

# **Jennie Stuart Medical Center, Inc.**

Independent Auditor's Report and  
Consolidated Financial Statements

December 31, 2018 and 2017

**Jennie Stuart Medical Center, Inc.**  
**December 31, 2018 and 2017**

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## Independent Auditor's Report

Board of Trustees  
Jennie Stuart Medical Center, Inc.  
Hopkinsville, Kentucky

We have audited the accompanying consolidated financial statements of Jennie Stuart Medical Center, Inc., which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Jennie Stuart Medical Center, Inc. as of December 31, 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.

## Emphasis of Matter

As discussed in Note 18 to the consolidated financial statements, in 2018, Jennie Stuart Medical Center, Inc. adopted Accounting Standards Update 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.

*BKD, LLP*

Louisville, Kentucky  
March 20, 2019

**Jennie Stuart Medical Center, Inc.**  
**Consolidated Balance Sheets**  
**December 31, 2018 and 2017**

**Assets**

	<b>2018</b>	<b>2017</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 11,393,221	\$ 8,154,291
Short-term investments	45,133,074	46,082,962
Assets limited as to use – current	1,957,022	1,873,744
Patient accounts receivable	11,951,052	11,719,503
Supplies	1,712,538	1,485,458
Prepaid expenses and other	1,217,806	1,032,886
Total current assets	73,364,713	70,348,844
<b>Assets Limited as to Use</b>		
Internally designated for self-funded malpractice claims	11,111,472	11,161,093
Held by trustee	17,356,966	17,021,485
Externally restricted by donors	1,208,948	1,296,306
	29,677,386	29,478,884
Less amount required to meet current obligations	1,957,022	1,873,744
	27,720,364	27,605,140
<b>Property and Equipment, at Cost</b>		
Land and land improvements	8,301,688	7,721,688
Buildings and improvements	97,985,240	95,679,088
Equipment	61,284,360	59,567,698
Construction in progress	660,135	1,479,612
	168,231,423	164,448,086
Less accumulated depreciation	107,075,017	102,350,022
	61,156,406	62,098,064
<b>Other Assets</b>		
Physician receivables	193,750	268,750
Other	5,290,499	7,167,779
	5,484,249	7,436,529
Total assets	\$ 167,725,732	\$ 167,488,577

## Liabilities and Net Assets

	<u>2018</u>	<u>2017</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,475,240	\$ 1,293,072
Accounts payable	5,719,790	5,032,478
Refund liabilities	1,022,933	804,233
Accrued expenses	7,534,599	6,829,104
Deferred revenue	1,806,075	518,925
Estimated settlement due to third-party payors	<u>1,791,057</u>	<u>2,045,473</u>
Total current liabilities	19,349,694	16,523,285
<b>Long-Term Debt</b>	67,411,653	68,506,210
<b>Other</b>	<u>8,022,610</u>	<u>9,064,854</u>
Total liabilities	<u>94,783,957</u>	<u>94,094,349</u>
<b>Net Assets</b>		
Without donor restrictions	71,578,931	71,966,758
With donor restrictions	<u>1,362,844</u>	<u>1,427,470</u>
Total net assets	<u>72,941,775</u>	<u>73,394,228</u>
Total liabilities and net assets	<u>\$ 167,725,732</u>	<u>\$ 167,488,577</u>

**Jennie Stuart Medical Center, Inc.**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Revenues, Gains and Other Support Without Donor Restrictions</b>		
Patient care service revenue	\$ 126,034,761	\$ 125,127,397
Other	1,111,277	1,100,735
Total unrestricted revenues, gains and other support	127,146,038	126,228,132
<b>Expenses</b>		
Salaries and wages	50,165,714	50,813,136
Employee benefits	9,144,200	10,626,022
Purchased services and professional fees	15,368,176	15,560,295
Supplies and drugs	22,648,679	22,185,679
Utilities	2,551,547	2,781,192
Repairs and maintenance	5,770,060	5,932,570
Leases and rentals	2,868,766	2,953,815
Provider tax	1,896,578	1,908,934
Depreciation	6,038,213	6,699,393
Interest	3,932,364	3,916,299
Other	6,137,182	4,768,939
Total expenses	126,521,479	128,146,274
<b>Operating Income (Loss)</b>	624,559	(1,918,142)
<b>Other Income (Expense)</b>		
Investment return	(1,579,102)	7,184,616
Gain on investment in equity investee	566,716	133,950
Total other income (expense)	(1,012,386)	7,318,566
<b>Excess (Deficiency) of Revenues over Expenses and Increase (Decrease) in Net Assets Without Donor Restrictions</b>	(387,827)	5,400,424
<b>Net Assets with Donor Restrictions</b>		
Net realized and unrealized gains (losses) on investments	(64,626)	146,246
<b>Increase (Decrease) in Net Assets with Donor Restrictions</b>	(64,626)	146,246
<b>Change in Net Assets</b>	(452,453)	5,546,670
<b>Net Assets, Beginning of Year</b>	73,394,228	67,847,558
<b>Net Assets, End of Year</b>	\$ 72,941,775	\$ 73,394,228

**Jennie Stuart Medical Center, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Activities</b>		
Change in net assets	\$ (452,453)	\$ 5,546,670
Items not requiring cash		
Depreciation	6,038,213	6,699,393
Amortization of deferred issuance costs and bond discount	110,515	114,391
Net (gain) loss on investments	3,519,953	(5,655,666)
Gain on investment in equity investee	(566,716)	(133,950)
Loss on sale of property and equipment	771,104	131,279
Changes in		
Patient accounts receivable	(231,549)	1,488,445
Other current assets	(412,000)	(2,365)
Other assets	2,385,046	(2,081,875)
Estimated settlements due to third-party payors	(254,416)	(2,651,098)
Accounts payable, accrued expenses, deferred revenue and other current and noncurrent liabilities	2,083,763	3,787,059
Net cash provided by operating activities	<u>12,991,460</u>	<u>7,242,283</u>
<b>Investing Activities</b>		
Purchase of investments	(20,306,889)	(16,790,403)
Proceeds from disposition of investments	17,538,322	12,362,002
Purchase of property and equipment	(5,814,996)	(4,391,683)
Proceeds from sale of property and equipment	1,200	263,884
Distribution from equity investee	133,950	133,950
Net cash used in investing activities	<u>(8,448,413)</u>	<u>(8,422,250)</u>
<b>Financing Activities</b>		
Principal payments on long-term debt	(1,304,117)	(664,371)
Net cash used in financing activities	<u>(1,304,117)</u>	<u>(664,371)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	3,238,930	(1,844,338)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>8,154,291</u>	<u>9,998,629</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 11,393,221</u>	<u>\$ 8,154,291</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid (net of amount capitalized)	\$ 3,942,989	\$ 2,593,474
Property and equipment included in accounts payable	\$ (227,350)	\$ 386,197
Capital lease obligation incurred for property and equipment	\$ 281,213	\$ 874,843

**Jennie Stuart Medical Center, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018 and 2017**

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

***Nature of Operations***

The accompanying consolidated financial statements include the operations of Jennie Stuart Medical Center, Inc. (Medical Center), Fairview Physicians Network, LLC d/b/a Jennie Stuart Medical Group (Medical Group) and Jennie Stuart Health Foundation, Inc. The Medical Center is located in Hopkinsville, Kentucky, and primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Western Kentucky. The Medical Group primarily earns revenue as a multi-specialty physician group providing primary care and other clinical services to patients in Western Kentucky. The Medical Center also operates a home health agency in the same geographic area.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Medical Center and Medical Group. All significant intercompany accounts and transactions have been eliminated in consolidation.

***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.

***Cash and Cash Equivalents***

The Medical Center considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At December 31, 2018, the Medical Center's cash accounts exceeded federally insured limits by approximately \$10,602,000.

Included in cash and cash equivalents at December 31, 2018, are approximately \$1,375,000 of money market mutual funds that are not insured by the Federal Deposit Insurance Corporation.

**Jennie Stuart Medical Center, Inc.**  
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***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. The investment in equity investee is reported on the equity method of accounting. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Certificates of deposit are stated at cost, plus accrued interest, which approximates market value. Guaranteed investment contracts are stated at amortized cost. Investment return includes dividends, 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.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets 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 held by trustees relating to tax exempt revenue bond obligations, (2) assets restricted by donors and (3) assets set aside by the board of trustees (Board) for self-funded portions of medical malpractice claims. Amounts required to meet current liabilities of the Medical Center are included in current assets.

***Patient Accounts Receivable***

Patient accounts receivable reflects the outstanding amount of consideration to which the Medical Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, the Medical Center bills third-party payors directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

***Supplies***

The Medical Center states supply inventories at the lower of cost, determined using the first-in, first-out method (FIFO), or net realizable value.

***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. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

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

Buildings and improvements	5–40 years
Leasehold improvements	5–20 years
Equipment	3–20 years

***Long-Lived Asset Impairment***

The Medical Center 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 during the years ended December 31, 2018 and 2017.

***Debt Issuance Costs***

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

***Net Assets with Donor Restrictions***

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

***Patient Care Service Revenue***

Patient care service revenue is recognized as the Medical Center satisfies performance obligations under its contracts with patients. Patient care service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. The Medical Center determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Medical Center's policies and implicit price concessions provided to uninsured patients. The Medical Center determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. The Medical Center determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

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***Contract Balances***

Amounts related to health care services provided to patients, which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract asset balances consist primarily of health care services provided to patients who are still receiving inpatient care in the Medical Center at the end of the year. Contract asset balances at December 31, 2018 and 2017, were approximately \$408,000 and \$495,000, respectively, and are included in patient accounts receivable.

Amounts received related to health care services that have not yet been provided to patients are contract liabilities. Contract liabilities consist of payments made by patients and third-party payors for services not yet performed. Contract liabilities are included in deferred revenue on the consolidated balance sheets as of December 31, 2018 and 2017.

***Charity Care***

The Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as patient care service revenue. The Medical Center's direct and indirect costs for services furnished under its charity care policy aggregated approximately \$421,000 and \$312,000 for the years ended December 31, 2018 and 2017, respectively. The Medical Center has received approximately \$1,293,000 and \$955,000 in 2018 and 2017, respectively, from an uncompensated care fund to subsidize charity services provided under its charity policy.

***Contributions***

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

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.

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***Estimated Malpractice Costs***

An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

***Self-Insurance***

The Medical Center maintains a partially self-insured health insurance program covering substantially all full-time employees. Contributions are made to a third-party administrator as health care claims are incurred. The Medical Center has purchased insurance that limits its exposure for individual claims and limits its aggregate exposure to \$150,000. The Medical Center has a provision recorded for incurred but not reported claims.

***Income Taxes***

The Medical Center has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Medical Center is subject to federal income tax on any unrelated business taxable income. The Medical Center files tax returns in the U.S. federal jurisdictions. With a few exceptions, the Medical Center is no longer subject to U.S. federal examinations by tax authorities for years before 2013.

***Subsequent Events***

Subsequent events have been evaluated through March 20, 2019, which is the date the consolidated financial statements were issued.

***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: Patient Care Service Revenue**

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

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

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

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

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

*Medicare.* Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor.

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*Medicaid.* Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service or per covered member. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid administrative contractor.

*Other.* Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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 health care 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 Medical Center'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 Medical Center. In addition, the contracts the Medical Center has with commercial payors also provide for retroactive audit and review of claims.

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

From time to time, the Medical Center will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of December 31, 2018 and 2017, the Medical Center has a liability for refunds to third-party payors and patients recorded of approximately \$1,023,000 and \$804,000, respectively, included in refund liabilities in the consolidated balance sheets.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Medical Center also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Medical Center estimates the transaction price for patients with deductibles and

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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 based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care service revenue in the period of the change. For the years ended December 31, 2018 and 2017, no significant additional revenues were recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Medical Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Medical Center has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Medical Center expects to collect based on its collection history with those patients. For the years ended December 31, 2018 and 2017, implicit price concessions were approximately \$3,103,000 and \$4,410,000, respectively.

Patients who meet the Medical Center's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The Medical Center has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors and hospital services and physician practices and timing of when revenue is recognized. Tables providing details of these factors are presented below.

The composition of patient care service revenue by primary payor for the years ended December 31 is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 43,999,309	\$ 46,432,079
Medicaid	20,663,044	17,590,260
Blue Cross	39,755,520	34,783,733
Other third-party payors	13,110,925	17,832,791
Patient	<u>8,505,963</u>	<u>8,488,534</u>
Total	<u>\$126,034,761</u>	<u>\$125,127,397</u>

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

**Jennie Stuart Medical Center, Inc.**  
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The composition of patient care service revenue by hospital services and physician practices for the years ended December 31, 2018 and 2017, is as follows:

	<b>December 31, 2018</b>		
	<b>Hospital Services</b>	<b>Physician Practices</b>	<b>Totals</b>
Medicare	\$ 40,985,248	\$ 3,014,061	\$ 43,999,309
Medicaid	17,053,880	3,609,164	20,663,044
Blue Cross	35,952,739	3,802,781	39,755,520
Other third-party payors	11,336,923	1,774,002	13,110,925
Patient	8,422,327	83,636	8,505,963
Total	<u>\$ 113,751,117</u>	<u>\$ 12,283,644</u>	<u>\$ 126,034,761</u>
	<b>December 31, 2017</b>		
	<b>Hospital Services</b>	<b>Physician Practices</b>	<b>Totals</b>
Medicare	\$ 40,913,159	\$ 5,518,920	\$ 46,432,079
Medicaid	14,603,881	2,986,379	17,590,260
Blue Cross	32,725,952	2,057,781	34,783,733
Other third-party payors	16,667,197	1,165,594	17,832,791
Patient	8,392,045	96,489	8,488,534
Total	<u>\$ 113,302,234</u>	<u>\$ 11,825,163</u>	<u>\$ 125,127,397</u>

The composition of patient care service revenue by timing of revenue recognition for the years ended December 31, 2018 and 2017, is as follows:

	<b>2018</b>	<b>2017</b>
Health care services transferred over time	\$124,405,727	\$123,384,234
Specialty retail pharmacy sales at point in time	1,629,034	1,743,163
Total	<u>\$126,034,761</u>	<u>\$125,127,397</u>

**Jennie Stuart Medical Center, Inc.**  
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**Contract Balances**

Contract asset balances consist primarily of health care services provided to patients who are still receiving inpatient care in the Medical Center at the end of the year. Contract assets are transferred to receivables when the rights become unconditional. Contract liabilities represent the Medical Center's obligation to provide services to patients when consideration has already been received from the patient or a third-party payor.

Significant changes in contract assets and contract liabilities balances during the period are as follows:

	<b>Contract Assets</b>	
	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ 495,000	\$ 437,000
Effects of		
Transferred to receivables from contract assets recognized at the beginning of the period	(495,000)	(437,000)
Increases as a result of cumulative catch-up adjustment arising from changes in the estimate of the stage of completion, excluding amounts transferred to receivables during the period	408,000	495,000
Balance, end of year	\$ 408,000	\$ 495,000
	<b>Contract Liabilities</b>	
	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ 518,925	\$ 640,511
Effects of		
Revenue recognized that was included in the contract liability balance at the beginning of the period	(518,925)	(640,511)
Increases due to cash received, excluding amounts recognized as revenue during the period	1,806,075	518,925
Balance, end of year	\$ 1,806,075	\$ 518,925

**Jennie Stuart Medical Center, Inc.**  
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***Financing Component***

The Medical Center has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Medical Center's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Medical Center does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

***Contract Costs***

The Medical Center 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 Medical Center otherwise would have recognized is one year or less in duration.

**Note 3: Concentrations of Credit Risk**

***Accounts Receivable***

The Medical Center grants credit without collateral to its patients, most of who are area residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2018 and 2017, was:

	<b>2018</b>	<b>2017</b>
Medicare	24%	23%
Medicaid	10%	11%
Blue Cross	28%	19%
Other third-party payors	22%	28%
Patients	16%	19%
	<u>100%</u>	<u>100%</u>



**Jennie Stuart Medical Center, Inc.**  
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**Note 5: Net Assets With Donor Restrictions**

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

	<u>2018</u>	<u>2017</u>
Health care services		
Purchase of equipment	\$ 61,173	\$ 61,231
Cancer center	<u>120,510</u>	<u>120,510</u>
	181,683	181,741
Investments to be held in perpetuity, the income of which is temporarily restricted for operations of the Medical Center	<u>1,181,161</u>	<u>1,245,729</u>
	<u>\$ 1,362,844</u>	<u>\$ 1,427,470</u>

**Note 6: Net Assets Without Donor Restrictions**

The Medical Center's governing board has designated, from net assets without donor restrictions for the following purposes as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Board-designated for self-funded malpractice claims	<u>\$ 11,111,472</u>	<u>\$ 11,161,093</u>

**Jennie Stuart Medical Center, Inc.**  
**Notes to Consolidated Financial Statements**  
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**Note 7: Investments and Investment Return**

***Assets Limited as to Use***

Assets limited as to use include:

	<u>2018</u>	<u>2017</u>
Internally designated for self-funded malpractice claims		
Cash and cash equivalents	\$ 801,479	\$ 567,016
Negotiable certificates of deposit	836,537	950,407
U.S. Treasury and Government agency obligations	3,719,152	4,027,748
Corporate bonds	91,802	223,873
Marketable equity securities	1,246,080	-
Mutual funds – large cap U.S. companies	174,784	307,616
Mutual funds – mid and small cap U.S. companies	386,466	572,114
Mutual funds – emerging markets and international equities	237,886	389,330
Mutual funds – exchange traded funds	3,575,186	4,078,109
Mutual funds – fixed income	42,100	44,880
	<u>\$ 11,111,472</u>	<u>\$ 11,161,093</u>
Held by trustee		
Cash and cash equivalents	\$ 12,362,253	\$ 11,948,912
Guaranteed investment contract	4,994,713	5,072,573
	<u>\$ 17,356,966</u>	<u>\$ 17,021,485</u>
Externally restricted by donors		
Cash and cash equivalents	\$ 113,049	\$ 105,183
Negotiable certificates of deposit	156,368	169,033
U.S. Treasury and Government agency obligations	284,648	260,288
Marketable equity securities	309,307	298,114
Mutual funds – large cap U.S. companies	9,096	45,320
Mutual funds – mid and small cap U.S. companies	12,787	30,475
Mutual funds – emerging markets and international equities	51,340	71,353
Mutual funds – exchange traded funds	272,353	316,540
	<u>\$ 1,208,948</u>	<u>\$ 1,296,306</u>

**Jennie Stuart Medical Center, Inc.**  
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**Short-Term Investments**

Short-term investments, stated at fair value, include:

	<u>2018</u>	<u>2017</u>
Negotiable certificates of deposit	\$ 2,536,231	\$ 2,770,116
U.S. Treasury and Government agency obligations	14,917,854	11,817,090
Corporate bonds	999,035	933,623
Marketable equity securities	22,684,925	25,684,384
Mutual funds – large cap U.S. companies	415,597	582,578
Mutual funds – mid and small cap U.S. companies	840,777	1,707,211
Mutual funds – emerging markets and international equities	603,195	560,674
Mutual funds – exchange traded funds	2,014,381	1,900,135
Mutual funds – fixed income	121,079	127,151
	<u>\$ 45,133,074</u>	<u>\$ 46,082,962</u>

Total investment return is comprised of the following for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 1,876,225	\$ 1,675,196
Unrealized gains (losses) on trading securities	(5,729,788)	5,003,002
Realized gains on trading securities	2,209,835	652,664
	<u>\$ (1,643,728)</u>	<u>\$ 7,330,862</u>

Total investment return is reflected in the consolidated statements of operations and changes in net assets as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Net assets without donor restrictions		
Other nonoperating income (expense)	\$ (1,579,102)	\$ 7,184,616
Net assets with donor restrictions	(64,626)	146,246
	<u>\$ (1,643,728)</u>	<u>\$ 7,330,862</u>

**Jennie Stuart Medical Center, Inc.**  
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The Medical Center's investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in these risks in the near term could materially affect the amounts reported in the consolidated balance sheets and statements of operations and changes in net assets. While the Medical Center does not directly invest in derivative securities, it may through investment holdings with a manager of hedge funds, indirectly hold these securities.

**Note 8: Liquidity and Availability**

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

	<b>2018</b>	<b>2017</b>
Financial assets at year-end		
Cash and cash equivalents	\$ 11,393,221	\$ 8,154,291
Short-term investments	45,133,074	46,082,962
Assets limited as to use	29,677,386	29,478,884
Patient accounts receivable	11,951,052	11,719,503
Total financial assets	98,154,733	95,435,640
Less amounts not available to be used within one year		
Board designated with liquidity horizons greater than one year	11,111,472	11,161,093
Funds held by trustees	15,399,944	15,147,741
Donor restricted with liquidity horizons greater than one year	1,208,948	1,296,306
Financial assets not available to be used within one year	27,720,364	27,605,140
Financial assets available to meet general expenditures within one year	\$ 70,434,369	\$ 67,830,500

The Medical Center has assets limited to use for donor-restricted purposes, debt service and board-designated amounts for professional and general liability insurance program. These assets limited to use, which are more fully described in Note 7, are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

As part of the Medical Center's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Medical Center invests cash in excess of daily requirements in short-term investments.

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**Note 9: Investment in and Advances to Equity Investees**

During 2008, the Medical Center entered into a joint venture, Physician Holding, LLC, to operate an outpatient diagnostic imaging center. The Medical Center had a 57% ownership percentage in the joint venture as of December 31, 2018 and 2017, respectively. The Medical Center is accounting for this joint venture under the equity method of accounting.

In 2008, the Medical Center entered into a lease agreement with Physician Holding, LLC to lease office space through April 2029. The lease agreement is payable in monthly installments of \$46,590. Rent expense related to this lease was approximately \$559,000 in 2018 and 2017. The lease is included in the future minimum lease payment disclosure in Note 13.

**Note 10: Management Agreement**

The Medical Center contracts with Quorum Health Resources, LLC (Quorum) to provide management services, recruit or provide a hospital administrator and a chief financial officer who are Quorum employees, provide discounts through preferred vendor contacts and provide various other consulting services, including operational and strategic advice, under an agreement which expires October 29, 2021. The Medical Center's expense for these services, including the salaries and benefits for the hospital administrator and chief financial officer, approximated \$1,296,000 and \$1,240,000 for the years ended December 31, 2018 and 2017, respectively.

**Note 11: Medical Malpractice Claims**

The Medical Center is self-insured for the first \$1,000,000 per occurrence and \$5,000,000 in aggregate of medical malpractice risks for claims occurring after June 1, 2008, and at various limits for claims occurring prior to June 1, 2008. The Medical Center purchases commercial insurance coverage above the self-insurance limits. 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. In connection with the retention amounts, the board established a trust account to fund potential losses. The Medical Center engages an actuary to project the medical malpractice liability. Based upon the Medical Center's claim experience, an accrual of approximately \$8,023,000 and \$9,065,000 was established as of December 31, 2018 and 2017, respectively, which is included in other long-term liabilities in the consolidated balance sheets. The Medical Center has recorded receivables for insurance recoveries of approximately \$2,450,000 and \$4,761,000, which are included in other assets in the consolidated balance sheets at December 31, 2018 and 2017, respectively.

**Jennie Stuart Medical Center, Inc.**  
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**Note 12: Long-Term Debt**

	<b>2018</b>	<b>2017</b>
Series 2016 County of Christian, Kentucky Hospital Revenue and Refunding Bonds (A)	\$ 62,390,000	\$ 62,900,000
Installment note payable (B)	1,607,323	1,998,352
Installment note payable (C)	5,674,914	5,975,491
Capital lease obligation (D)	1,053,545	874,843
	70,725,782	71,748,686
Less unamortized bond discount	756,107	801,121
Less unamortized deferred debt issuance costs	1,082,782	1,148,283
Less current maturities	1,475,240	1,293,072
	\$ 67,411,653	\$ 68,506,210

- (A) In December 2016, the Medical Center issued \$62,900,000 of County of Christian, Kentucky, Hospital Revenue Bonds (2016 Bonds). The 2016 Bonds incur interest at a fixed rate ranging from 5.00% to 5.50% and are subject to retirement in varying annual principal payments of \$510,000 to \$4,860,000 through 2044. The 2016 Bonds are secured by substantially all of the property and gross revenues of the Medical Center. The 2016 Bonds were used to finance the costs of refunding the 2006 Bonds and for certain capital projects and acquisition of equipment.

Unamortized debt issuance costs were \$1,023,026 and \$1,083,930 at December 31, 2018 and 2017, respectively. The effective interest rate was 5.50% and 5.60% for the years ended December 31, 2018 and 2017, respectively.

Under the terms of the 2016 Bonds master trust indenture, the Medical Center is required to maintain certain deposits with the trustee. These deposits are included with assets limited as to use in the consolidated financial statements. The master trust indenture also places limits on the incurrence of additional borrowings and require that certain measures of financial performance be maintained so long as the debt is outstanding.

- (B) In 2012, the Medical Center entered into a note payable with monthly principal and interest payments of \$42,108 (interest at 4.25%), due through the note's maturity of April 27, 2022. The note is secured by certain real property.
- (C) In 2016, the Medical Center entered into a note payable with monthly principal and interest payments of \$49,814 (interest at 5.02%) due through the note's maturity of December 1, 2031. The note is secured by certain real property. Unamortized debt issuance costs were \$59,756 and \$64,353 at December 31, 2018 and 2017, respectively. The effective interest rate was 5.09% for the years ended December 31, 2018 and 2017. The loan agreement also requires that certain measures of financial performance be maintained so long as the debt is outstanding.

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(D) Capital lease obligation at an imputed interest 3.90% due in 2025; collateralized by certain property and equipment. Property and equipment include the following under capital lease:

	<b>2018</b>	<b>2017</b>
Equipment	\$ 1,156,056	\$ -
Construction in progress	-	874,844
	1,156,056	874,844
Less accumulated depreciation	141,817	-
	\$ 1,014,239	\$ 874,844

Aggregate annual maturities of long-term debt and payments on the capital lease obligation at December 31, 2018, are:

	<b>Long-Term Debt (Exc. Capital Lease Obligation)</b>	<b>Capital Lease Obligation</b>
2019	\$ 1,301,065	\$ 188,993
2020	1,364,812	188,993
2021	1,431,720	188,993
2022	1,546,260	188,993
2023	1,582,458	188,993
Thereafter	62,445,921	242,008
	\$ 69,672,236	1,186,973
Less amount representing interest		133,427
Present value of future minimum lease payments		1,053,546
Less current maturities		174,175
Noncurrent portion		\$ 879,371

**Jennie Stuart Medical Center, Inc.**  
**Notes to Consolidated Financial Statements**  
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**Note 13: Operating Leases**

The Medical Center leases various equipment and real estate under noncancellable operating leases expiring at various dates through 2029.

Future minimum lease payments at December 31, 2018, were:

2019	\$ 1,921,200
2020	1,585,046
2021	1,464,254
2022	883,378
2023	872,199
Thereafter	<u>3,324,656</u>
Future minimum lease payments	<u><u>\$ 10,050,733</u></u>

**Note 14: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability 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 or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, 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 or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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**Recurring Measurements**

The following tables present the fair value measurements of assets and liabilities 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 December 31, 2018 and 2017:

	<b>2018</b>			
	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Money market mutual funds	\$ 14,652,270	\$ 14,652,270	\$ -	\$ -
Negotiable certificates of deposit	\$ 3,529,136	\$ -	\$ 3,529,136	\$ -
Marketable equity securities	\$ 24,240,312	\$ 24,240,312	\$ -	\$ -
Mutual funds – large cap				
U.S. companies	\$ 599,477	\$ 599,477	\$ -	\$ -
Mutual funds – mid and small cap U.S. companies	\$ 1,240,030	\$ 1,240,030	\$ -	\$ -
Mutual funds – emerging markets and international equities	\$ 892,421	\$ 892,421	\$ -	\$ -
Mutual funds – exchange traded funds	\$ 5,861,920	\$ 5,861,920	\$ -	\$ -
Mutual funds – fixed income	\$ 163,179	\$ 163,179	\$ -	\$ -
Corporate bonds	\$ 1,090,837	\$ -	\$ 1,090,837	\$ -
U.S. Treasury and Government agency obligations	\$ 18,921,654	\$ -	\$ 18,921,654	\$ -

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	2017			
	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 mutual funds	\$ 14,453,484	\$ 14,453,484	\$ -	\$ -
Negotiable certificates of deposit	\$ 3,889,556	\$ -	\$ 3,889,556	\$ -
Marketable equity securities	\$ 25,982,498	\$ 25,982,498	\$ -	\$ -
Mutual funds – large cap				
U.S. companies	\$ 935,514	\$ 935,514	\$ -	\$ -
Mutual funds – mid and small cap U.S. companies	\$ 2,309,800	\$ 2,309,800	\$ -	\$ -
Mutual funds – emerging markets and international equities	\$ 1,021,357	\$ 1,021,357	\$ -	\$ -
Mutual funds – exchange traded funds	\$ 6,294,784	\$ 6,294,784	\$ -	\$ -
Mutual funds – fixed income	\$ 172,031	\$ 172,031	\$ -	\$ -
Corporate bonds	\$ 1,157,496	\$ -	\$ 1,157,496	\$ -
U.S. Treasury and Government agency obligations	\$ 16,105,126	\$ -	\$ 16,105,126	\$ -

Following is a description of the valuation methodologies and inputs used for assets and liabilities 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 and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2018.

The 2017 fair value table has been revised for an immaterial correction. The table was revised to include negotiable certificates of deposit.

**Investments**

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.

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**Note 15: Pension Plan**

The Medical Center has a defined contribution pension plan covering substantially all employees. The Board annually determines the amount, if any, of the Medical Center's contributions to the plan. Pension expense associated with the plan was approximately \$413,000 and \$638,000 for December 31, 2018 and 2017, respectively.

**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. These matters include the following:

***Variable Consideration***

Estimates of variable consideration in determining the transaction price for patient care service revenue are described in Notes 1 and 2.

***Litigation***

In the normal course of business, the Medical Center 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 Medical Center's commercial insurance, *e.g.*, allegations regarding breach of contracts. The Medical Center 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.

***Medical Malpractice Claims***

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 11.

***Incurred But Not Reported Employee Health Insurance Claims***

Estimates of incurred but not reported health insurance claims are described in Note 1.

**Jennie Stuart Medical Center, Inc.**  
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**Note 17: Future Changes in Accounting Principles**

**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 conduit debt obligors for annual periods beginning after December 15, 2018, including any interim periods within the fiscal year ended December 31, 2019. The Medical Center is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is not expected to have a material impact on the consolidated financial statements.

**Restricted Cash**

In November 2016, FASB clarified the presentation and disclosure requirements of restricted cash. ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (a consensus of the FASB Emerging Issues Task Force), requires entities to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling beginning-of-period and end-of-period total cash. The amendments apply to all entities with restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230, including not-for-profit (NFP) entities.

Entities presenting cash and cash equivalents with restrictions in multiple line items on the statement of financial position will be required to include those amounts in the beginning-of-period and end-of-period amounts shown on the cash flow statements. Entities are required to disclose the amounts and line items required to reconcile the two statements for each period presented, either on the cash flow statement or in the notes to consolidated financial statements – either in a narrative or tabular format.

Information about the nature of restrictions on cash, cash equivalents, restricted cash or restricted cash equivalents also shall be disclosed. NFP entities within the scope of Topic 958 will continue to provide the disclosures required therein.

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The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, including the Medical Center, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Entities should apply the amendments using a retrospective transition method to each period presented.

**Note 18: Changes in Accounting Principles**

***Revenue from Contracts with Customers***

On January 1, 2018, the Medical Center adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU 2014-09) using a full-retrospective method of adoption to all contracts with customers (patients) at January 1, 2017. The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers or patients in an amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for those goods or services. The amount to which the Medical Center expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient care services to its patients. Adoption of ASU 2014-09 resulted in changes in presentation of the consolidated financial statements and related disclosures in the notes to the consolidated financial statements. Because contracts are generally completed within a year, the Medical Center used the actual transaction price rather than estimating variable consideration amounts for contracts completed during the year ended December 31, 2017. Prior to the adoption of ASU 2014-09, the majority of the provision for doubtful accounts related to patients without insurance, as well as patient responsibility balances for co-pays, co-insurance and deductibles for patients with insurance. Under ASU 2014-09, the estimated amounts due from patients for which the Medical Center does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the Medical Center's estimation of the transaction price or revenue recorded.

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	December 31, 2017		
	As Previously Reported	As Adjusted	Adoption Impact
<b>Statement of Operations and Changes in Net Assets</b>			
<b>Revenues, Gains and Other Support Without Donor Restrictions</b>			
Patient service revenue (net of contractual discounts and allowances)	\$ 129,537,253	\$ 125,127,397	\$ 4,409,856
Provision for uncollectible accounts	\$ 4,409,856	\$ -	\$ (4,409,856)
Net patient service revenue, less provision for uncollectible accounts	\$ 125,127,397	\$ -	\$ 125,127,397
<b>Statement of Cash Flows</b>			
Provision for uncollectible accounts	\$ 4,409,856	\$ -	\$ 4,409,856
Changes in patient accounts receivable	\$ (2,921,411)	\$ 1,488,445	\$ (4,409,856)

The adoption had no impact on operating income, overall change in net assets or net cash provided by operating activities.

***Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities***

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

***Statement of Financial Position***

- The statement of financial position 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.
- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from the previously required classification as unrestricted net assets.

***Statement of Activities***

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

**Jennie Stuart Medical Center, Inc.**  
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***Notes to the 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 statement of financial position.
- Amounts and purposes of board of trustee designations and appropriations as of the end of the period are disclosed.

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