HMHC)
Main Line, Inc. (Main Line)
Hospice of Reno County, Inc. (HoRC)
The Living Center, Inc. (TLC)

For profit

Hutchinson Health Care Services, Inc. (HHCSI)

The Living Center, Inc. ceased operations in November 2016.

Hutchinson Regional Medical Foundation (Foundation), a related party, is a not-for-profit organization whose mission and principal activities are to benefit and support the Medical Center and its not-for-profit, tax-exempt affiliates. Affiliates of the Medical Center that qualify to receive funding are HMHC and HoRC. The Foundation's revenues and other support are derived principally from donor contributions and investment income.

Principles of Consolidation

The consolidated financial statements of Hutchinson Regional Medical Center, Inc. (Healthcare System) include the accounts of the Medical Center and its wholly-owned or controlled corporate entities. All of the corporate entities in the Healthcare System were organized under the laws of the State of Kansas and are under common control and management. Significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Cash and Cash Equivalents

The Healthcare System considers all liquid investments with original maturities of three months or less to be cash equivalents, except for assets limited as to use by either Board designation or other arrangements. At June 30, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At June 30, 2018, the Healthcare System's cash accounts, including assets limited as to use by either Board designation or other arrangements, exceeded federally insured limits by approximately \$27,903,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expense.

Funds held on deposit are managed by the Foundation in a pooled investment account in order to maximize investment returns. The Foundation has agreed to pay interest on these funds at the Foundation's average rate of return on its pooled investment portfolio. The funds are due on demand without any limitations on withdrawals. Interest in the Foundation investment pool is valued based on estimates of the net asset value of the investment pool as provided by the Foundation.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of operations and changes in net assets as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited As To Use

Assets limited as to use include (1) assets set aside by the Board of Directors (Board) for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes, (2) assets set aside by the Board under self-insurance arrangements for employee health, workers' compensation and professional liability insurance, and (3) beneficial interest in net assets of the Foundation and Hutchinson Community Foundation (HCF). Amounts required to meet current liabilities of the Healthcare System are included in current assets.

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Healthcare System analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Healthcare System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers 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 Healthcare System records a significant provision for uncollectible accounts 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 or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Healthcare System's allowance for doubtful accounts for self-pay patients was 75% of self-pay accounts receivable at June 30, 2018, and 58% of self-pay accounts receivable at June 30, 2017. In addition, the Healthcare System's write-offs were approximately \$14,500,000 and \$16,400,000 for the years ended June 30, 2018 and 2017, respectively.

Supplies

The Healthcare System states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	4-20 years
Buildings	5-40 years
Equipment	3-15 years
Leasehold improvements	4-12 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

The Healthcare System capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	<u>2018</u>	<u>2017</u>
Total interest expense incurred on borrowings for project	\$ 1,640,516	\$ 815,118
Interest income from investment of proceeds of borrowings for project	<u>(44,551)</u>	<u>(27,702)</u>
Net interest cost capitalized	<u>\$ 1,595,965</u>	<u>\$ 787,416</u>
Interest capitalized	\$ 1,595,965	\$ 787,416
Interest charged to expense	<u>140,719</u>	<u>142,711</u>
Total interest incurred	<u>\$ 1,736,684</u>	<u>\$ 930,127</u>

Long-lived Asset Impairment

The Healthcare System evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized for the years ended June 30, 2018 and 2017.

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Net Investment in Direct Financing Leases

Main Line leases substantially all of its assets to local physician groups or other related health care entities. It has also constructed buildings and acquired equipment, most which are leased. The majority of the leases are accounted for as direct financing leases and are based upon the original cost of the asset.

Net investment in direct financing leases are reported at their outstanding unpaid principal balances. Interest income is accrued on the unpaid principal balance. Main Line charges off leases when collection of interest or principal becomes doubtful. There were no leases charged off during the years ended June 30, 2018 and 2017.

Interests in Net Assets of Foundations

The Healthcare System and the Foundation are financially interrelated organizations. The Foundation seeks private support for and holds net assets on behalf of the Healthcare System. The Healthcare System accounts for its interest in the net assets of the Foundation (Interest) in a manner similar to the equity method. Changes in the Interest are included in change in net assets. Transfers of assets between the Foundation and the Healthcare System are recognized as increases or decreases in the Interest.

The Healthcare System is also the beneficiary of funds held by HCF. The Healthcare System recognizes as an asset its interest in the net assets held by HCF for the benefit of the Healthcare System and adjusts this interest for changes in the net assets held by HCF occurring during the reporting period.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Healthcare System has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Healthcare System in perpetuity.

Net Patient Service Revenue

The Healthcare System has agreements with third-party payers that provide for payments to the Healthcare System at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Charity Care

The Healthcare System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Healthcare System does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Healthcare System's direct and indirect costs for services and supplies furnished under the Healthcare System's charity care policy totaled approximately \$848,000 and \$801,000 in 2018 and 2017, respectively. Costs were calculated using the overall cost-to-charge ratio from the June 30, 2017 and 2016, filed Medicare cost reports, respectively. The June 30, 2018, Medicare cost report was not yet filed as of the date the consolidated financial statements were issued.

County Tax Support

HMHC receives tax support from a portion of property taxes assessed and levied by Barber, Harper, Pratt, Reno and Kingman counties in Kansas. The funds were used to support operations. County tax revenue is recognized in the period in which the funds are received from the various counties and is included in unrestricted revenues, gains and other support as other revenue in the accompanying consolidated statements of operations.

Contributions

Gifts received with donor stipulations are reported as changes in net assets with donor restrictions. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified and reported as an increase in net assets without donor restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Self-insurance

The Healthcare System self-insures its medical and dental benefits for all eligible employees and dependents and is funded by both employer and employee contributions. The Healthcare System contracts with third-party administrators to provide claims management services. The Healthcare System purchases third-party insurance coverage for certain excess claims and accrues a liability for settling reported and unreported claims as of the balance sheet date.

The Healthcare System also self-insures a portion of its workers' compensation and professional liability claims risk and accrues a liability for the estimated cost of settling all reported and unreported claims as of the balance sheet date. The Healthcare System contracts with third-party administrators to provide claims management services. The Healthcare System has commercial stop-loss coverage through third-party insurance companies which provides additional coverage for workers' compensation and professional liability claims.

Hutchinson Regional Medical Center, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

As a requirement for being self-funded for workers' compensation in the State of Kansas, the Healthcare System has specifically designated a letter of credit of \$2,209,000 and \$2,310,000 in 2018 and 2017, respectively, by naming the Kansas Department of Labor – Division of Workers' Compensation as the beneficiary. There have been no draws against the letter of credit to date.

Income Taxes

The Medical Center and its not-for-profit affiliates have been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Healthcare System is subject to federal income tax on any unrelated business taxable income. HHCSI is a taxable corporation which pays taxes at prevailing corporate rates.

The Healthcare System files tax returns in the U.S. federal jurisdiction.

Excess of Revenues Over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Healthcare System continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Healthcare System recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

The Healthcare System has recorded revenue of \$35,491 and \$13,385 for 2018 and 2017, respectively, which is included in electronic health records incentive within unrestricted revenues, gains and other support in the consolidated statements of operations.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Net Patient Service Revenue

The Healthcare System recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Healthcare System recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Healthcare System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Healthcare System records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the consolidated statements of operations as a component of net patient service revenue.

The Healthcare System has agreements with third-party payers that provide for payments to the Healthcare System at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered 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. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. The Healthcare System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Healthcare System and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis.

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

The Kansas Medicaid plan includes provisions for a provider assessment program. Under that program, all hospitals, other than critical access hospitals, pay an assessment. The program then distributes the assessments and additional federal monies to Kansas Medicaid providers. Assessments incurred under the program are included in purchased services, supplies and other in the accompanying consolidated statements of operations. Distributions received from the program are included in net patient service revenue in the accompanying consolidated statements of operations.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Healthcare System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Healthcare System under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended June 30, 2018 and 2017, respectively, was approximately:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 71,850,027	\$ 70,997,212
Medicaid	12,728,107	19,461,551
Other third-party payers	55,229,224	52,322,002
Self-pay	<u>22,866,855</u>	<u>18,233,378</u>
Total	<u>\$ 162,674,213</u>	<u>\$ 161,014,143</u>

Note 3: Concentration of Credit Risk

Approximately \$27,903,000 of the Healthcare System's bank deposits were in excess of FDIC insurance limits as of June 30, 2018. The Healthcare System also invests funds in repurchase agreements and money market accounts with various banks which are generally collateralized by or invested in U.S. government or other highly liquid securities. The total of these other liquid asset investments was approximately \$4,321,000 as of June 30, 2018. While not insured or guaranteed by the U.S. government, management believes the credit risk related to these other liquid asset investments is minimal.

Main Line's direct financing leases are all either directly with Hutchinson Clinic or indirectly with companies majority-owned by Hutchinson Clinic.

Hutchinson Regional Medical Center, Inc.
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The Healthcare System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at June 30, 2018 and 2017, is:

	2018	2017
Medicare	41%	54%
Medicaid	2%	2%
Commercial	11%	9%
Blue Cross	9%	9%
Private pay	37%	26%
	<u>100%</u>	<u>100%</u>

Note 4: Investments and Investment Return

Assets Limited As To Use

Assets limited as to use at June 30 include:

	2018	2017
Internally Designated for Capital Improvements		
Money market accounts	\$ 701,939	\$ 492,359
Equity investments		
Common stock	270,418	181,749
Mutual funds	13,706,562	12,366,714
International mutual funds	2,281,757	2,684,702
Fixed income investments		
Mortgage	276,940	143,180
Treasury and agencies	580,490	785,997
Asset-backed	374,971	402,254
Municipal bonds	83,934	155,697
Preferred stock	49,713	-
International bonds	346,443	330,335
Tax-exempt general obligations	29,986	30,544
Taxable high yield	153,237	-
Bond mutual funds	3,780,272	3,822,074
Corporate bonds	1,331,606	1,422,687
Alternative investments (mutual funds)		
Hedge mutual funds	499,517	447,575
Infrastructure mutual funds	255,700	219,780
Traded real estate mutual funds	87,102	79,468
Alternative mutual funds	191,885	-
	<u>\$ 25,002,472</u>	<u>\$ 23,565,115</u>

Hutchinson Regional Medical Center, Inc.
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	2018	2017
Internally Designated for Self-Funded Employee Health, Workers' Compensation and Professional Liability Insurance		
Money market accounts	\$ 1,768,037	\$ 1,312,331
Equity investments		
Mutual funds	37,844	-
Fixed income investments		
Treasury and agencies	4,190,639	4,660,138
Certificates of deposit	503,352	-
Bond mutual funds	-	27,086
	<u>\$ 6,499,872</u>	<u>\$ 5,999,555</u>

Interests in Net Assets of Foundations

Hutchinson Regional Medical Foundation

The Foundation was organized as a separate not-for-profit corporation in 1979, dedicated to the support of the Medical Center and its not-for-profit affiliates. The Medical Center's two predecessor operating entities transferred their interest as beneficiaries in certain estates to the Foundation in 1979. The Foundation's operations are managed by a Board of Directors (separate from the Board of Directors of the Medical Center) comprised of former board members of the Medical Center and its not-for-profit affiliates.

The following is a summary of the assets, liabilities, net assets, revenues, expenses, and changes in net assets of the Foundation as of June 30, 2018 and 2017:

	2018	2017
Cash and investments	\$ 35,889,402	\$ 37,418,826
Other assets	5,931	5,358
	<u>\$ 35,895,333</u>	<u>\$ 37,424,184</u>
Accounts payable	\$ 771	\$ 2,280
Due to related party	61,292	38,671
Assets held under agency agreement	7,160,060	6,770,475
Net assets		
Without donor restrictions	26,582,514	28,762,301
With donor restrictions - purpose restrictions	2,061,446	1,821,207
With donor restrictions - perpetual in nature	29,250	29,250
	<u>\$ 35,895,333</u>	<u>\$ 37,424,184</u>

Hutchinson Regional Medical Center, Inc.
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	<u>2018</u>	<u>2017</u>
Revenues, Gains and Other Support		
Contributions	\$ -	\$ 46,883
Net investment return	1,731,859	767,006
Net change in unrealized gains on investments	244,358	2,260,147
Income from mineral interests	26,123	26,570
	<u>2,002,340</u>	<u>3,100,606</u>
Expenses and Losses		
Other	4,202,260	390,541
	<u>4,202,260</u>	<u>390,541</u>
Other Changes	20,133	197,375
Change in Net Assets Without Donor Restrictions	(2,179,787)	2,907,440
Change in Net Assets With Donor Restrictions	240,239	104,998
Change in Net Assets	<u>\$ (1,939,548)</u>	<u>\$ 3,012,438</u>

Hutchinson Community Foundation

HoRC transferred assets to HCF to establish the Hospice of Reno County Fund (Fund) and designated HoRC as the beneficiary of the Fund. HCF invests the assets and allocates investment earnings and administration fees to the Fund. HoRC controls any distributions from the Fund as directed by the Board of Directors. The net assets of the Fund at June 30, 2018 and 2017, were \$1,441,491 and \$1,445,153, respectively, and are included in interests in net assets of foundations in the accompanying consolidated balance sheets. The change in the net assets of the Fund for the years ended June 30, 2018 and 2017, was a decrease of \$3,662 and an increase of \$183,048, respectively, and is included in other income (loss) as other in the consolidated statements of operations.

Hutchinson Regional Medical Center, Inc.
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Long-term Investments

Long-term investments at June 30 include:

	2018	2017
Money market accounts	\$ 5,524,827	\$ 17,488,428
Equity investments		
Common stock	3,934,455	3,801,441
International common stock	-	278,192
Mutual funds	24,845,091	23,631,532
International mutual funds	6,262,471	7,641,584
Fixed income investments		
Mortgage	534,139	408,353
Treasury and agencies	11,783,449	9,570,863
Asset-backed	488,884	526,270
Municipal bonds	122,935	235,748
Preferred stock	121,179	-
International bonds	684,775	123,166
Tax-exempt general obligations	39,981	40,726
Taxable high yield funds	348,012	-
Bond mutual funds	6,910,962	8,230,389
Corporate bonds	6,196,600	6,570,357
Government bonds	149,705	3,570,334
Alternative investments (mutual funds)		
Hedge mutual funds	1,218,134	1,162,202
Infrastructure mutual funds	623,301	563,558
Traded real estate mutual funds	212,401	202,773
Alternative mutual funds	806,882	-
Investment in HASC	20,000	20,000
Investment in Bladon	621,142	621,142
Investment in VHA	192,317	144,587
	\$ 71,641,642	\$ 84,831,645

The Medical Center has a 20% interest in Hutchinson Ambulatory Surgical Center LLC (HASC), a 13.30% interest in Bladon Dialysis, LLC (Bladon), and preferred stock of Voluntary Hospitals of America, Inc. (VHA). The Medical Center accounts for its investment in HASC and Bladon under the cost method. The VHA preferred stock will be redeemed by VHA in August 2019 and is carried at its estimated net present value as of June 30, 2018 and 2017, respectively.

The surgical facility's building and equipment are leased from Main Line (see *Note 6*). The net investment in the two leases is \$802,832 and \$990,981 at June 30, 2018 and 2017, respectively. Leasing income for these two leases was \$67,357 and \$80,927 for the years ended June 30, 2018 and 2017, respectively.

Hutchinson Regional Medical Center, Inc.
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Investment Return, Net

Total investment return, net is comprised of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 2,202,886	\$ 2,118,154
Realized and unrealized gains on trading securities	3,440,822	6,794,429
Realized and unrealized gains (losses) on investments other than trading securities	<u>114,094</u>	<u>(22,673)</u>
	<u>\$ 5,757,802</u>	<u>\$ 8,889,910</u>

The following table presents the Healthcare System's investments that represent 5% or more of the total investments (assets limited as to use and long-term investments) noted above:

	<u>2018</u>	<u>2017</u>
Investments at Fair Value		
iShares Core S&P 500 ETF	\$ 5,584,419	\$ 4,671,525

Note 5: Property and Equipment

Property and equipment at June 30 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,839,225	\$ 1,839,225
Land improvements	4,825,431	4,817,405
Buildings	74,769,796	74,286,223
Equipment	138,133,927	134,301,636
Leasehold improvements	<u>1,579,703</u>	<u>440,208</u>
	221,148,082	215,684,697
Less accumulated depreciation	<u>172,192,747</u>	<u>164,816,175</u>
	48,955,335	50,868,522
Construction in progress	<u>45,755,992</u>	<u>13,336,516</u>
Property and equipment, net	<u>\$ 94,711,327</u>	<u>\$ 64,205,038</u>

Construction in progress at June 30, 2018, consists primarily of costs incurred to date to remodel the intensive care unit (ICU), upgrade the emergency power system, and replace and upgrade various information technology hardware and software at the Medical Center. Contracts of approximately \$27,371,000 exist for those projects. At June 30, 2018, the remaining commitments on these contracts was approximately \$2,826,000. Commitments will be paid for with proceeds from the 2016 Revenue Bonds.

Hutchinson Regional Medical Center, Inc.
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Note 6: Net Investment in Direct Financing Leases

The master facilities lease entered into during 1998 with Hutchinson Clinic expires June 30, 2028. The lessee may extend the lease for five years beyond any expiration date. The lessee may also purchase the building at fair value at any time. In November 2005, a supplement to the master facilities lease was executed. The supplement lease covers a medical office building completed in March 2006 and expires on March 1, 2036.

The building lease with the ambulatory surgery center expires March 31, 2021. The lessee may extend the lease for five years beyond any expiration date. The lessee may also purchase the building at fair value at any time.

The master equipment lease entered into during 1998 with Hutchinson Clinic expired June 30, 2003. The lessee has exercised options to extend the lease for an additional five-year term with the current lease expiring on December 31, 2018. The lessee may also purchase the leased equipment at fair value at any time.

The master equipment lease with the ambulatory surgery center expired December 31, 2013. The lessee has exercised its option to extend the lease for another five years with the current lease expiring December 31, 2018. The lessee may also purchase the leased equipment at fair value at any time. Main Line is required to provide an allowance to the lessee for additional equipment purchased as the lessee desires, not to exceed \$200,000 per year for a period not to exceed five years, unless the parties shall otherwise agree, for the purpose of purchasing or otherwise acquiring such additional equipment to be leased to the ambulatory surgery center pursuant to the terms and conditions of the lease.

Monthly payments are adjusted to reflect amounts expended by Main Line for building improvements and equipment acquisitions after inception of the leases. Main Line's net investment in direct financing leases that was used for new building construction, building improvements and equipment acquisitions added to the property subject to these leases, increased by \$42,170 and \$387,154, respectively, during 2018 and 2017.

The following lists the components of the net investment in direct financing leases:

	2018	2017
Total minimum lease payments to be received	\$ 25,303,377	\$ 27,717,914
Unguaranteed equipment residual values	26,364	44,904
Unearned leasing income	<u>(7,995,147)</u>	<u>(9,270,648)</u>
	17,334,594	18,492,170
Less current maturities	<u>1,191,934</u>	<u>1,203,475</u>
Net investment, excluding current maturities	<u><u>\$ 16,142,660</u></u>	<u><u>\$ 17,288,695</u></u>

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Minimum lease payments to be received during future fiscal years are as follows:

2019	\$ 2,352,925
2020	2,364,656
2021	2,356,218
2022	2,312,503
2023	2,119,267
Thereafter	<u>13,797,808</u>
	<u><u>\$ 25,303,377</u></u>

Note 7: Net Investment in Leased Rental Property

Main Line owns an office building located in Hutchinson, Kansas, which is leased to various businesses under operating leases expiring on various dates through 2036. Main Line's net investment in leased rental property is included in *Note 5*.

Main Line's rental income for the years ended June 30, 2018 and 2017, was \$496,409 and \$494,513, respectively, and is included in unrestricted revenues, gains and other support as other in the accompanying consolidated statements of operations. Minimum lease payments to be received during future fiscal years are as follows:

2019	\$ 748,368
2020	643,020
2021	596,364
2022	504,015
2023	488,388
Thereafter	<u>5,212,378</u>
	<u><u>\$ 8,192,533</u></u>

Office space is leased to HMHC and HoRC, both related entities to Main Line through common ownership. Minimum lease payments to be received from HMHC and HoRC during future fiscal years through October 2037 total \$6,637,069.

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Note 8: Long-term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations are summarized as follows:

	2018	2017
Series 2016 Revenue Bonds (A)	\$ 35,800,000	\$ 36,520,000
Capital lease obligations (B)	148,474	200,882
	35,948,474	36,720,882
Add: Unamortized bond premium	866,108	903,029
Less: Unamortized bond issuance costs	(395,924)	(412,802)
Less: Current maturities	(842,831)	(777,113)
	\$ 35,575,827	\$ 36,433,996

- (A) In December 2016, the Medical Center issued Series 2016 Hospital Facilities Revenue Bonds in the amount of \$36,520,000. Principal is payable annually and interest is payable semiannually through 2042. The bonds bear interest at 4% until December 2022, and 5% thereafter until maturity.

The loan agreement contains various restrictive covenants, including, but not limited to, a minimum required level of days cash on hand, a minimum required debt service ratio and restrictions on incurrence of additional debt.

- (B) At a rate of imputed interest at 1.25% due through 2021; collateralized by property and equipment. Property and equipment include the following property under capital leases:

	2018	2017
Equipment	\$ 287,042	\$ 268,042
Less accumulated depreciation	45,953	26,804
	\$ 241,089	\$ 241,238

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Scheduled principal repayments on long-term debt and payments on capital lease obligations for the next five years and thereafter are as follows:

	Long-term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2019	\$ 785,000	\$ 59,388
2020	815,000	59,388
2021	880,000	32,228
2022	940,000	-
2023	980,000	-
Thereafter	<u>31,400,000</u>	<u>-</u>
	<u><u>\$ 35,800,000</u></u>	151,004
Less amount representing interest		<u>2,530</u>
Present value of future minimum lease payments		148,474
Less current maturities		<u>57,831</u>
Noncurrent portion		<u><u>\$ 90,643</u></u>

Note 9: Medical Malpractice Claims

The Healthcare System is self-insured for the first \$200,000 per occurrence and \$600,000 in aggregate of medical malpractice risks. The Healthcare System is further covered by the Kansas Health Care Stabilization Fund for claims in excess of the self-insured professional liability plan limits up to \$800,000 pursuant to any one judgment or settlement against it for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy or plan year in the amount of \$2,400,000. The Healthcare System purchases commercial insurance coverage which provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$20,000,000 per occurrence with an aggregate amount in any policy year of \$20,000,000. All coverage is on a claims made basis. Losses from asserted and unasserted claims identified under the Medical Center's incident reporting system are accrued based on estimates that incorporate the Medical Center's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that the Medical Center's estimate of losses will change by a material amount in the near term.

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The Healthcare System has established an agency account at a local bank to fund expected future malpractice losses and claims expenses. The agency account is funded based on the findings of an actuary. The balance of the agency accounts, which is included in assets limited as to use, was \$1,670,054 and \$1,666,792 at June 30, 2018 and 2017, respectively. The Healthcare System has included in accrued liabilities an accrual of \$443,000 and \$400,000 at June 30, 2018 and 2017, respectively, for the estimated present value of expected future malpractice losses and claims expenses.

Note 10: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods.

	2018	2017
Subject to expenditure for specified purpose		
As directed by the Foundation	\$ 28,673,210	\$ 30,612,758
For Hospice of Reno County services	95,183	69,066
	\$ 28,768,393	\$ 30,681,824
	2018	2017
Not subject to appropriation or expenditure		
Investments to be held in perpetuity, the income is unrestricted	\$ 50,606	\$ 50,606

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.

	2018	2017
Purpose restrictions accomplished		
Hospice of Reno County services	\$ 1,903	\$ 51,255
Purchase of equipment	4,000,000	35,574
	\$ 4,001,903	\$ 86,829

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Note 11: Net Assets Without Donor Restrictions

The Healthcare System's governing board has designated, from net assets without donor restrictions, net assets for the following purposes as of June 30:

	<u>2018</u>	<u>2017</u>
Capital improvements	\$ 25,002,472	\$ 23,565,115
Self-funded employee health, workers' compensation and professional liability insurance	<u>8,402,018</u>	<u>7,962,837</u>
	<u>\$ 33,404,490</u>	<u>\$ 31,527,952</u>

Note 12: Liquidity and Availability

The Healthcare System's financial assets available within one year of the balance sheet date for general expenditure are:

	<u>2018</u>	<u>2017</u>
Financial assets at year end		
Cash and cash equivalents	\$ 25,002,472	\$ 23,565,115
Assets limited as to use	61,617,045	61,622,581
Funds held on deposit with the Hutchinson Regional Medical Foundation	6,930,640	6,393,550
Patient accounts receivable, net	31,723,444	34,031,014
Other receivables	1,853,579	1,196,667
Net investment in direct financing leases	17,334,594	18,492,170
Interests in net assets of foundations	30,114,701	32,057,911
Long-term investments	71,641,642	84,831,645
Deposits	<u>24,465</u>	<u>24,465</u>
Total financial assets	<u>246,242,582</u>	<u>262,215,118</u>
Less amounts not available to be used within one year		
Board designated with liquidity horizons greater than one year	31,502,344	29,564,670
Net investment in direct financing leases	16,142,660	17,288,695
Interests in net assets of foundations	30,114,701	32,057,911
Long-term investments	71,641,642	84,831,645
Deposits	<u>24,465</u>	<u>24,465</u>
Financial assets not available to be used within one year	<u>149,425,812</u>	<u>163,767,386</u>
Financial assets available to meet general expenditures within one year	<u>\$ 96,816,770</u>	<u>\$ 98,447,732</u>

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The Healthcare System has certain board-designated limited use assets for future capital improvements and self-funded employee health, workers' compensation and professional liability insurance. These assets limited to use, which are more fully described in *Notes 1* and *4*, are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

Note 13: Functional Expenses

The Healthcare System provides health care and mental health services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, mental health services, and general and administrative functional expense classifications based on the department in which the expense was incurred. The following schedule presents the natural classification of expenses by function as follows:

	2018				
	Health Care Services	Mental Health Services	General and Administrative	Eliminations	Total
Salaries and wages	\$ 36,619,656	\$ 6,866,201	\$ 14,645,242	\$ -	\$ 58,131,099
Employee benefits	9,277,557	1,456,602	4,940,718	-	15,674,877
Purchased services, supplies and other	46,123,329	865,171	20,772,175	(289,148)	67,471,527
Depreciation and amortization	5,589,985	71,238	2,763,890	-	8,425,113
Income tax expense	46,000	-	-	-	46,000
Interest	99,561	-	41,158	-	140,719
	<u>\$ 97,756,088</u>	<u>\$ 9,259,212</u>	<u>\$ 43,163,183</u>	<u>\$ (289,148)</u>	<u>\$ 149,889,335</u>
	2017				
	Health Care Services	Mental Health Services	General and Administrative	Eliminations	Total
Salaries and wages	\$ 34,701,662	\$ 6,661,841	\$ 14,759,888	\$ -	\$ 56,123,391
Employee benefits	8,769,327	1,488,055	4,242,820	-	14,500,202
Purchased services, supplies and other	46,597,971	743,561	20,567,317	(297,184)	67,611,665
Depreciation and amortization	5,412,777	66,656	2,788,944	-	8,268,377
Income tax expense	120,518	-	-	-	120,518
Interest	102,361	-	40,350	-	142,711
	<u>\$ 95,704,616</u>	<u>\$ 8,960,113</u>	<u>\$ 42,399,319</u>	<u>\$ (297,184)</u>	<u>\$ 146,766,864</u>

Hutchinson Regional Medical Center, Inc.
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Note 14: Pension Plan

The Healthcare System has a defined contribution pension plan covering substantially all full-time employees who have completed one year of service. Annual contributions to the plan are based on a percentage of eligible employee compensation. Pension expense was \$2,760,068 and \$2,023,016 for 2018 and 2017, respectively.

Note 15: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets.

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017.

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	June 30, 2018			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts	\$ 701,939	\$ 701,939	\$ -	\$ -
Equity investments				
Common stock	270,418	270,418		
Mutual funds	13,706,562	13,706,562	-	-
International mutual funds	2,281,757	2,281,757	-	-
Fixed income investments				
Mortgage	276,940	276,940	-	-
Treasury and agencies	580,490	-	580,490	-
Asset-backed	374,971	-	374,971	-
Municipal bonds	83,934	-	83,934	-
Preferred stock	49,713	49,713	-	-
International bonds	346,443	346,443	-	-
Tax-exempt obligations	29,986	29,986	-	-
Taxable high yield	153,237	153,237	-	-
Bond mutual funds	3,780,272	3,780,272	-	-
Corporate bonds	1,331,606	1,331,606	-	-
Alternative investments (mutual funds)				
Hedge mutual funds	499,517	499,517	-	-
Infrastructure mutual funds	255,700	255,700	-	-
Traded real estate mutual funds	87,102	87,102	-	-
Alternative mutual funds	191,885	191,885	-	-
Total assets limited as to use for capital improvements	25,002,472	23,963,077	1,039,395	-
Money market accounts	1,768,037	1,768,037	-	-
Equity investments				
Mutual funds	37,844	37,844	-	-
Fixed income investments				
Treasury and agencies	4,190,639	-	4,190,639	-
Certificates of deposit	503,352	-	503,352	-
Bond mutual funds	-	-	-	-
Total assets limited as to use for self-funded employee health, workers' compensation and professional liability insurance	6,499,872	1,805,881	4,693,991	-
Interest in net assets of the Foundation	28,673,210	-	28,673,210	-
Interest in net assets of the HCF	1,441,491	-	1,441,491	-

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	June 30, 2018			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts	\$ 5,524,827	\$ 5,524,827	\$ -	\$ -
Equity investments				
Common stock	3,934,455	3,934,455	-	-
Mutual funds	24,845,091	24,845,091	-	-
International mutual funds	6,262,471	6,262,471	-	-
Fixed income investments				
Mortgage	534,139	534,139	-	-
Treasury and agencies	11,783,449	-	11,783,449	-
Asset-backed	488,884	-	488,884	-
Municipal bonds	122,935	-	122,935	-
Preferred stock	121,179	121,179	-	-
International bonds	684,775	684,775	-	-
Tax-exempt obligations	39,981	39,981	-	-
Taxable high yield	348,012	348,012	-	-
Bond mutual funds	6,910,962	6,910,962	-	-
Corporate bonds	6,196,600	6,196,600	-	-
Government bonds	149,705	149,705	-	-
Alternative investments (mutual funds)				
Hedge mutual funds	1,218,134	1,218,134	-	-
Infrastructure mutual funds	623,301	623,301	-	-
Traded real estate mutual funds	212,401	212,401	-	-
Alternative mutual funds	806,882	806,882	-	-
Investment in HASC (A)	20,000	-	-	-
Investment in Bladon (A)	621,142	-	-	-
Investment in VHA (A)	192,317	-	-	-
Total long-term investments	71,641,642	58,412,915	12,395,268	-
Funds held on deposit with the Foundation	6,930,640	-	-	6,930,640
	<u>\$ 140,189,327</u>	<u>\$ 84,181,873</u>	<u>\$ 48,243,355</u>	<u>\$ 6,930,640</u>

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

	June 30, 2017			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts	\$ 492,359	\$ 492,359	\$ -	\$ -
Equity investments				
Common stock	181,749	181,749	-	-
Mutual funds	12,366,714	12,366,714	-	-
International mutual funds	2,684,702	2,684,702	-	-
Fixed income investments				
Mortgage	143,180	143,180	-	-
Treasury and agencies	785,997	-	785,997	-
Asset-backed	402,254	-	402,254	-
Municipal bonds	155,697	-	155,697	-
International bonds	330,335	330,335	-	-
Tax-exempt obligations	30,544	30,544	-	-
Bond mutual funds	3,822,074	3,822,074	-	-
Corporate bonds	1,422,687	1,422,687	-	-
Alternative investments (mutual funds)				
Hedge mutual funds	447,575	447,575	-	-
Infrastructure mutual funds	219,780	219,780	-	-
Traded real estate mutual funds	79,468	79,468	-	-
Total assets limited as to use for capital improvements	23,565,115	22,221,167	1,343,948	-
Money market accounts	1,312,331	1,312,331	-	-
Fixed income investments				
Treasury and agencies	4,660,138	4,660,138	-	-
Bond mutual funds	27,086	27,086	-	-
Total assets limited as to use for self-funded employee health, workers' compensation and professional liability insurance	5,999,555	5,999,555	-	-
Interest in net assets of the Foundation	30,612,758	-	30,612,758	-
Interest in net assets of the HCF	1,445,153	-	1,445,153	-

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

	June 30, 2017			
	Fair Value Measurements Using			
	Quoted Prices	in Active	Significant	Significant
	Fair Value	Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market accounts	\$ 17,488,428	\$ 17,488,428	\$ -	\$ -
Equity investments				
Common stock	3,801,441	3,801,441	-	-
International common stock	278,192	278,192	-	-
Mutual funds	23,631,532	23,631,532	-	-
International mutual funds	7,641,584	7,641,584	-	-
Fixed income investments				
Mortgage	408,353	408,353	-	-
Treasury and agencies	9,570,863	-	9,570,863	-
Asset-backed	526,270	-	526,270	-
Municipal bonds	235,748	-	235,748	-
International bonds	123,166	123,166	-	-
Tax-exempt obligations	40,726	40,726	-	-
Bond mutual funds	8,230,389	8,230,389	-	-
Corporate bonds	6,570,357	6,570,357	-	-
Government bonds	3,570,334	3,570,334	-	-
Alternative investments (mutual funds)				
Hedge mutual funds	1,162,202	1,162,202	-	-
Infrastructure mutual funds	563,558	563,558	-	-
Traded real estate mutual funds	202,773	202,773	-	-
Investment in HASC (A)	20,000	-	-	-
Investment in Bladon (A)	621,142	-	-	-
Investment in VHA (A)	144,587	-	-	-
Total long-term investments	<u>84,831,645</u>	<u>73,713,035</u>	<u>10,332,881</u>	<u>-</u>
Funds held on deposit with the Foundation	<u>6,393,550</u>	<u>-</u>	<u>-</u>	<u>6,393,550</u>
	<u>\$ 152,847,776</u>	<u>\$ 101,933,757</u>	<u>\$ 43,734,740</u>	<u>\$ 6,393,550</u>

(A) The investments in HASC and Bladon are carried at cost and the investment in VHA preferred stock is carried at its estimated net present value (*Note 4*). These investments have not been classified in the fair value hierarchy. The amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2018.

Investments and Interests in Net Assets of Foundations

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Funds Held on Deposit with the Foundation

Funds held on deposit with the Foundation through an investment pool totaled \$6,930,640 and \$6,393,550, respectively. The Healthcare System cannot look through the investment pool to its underlying investments for fair value measurement purposes. Rather, the Healthcare System must consider if relevant observable inputs exist for interests in the investment pool. The funds held on deposit with the Foundation are classified as Level 3 under the fair value hierarchy because no observable inputs exist for interests in the investment pool. However, at June 30, 2018 and 2017, approximately 97% and 96%, respectively, of the underlying investments of the investment pool fall within Level 1 classification under the fair value hierarchy.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements associated with funds held on deposit with the Foundation recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

Balance, July 1, 2016	\$ 5,645,582
Interest and dividends	151,416
Net realized and unrealized gains	512,461
Investment fees	(1,008)
Purchases	<u>85,099</u>
Balance, June 30, 2017	<u>6,393,550</u>
Interest and dividends	156,621
Net realized and unrealized gains	311,824
Investment fees	(19,820)
Purchases	<u>88,465</u>
Balance, June 30, 2018	<u><u>\$ 6,930,640</u></u>

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Note 16: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *9*.

Litigation

In the normal course of business, the Healthcare System is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Healthcare System's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Healthcare System evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Guarantees

HASC has a \$500,000 line of credit with a local bank. The Medical Center has guaranteed \$100,000 of this line of credit and is contingently liable under the guarantee should HASC fail to make payments on the line of credit as they become due.

Investments

The Healthcare System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Note 17: Change in Accounting Principle

In 2018, the Healthcare System adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. A summary of changes is as follows:

Consolidated Balance Sheet

The consolidated balance sheet distinguishes between two new classes of net assets – those with donor imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Consolidated Statement of Operations and Consolidated Changes in Net Assets

Expenses are reported by both nature and function in one location. Investment return is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Consolidated Financial Statements

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the balance sheet.

These changes had no impact on previously reported total change in net assets.

Note 18: Subsequent Events

Subsequent events have been evaluated through October 22, 2018, which is the date the consolidated financial statements were issued.

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Note 19: Future Changes in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). The Healthcare System is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019 (December 15, 2018 for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2020 (December 15, 2019 for not-for-profits that are conduit debt obligors). The Healthcare System is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

Hutchinson Regional Medical Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Restricted Cash

FASB issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires balances generally described as restricted cash or restricted cash equivalents to be included with other cash and cash equivalent balances when reconciling beginning and end of period balances on the statement of cash flows. Historically, many not-for-profit health care entities included certain cash balances with assets limited as to use on the balance sheet and changes in those cash balances with other changes in assets limited as to use within the investing section of the statement of cash flows. For public business entities, not-for-profit entities that have issued, or is a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, and employee benefit plans that file financial statements within the U.S. Securities and Exchange Commission, the restricted cash standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, the restricted cash standard will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early application is permitted. The Healthcare System is evaluating the impact the standard will have on the consolidated financial statements.

Supplementary Information

Hutchinson Regional Medical Center, Inc.
Consolidating Schedule – Balance Sheet
June 30, 2018

Assets

	Hutchinson Regional Medical Center, Inc.	Hospice of Reno County, Inc.	Hutchinson Health Care Services, Inc.	Horizons Mental Health Center, Inc.	Main Line, Inc.	Eliminations and Reclassi- fications	Total
Current Assets							
Cash and cash equivalents	\$ 13,999,766	\$ 18,197	\$ 1,593,927	\$ 3,341,966	\$ 4,126,714	\$ -	\$ 23,080,570
Assets limited as to use, current	1,902,146	-	-	-	-	-	1,902,146
Funds held on deposit with the Hutchinson Regional Medical Foundation	-	392,407	-	6,538,233	-	-	6,930,640
Patient accounts receivable, net	29,244,518	1,176,759	188,842	1,113,325	-	-	31,723,444
Other receivables	1,525,338	-	25,007	5,842	297,392	-	1,853,579
Due from affiliate	201,535	20,934	-	116,314	-	(338,783)	-
Net investment in direct financing leases	-	-	-	-	1,191,934	-	1,191,934
Supplies	5,111,464	20,067	401,793	-	-	-	5,533,324
Prepaid expenses and other	3,153,533	33,667	126,618	244,910	17,658	-	3,576,386
Total current assets	55,138,300	1,662,031	2,336,187	11,360,590	5,633,698	(338,783)	75,792,023
Assets Limited As To Use							
Internally designated							
For capital improvements	25,002,472	-	-	-	-	-	25,002,472
For self-funded employee health, workers' compensation and professional liability insurance	6,499,872	-	-	-	-	-	6,499,872
Interests in net assets of foundations	28,673,210	1,441,491	-	-	-	-	30,114,701
	60,175,554	1,441,491	-	-	-	-	61,617,045
Less amount required to meet current obligations	1,902,146	-	-	-	-	-	1,902,146
	58,273,408	1,441,491	-	-	-	-	59,714,899
Property and Equipment, Net	88,855,590	883,229	515,687	505,731	3,951,090	-	94,711,327
Other Assets							
Net investment in direct financing leases	-	-	-	-	16,142,660	-	16,142,660
Investment in subsidiary	480,000	-	-	-	-	(480,000)	-
Long-term investments	70,181,928	-	1,459,714	-	-	-	71,641,642
Deposits	-	-	-	-	24,465	-	24,465
	70,661,928	-	1,459,714	-	16,167,125	(480,000)	87,808,767
Total assets	\$ 272,929,226	\$ 3,986,751	\$ 4,311,588	\$ 11,866,321	\$ 25,751,913	\$ (818,783)	\$ 318,027,016

Hutchinson Regional Medical Center, Inc.
Consolidating Schedule – Balance Sheet (Continued)
June 30, 2018

Liabilities and Net Assets

	Hutchinson Regional Medical Center, Inc.	Hospice of Reno County, Inc.	Hutchinson Health Care Services, Inc.	Horizons Mental Health Center, Inc.	Main Line, Inc.	Eliminations and Reclassi- fications	Total
Current Liabilities							
Outstanding checks in excess of bank balance	\$ -	\$ 59,566	\$ -	\$ -	\$ -	\$ -	\$ 59,566
Current maturities of long-term debt	785,000	-	-	-	-	-	785,000
Current maturities of capital lease obligations	57,831	-	-	-	-	-	57,831
Accounts payable	8,734,851	260,201	411,271	170,454	81,244	(62,063)	9,595,958
Accrued expenses	7,536,934	563,848	181,338	1,129,672	-	-	9,411,792
Due to affiliate	110,066	65,000	12,965	20,558	68,131	(276,720)	-
Deferred revenue	1,724	-	-	-	-	-	1,724
Estimated amounts due to third-party payers	1,992,204	-	-	-	-	-	1,992,204
Total current liabilities	19,218,610	948,615	605,574	1,320,684	149,375	(338,783)	21,904,075
Long-term Debt	35,485,184	-	-	-	-	-	35,485,184
Capital Lease Obligations	90,643	-	-	-	-	-	90,643
Total liabilities	54,794,437	948,615	605,574	1,320,684	149,375	(338,783)	57,479,902
Net Assets							
Without donor restrictions	189,461,579	2,892,347	3,706,014	10,545,637	25,602,538	(480,000)	231,728,115
With donor restrictions - purpose restrictions	28,673,210	95,183	-	-	-	-	28,768,393
With donor restrictions - perpetual in nature	-	50,606	-	-	-	-	50,606
Total net assets	218,134,789	3,038,136	3,706,014	10,545,637	25,602,538	(480,000)	260,547,114
Total liabilities and net assets	\$ 272,929,226	\$ 3,986,751	\$ 4,311,588	\$ 11,866,321	\$ 25,751,913	\$ (818,783)	\$ 318,027,016

Hutchinson Regional Medical Center, Inc.
Consolidating Schedule – Statement of Operations
Year Ended June 30, 2018

	Hutchinson Regional Medical Center, Inc.	Hospice of Reno County, Inc.	Hutchinson Health Care Services, Inc.	Horizons Mental Health Center, Inc.	Main Line, Inc.	Eliminations and Reclassi- fications	Total
Unrestricted Revenues, Gains and Other Support							
Net patient service revenue	\$ 144,774,668	\$ 5,289,806	\$ 3,187,589	\$ 9,422,150	\$ -	\$ -	\$ 162,674,213
Provision for uncollectible accounts	24,649,389	22,975	40,181	511,586	-	-	25,224,131
Net patient service revenue less provision for uncollectible accounts	120,125,279	5,266,831	3,147,408	8,910,564	-	-	137,450,082
Electronic health records incentive	35,491	-	-	-	-	-	35,491
Other	2,110,458	621,659	80	3,172,307	1,851,635	(289,148)	7,466,991
Net assets released from restrictions used for operations	-	1,903	-	-	-	-	1,903
Total unrestricted revenues, gains and other support	122,271,228	5,890,393	3,147,488	12,082,871	1,851,635	(289,148)	144,954,467
Expenses and Losses							
Salaries and wages	45,187,846	3,843,997	1,231,755	7,867,501	-	-	58,131,099
Employee benefits	12,309,042	974,139	390,142	2,001,554	-	-	15,674,877
Purchased services, supplies and other	62,117,413	1,452,542	1,653,442	1,988,285	548,993	(289,148)	67,471,527
Depreciation and amortization	7,467,592	125,452	195,694	91,407	544,968	-	8,425,113
Income tax expense	-	-	46,000	-	-	-	46,000
Interest	140,719	-	-	-	-	-	140,719
Total expenses and losses	127,222,612	6,396,130	3,517,033	11,948,747	1,093,961	(289,148)	149,889,335
Operating Income (Loss)	(4,951,384)	(505,737)	(369,545)	134,124	757,674	-	(4,934,868)
Other Income (Expense)							
Investment return, net	5,011,798	111,937	88,041	428,614	-	-	5,640,390
Contributions received	20,893	314,633	-	-	-	-	335,526
Insurance recoveries	-	-	-	89,132	-	-	89,132
Other	(283,349)	(81,966)	-	34,386	-	-	(330,929)
Total other income	4,749,342	344,604	88,041	552,132	-	-	5,734,119
Excess (Deficiency) of Revenues Over Expenses	(202,042)	(161,133)	(281,504)	686,256	757,674	-	799,251
Investment return - change in unrealized gains on other than trading securities	114,094	-	-	-	-	-	114,094
Net assets released from restriction used for purchase of property and equipment	4,000,000	-	-	-	-	-	4,000,000
Transfers between affiliates	1,950,000	-	-	-	(1,950,000)	-	-
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 5,862,052	\$ (161,133)	\$ (281,504)	\$ 686,256	\$ (1,192,326)	\$ -	\$ 4,913,345

Hutchinson Regional Medical Center, Inc.
Consolidating Schedule – Statement of Changes in Net Assets
Year Ended June 30, 2018

	Hutchinson Regional Medical Center, Inc.	Hospice of Reno County, Inc.	Hutchinson Health Care Services, Inc.	Horizons Mental Health Center, Inc.	Main Line, Inc.	Eliminations and Reclassi- fications	Total
Net Assets Without Donor Restrictions							
Excess (deficiency) of revenues over expenses	\$ (202,042)	\$ (161,133)	\$ (281,504)	\$ 686,256	\$ 757,674	\$ -	\$ 799,251
Investment return - change in unrealized gains on other than trading securities	114,094	-	-	-	-	-	114,094
Net assets released from restriction used for purchase of property and equipment	4,000,000	-	-	-	-	-	4,000,000
Transfers between affiliates	1,950,000	-	-	-	(1,950,000)	-	-
	<u>5,862,052</u>	<u>(161,133)</u>	<u>(281,504)</u>	<u>686,256</u>	<u>(1,192,326)</u>	<u>-</u>	<u>4,913,345</u>
Increase (decrease) in net assets without donor restrictions							
Net Assets With Donor Restrictions							
Investment return, net	-	3,318	-	-	-	-	3,318
Contributions received	4,000,000	24,702	-	-	-	-	4,024,702
Change in interests in net assets of foundations	(1,939,548)	-	-	-	-	-	(1,939,548)
Net assets released from restriction used for operations	-	(1,903)	-	-	-	-	(1,903)
Net assets released from restriction used for purchase of property and equipment	(4,000,000)	-	-	-	-	-	(4,000,000)
	<u>(1,939,548)</u>	<u>26,117</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,913,431)</u>
Increase (decrease) in net assets with donor restrictions							
Change in Net Assets	3,922,504	(135,016)	(281,504)	686,256	(1,192,326)	-	2,999,914
Net Assets, Beginning of Year	<u>214,212,285</u>	<u>3,173,152</u>	<u>3,987,518</u>	<u>9,859,381</u>	<u>26,794,864</u>	<u>(480,000)</u>	<u>257,547,200</u>
Net Assets, End of Year	<u>\$ 218,134,789</u>	<u>\$ 3,038,136</u>	<u>\$ 3,706,014</u>	<u>\$ 10,545,637</u>	<u>\$ 25,602,538</u>	<u>\$ (480,000)</u>	<u>\$ 260,547,114</u>