



**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**  
Consolidated Financial Statements and Supplemental Schedules  
May 31, 2019 and 2018  
(With Independent Auditors' Report Thereon)

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

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KPMG LLP  
1201 Demonbreun Street  
Suite 1100  
Nashville, TN 37203

## Independent Auditors' Report

The Board of Directors  
Owensboro Health, Inc.:

We have audited the accompanying consolidated financial statements of Owensboro Health, Inc. and affiliated entities, which comprise the consolidated balance sheets as of May 31, 2019 and 2018, 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 Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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.

### *Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 financial position of Owensboro Health, Inc. and affiliated entities as of May 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



### *Other Matters*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements 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. The supplementary information included in schedule 5 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### *Emphasis of Matters*

As discussed in note 2(s) to the consolidated financial statements, in 2019, the System adopted new accounting guidance in connection with its implementation of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09 *Revenue from contracts with Customers (Topic 606)*, and FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

*KPMG LLP*

Nashville, Tennessee  
September 3, 2019

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

Consolidated Balance Sheets

May 31, 2019 and 2018

(In thousands)

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets:		
Cash and cash equivalents	\$ 16,187	54,890
Investments	234,384	180,910
Patient accounts receivable, net	90,115	94,519
Inventories	13,407	14,045
Prepaid expenses and other current assets	13,736	9,912
Assets limited as to use, current portion	<u>23,096</u>	<u>22,864</u>
Total current assets	390,925	377,140
Assets limited as to use, less current portion	3,129	8,310
Property and equipment, net	590,695	606,043
Deferred compensation plan assets	13,389	12,277
Other assets	<u>13,655</u>	<u>13,654</u>
Total assets	\$ <u>1,011,793</u>	\$ <u>1,017,424</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 9,205	8,755
Accounts payable	18,619	19,992
Accrued payroll and related liabilities	26,732	29,585
Other current liabilities	34,313	34,656
Due to third-party payors	<u>26,160</u>	<u>21,076</u>
Total current liabilities	115,029	114,064
Deferred compensation plan obligations	13,389	12,277
Long-term debt, less current maturities and debt issuance costs	579,646	590,170
Accrued pension cost	54,103	55,525
Contractual lease obligation	2,026	2,683
Other long-term liabilities	<u>76</u>	<u>164</u>
Total liabilities	<u>764,269</u>	<u>774,883</u>
Net assets:		
Without donor restrictions	244,761	239,885
With donor restrictions	<u>1,632</u>	<u>1,518</u>
Total net assets attributable to Owensboro Health, Inc.	246,393	241,403
Noncontrolling interests	<u>1,131</u>	<u>1,138</u>
Total net assets	<u>247,524</u>	<u>242,541</u>
Commitments and contingencies		
Total liabilities and net assets	\$ <u>1,011,793</u>	\$ <u>1,017,424</u>

See accompanying notes to consolidated financial statements.

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

Consolidated Statements of Operations

Years ended May 31, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Net patient service revenue	\$ 644,331	615,775
Other operating revenue	10,340	10,562
Total revenue without donor restrictions	<u>654,671</u>	<u>626,337</u>
Patient service and other expenses:		
Personnel	358,334	342,682
Professional fees	25,887	22,988
Drugs and supplies	132,443	120,995
Plant maintenance and operation	20,145	20,647
Kentucky provider tax	6,447	5,009
Other expenses	41,598	39,815
Depreciation and amortization	36,543	41,726
Interest expense	27,916	27,168
Total patient service and other expenses	<u>649,313</u>	<u>621,030</u>
Operating income	<u>5,358</u>	<u>5,307</u>
Nonoperating gains (losses):		
Investment income, net	779	11,181
Contributions and other	73	(1,766)
Nonoperating gains, net	<u>852</u>	<u>9,415</u>
Excess of revenue and gains over expenses and losses before noncontrolling interests	6,210	14,722
Noncontrolling interests	(876)	(722)
Excess of revenue and gains over expenses and losses	5,334	14,000
Accrued pension cost adjustment	(458)	8,274
Change in net assets without donor restrictions	\$ <u>4,876</u>	<u>22,274</u>

See accompanying notes to consolidated financial statements.

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

Consolidated Statements of Changes in Net Assets

Years ended May 31, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions:		
Excess of revenue and gains over expenses and losses	\$ 5,334	14,000
Accrued pension cost adjustment	<u>(458)</u>	<u>8,274</u>
Change in net assets without restrictions	<u>4,876</u>	<u>22,274</u>
Net assets with donor restrictions:		
Contributions	315	275
Net assets released from restrictions used for operations	<u>(201)</u>	<u>(161)</u>
Change in net assets with donor restrictions	<u>114</u>	<u>114</u>
Noncontrolling interests:		
Excess of revenue and gains over expenses and losses	876	722
Partnership investment	—	1,206
Distributions to minority shareholders	<u>(883)</u>	<u>(608)</u>
Change in noncontrolling interests	<u>(7)</u>	<u>1,320</u>
Change in total net assets	4,983	23,708
Net assets, beginning of year	<u>242,541</u>	<u>218,833</u>
Net assets, end of year	\$ <u><u>247,524</u></u>	\$ <u><u>242,541</u></u>

See accompanying notes to consolidated financial statements.

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

Consolidated Statements of Cash Flows

Years ended May 31, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in total net assets	\$ 4,983	23,708
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	36,543	41,726
Amortization of premium and debt issuance costs, net	(1,319)	(1,515)
Distributions to noncontrolling interests	883	608
Net realized and unrealized losses (gains) on investments	3,800	(8,132)
Gain on disposal of property and equipment	57	33
Accrued pension cost adjustments	458	(8,274)
Increase (decrease) in cash due to changes in:		
Patient accounts receivable	4,404	(6,992)
Inventories	638	(1,490)
Prepaid expenses and other current assets	(3,824)	2,008
Other assets and deferred compensation plan assets	(1,113)	(2,072)
Accounts payable	(1,373)	(129)
Accrued payroll and related liabilities	(2,853)	4,102
Accrued pension cost	(1,880)	(6,564)
Other liabilities and deferred compensation plan obligations	769	(804)
Due to third-party payors	5,084	(2,509)
Net cash provided by operating activities	<u>45,257</u>	<u>33,704</u>
Cash flows from investing activities:		
Acquisition and construction of property and equipment	(21,252)	(48,747)
Purchases of investment securities	(260,788)	(103,945)
Proceeds from sales and maturities of investment securities	203,514	100,655
Change in assets limited as to use	4,949	30,963
Net cash used in investing activities	<u>(73,577)</u>	<u>(21,074)</u>
Cash flows from financing activities:		
Payments on long-term debt	(9,500)	(6,795)
Distributions to noncontrolling interests	(883)	(608)
Net cash used in financing activities	<u>(10,383)</u>	<u>(7,403)</u>
Net (decrease) increase in cash and cash equivalents	(38,703)	5,227
Cash and cash equivalents, beginning of year	<u>54,890</u>	<u>49,663</u>
Cash and cash equivalents, end of year	\$ <u>16,187</u>	<u>54,890</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 27,766	17,909
Noncash activity:		
Accrued but unpaid costs of property and equipment additions	165	374

See accompanying notes to consolidated financial statements.

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

Notes to Consolidated Financial Statements

May 31, 2019 and 2018

(In thousands)

### **(1) Organization and Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Owensboro Health, Inc. (Owensboro Health), a Kentucky nonstock, nonprofit corporation, and its affiliated entities (the System). Owensboro Health's wholly owned and controlled affiliated entities include Owensboro Health Medical Group, Inc. (OHMG); Owensboro Health Muhlenberg Community Hospital (OHMCH); The Foundation for Health, Inc.; The Health Network of Western Kentucky, LLC (HNWK); and Commonwealth Medical Management, LLC. Owensboro Ambulatory Surgical Facility Ltd. (OASF), a 65.7% owned affiliated entity, is also included in the consolidated financial statements.

These consolidated financial statements include the accounts of entities which the System maintains a controlling financial interest, as well as entities in which the System has a variable interest and the System is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

### **(2) Summary of Significant Accounting Policies**

#### ***(a) Use of Estimates***

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management of the System to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### ***(b) Cash and Cash Equivalents***

Cash and cash equivalents include certain investments in highly liquid debt investments with maturities of three months or less at date of purchase.

#### ***(c) Investments***

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the consolidated balance sheet date. Investment income or loss (including both unrealized and realized gains and losses on investments, interest, and dividends) is included in the excess of revenue and gains over expenses and losses, unless the income or loss is restricted by donor or law, as all investments are considered trading securities.

#### ***(d) Inventories***

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost and net realizable value.

#### ***(e) Assets Limited as to Use***

Assets limited as to use include assets held by trustees under indenture and other funding agreements. Amounts required to meet current liabilities of the System are classified as current assets in the accompanying consolidated balance sheets.

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

Notes to Consolidated Financial Statements

May 31, 2019 and 2018

(In thousands)

### **(f) Property and Equipment**

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support and are excluded from the excess of revenue and gains over expenses and losses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

### **(g) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of**

Long-lived assets, goodwill, and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less estimated costs to sell.

### **(h) Other Assets**

Other assets consist primarily of goodwill, which represents the excess of the purchase price over the actual fair value of assets acquired and other assets. Goodwill was approximately \$13,195 at May 31, 2019 and 2018.

### **(i) Basis of Accounting**

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the System and changes therein are classified and reported as follows:

*Net assets without donor restrictions* – Net assets that are not subject to donor-imposed stipulations.

*Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations; Such stipulations may be met either by actions of the System and/or by the passage of time.

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

Notes to Consolidated Financial Statements

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(In thousands)

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor-restricted net assets whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

### **(j) Excess of Revenue and Gains over Expenses and Losses**

The accompanying consolidated statements of operations include excess of revenue and gains over expenses and losses. Changes in net assets without donor restrictions, which are excluded from excess of revenue and gains over expenses and losses, consistent with industry practice, include the recognition of pension liability adjustments arising during the current period, the cumulative effect of accounting principle changes, permanent transfers of assets to and from nonconsolidated affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions that were restricted for the purposes of acquiring such assets).

### **(k) Net Patient Service Revenue**

Net patient service revenue is reported at the amount that reflects the consideration to which the System 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. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System 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 Systems' hospital receiving inpatient acute care services or patients receiving services in the Systems' outpatient centers. The System measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to patients and customers in a retail setting (e.g., pharmaceuticals) as a component of other revenue in the accompanying consolidated

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

### Notes to Consolidated Financial Statements

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(In thousands)

statements of operations, and the System does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in Financial Accounting Standards Board Accounting Standard Codification Paragraph 606-10-50-14a, *Revenue From Contracts With Customers*, 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 previously 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 System 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 System's policy, and implicit price concessions provided to patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience.

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System'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 (i.e., as new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care service revenue in the period of the change.

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

Notes to Consolidated Financial Statements

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(In thousands)

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.

### **(l) Charity Care**

The System provides care to patients who meet certain criteria under its charity care policy at amounts less than its established rates or without charge. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

### **(m) Income Taxes**

Owensboro Health and its affiliated entities, OHMG, OHMCH, and the Foundation for Health, Inc. are nonprofit corporations and have been recognized as tax-exempt under Section 501(a) of the IRC as entities described in Section 501(c)(3) of the IRC. HNWK is a single-member LLC with 100% of its profits and losses attributable to Owensboro Health. For OASF, a partnership, the liability for any income taxes is the responsibility of the OASF partners.

The System applies FASB ASC Topic 740, *Accounting for Uncertainty in Income Taxes*. ASC Topic 740 provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There is currently no impact on the System's consolidated financial statements as a result of the application of ASC Topic 740.

### **(n) Computer Software Costs**

Certain costs related to the development or purchase of internal-use software are capitalized and amortized over the estimated life of the software. In addition, costs related to the preliminary project stage and the post implementation/operations stage in an internal-use computer software development project are expensed as incurred. The System capitalized approximately \$1,601 and \$2,773 in 2019 and 2018, respectively, of costs related to its development of new system software.

### **(o) Pension Accounting Standard**

The System follows the recognition and disclosure provisions of FASB ASC Subtopic 715-20, *Defined Benefit Plans*. ASC Subtopic 715-20 (among other things) requires that the System recognize the unfunded status of its defined-benefit pension plan on its consolidated balance sheets. The System measures the plan at May 31 each year.

ASC Subtopic 715-20 also requires that the System provide enhanced disclosures related to pension plan assets, including disclosures related to the fair value of the plan assets. These enhanced disclosures are included in these consolidated financial statements at note 12.

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

Notes to Consolidated Financial Statements

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(In thousands)

### **(p) Fair Value Measurements**

The System follows FASB ASC Topic 820, *Fair Value Measurement*, which defines fair value, establishes an enhanced framework for measuring fair value, and expands disclosures about fair value measurements.

### **(q) Noncontrolling Interests**

The System follows ASC Topic 958, *Not-for-Profit Entities*. The guidance requires that noncontrolling ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated balance sheets within net assets but separate from the parent's net assets. In addition, the standard requires that a consolidated schedule of changes in net assets attributable to the parent and noncontrolling interests be provided for each class of net assets for which a noncontrolling interest exists during the reporting period.

### **(r) Reclassifications**

Certain reclassifications have been made to the 2018 consolidated financial statements in order for them to conform to the 2019 presentation.

### **(s) New Accounting Pronouncements**

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the intent of reducing diversity in reporting practice, reducing complexity, and enhancing understandability of not-for-profit (NFP) financial statements. This ASU contains the following key aspects: (A) reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; (B) requires all NFPs to present expenses by their functional and their natural classifications in one location in the financial statements; (C) requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date; and (D) retains the options to present operating cash flows in the statement of cash flows using either the direct or indirect method. The System implemented ASU No. 2016-14 as of June 1, 2018. The impact of adoption resulted in enhanced disclosures about the classification of expenses and management of liquid resources. As a result of the adoption temporarily restricted net assets became net assets with donor restrictions and unrestricted net assets became net assets without donor restrictions. See further discussion in notes 14 and 15.

In May 2014, the FASB issued ASC Topic No. 606, *Revenue from Contracts with Customers* (ASC 606). ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. As a result, amounts previously classified as the provision for bad debts in the consolidated statement of operations is now reflected as implicit price concessions and, therefore, included as a reduction to net operating revenue. For the years ended May 31, 2019 and 2018, the System recorded approximately \$34,959 and \$29,031, respectively, of implicit price concessions as a direct reduction of patient care service revenue that would have been recorded as provision for bad debt prior to the adoption of ASC 606. For the years ended May 31, 2019 and 2018, the System recorded approximately \$51,715 and \$56,597, respectively, as a direct reduction of patient accounts receivable that would have been reflected as allowance for uncollectible accounts prior to the

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

### Notes to Consolidated Financial Statements

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(In thousands)

adoption of ASC 606. ASC 606 also requires expanded disclosures regarding the System's revenue recognition policies and significant judgments employed in the determination of revenue. The System adopted ASC 606 with a retrospective approach in fiscal year 2019. Other than these changes in presentation and disclosure, the adoption of ASC 606 did not have a material impact on the accompanying consolidated balance sheets or consolidated statements of operations and changes in net assets for the years ended May 31, 2019 or 2018.

In February 2016, the FASB issued ASU No. 2016-12, *Leases*, that will require an entity to recognize leased assets and the rights and obligations created by those leased assets on the balance sheet and to disclose information about the System's leasing arrangements. This guidance became effective for the System on June 1, 2019. The System is evaluating the effect of the adoption will have on the consolidated financial statements.

### (3) Charity Care

Self-pay revenue is primarily derived from patients who do not have any form of healthcare coverage and from patient responsibility after insurances have paid their obligations. The revenue associated with self-pay patients is generally reported at the System's gross charges. The System evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, or other government assistance programs, as well as the System's policy for charity care. The System provides assistance in applying for Medicaid and/or other government assistance programs if the evaluation determines they may be eligible for such a program.

The System provides care without charge to patients that qualify under the System's charity care policy. The policy takes into consideration family size, income, and medical indigence in determining eligibility. Patients at 300% and below the Federal Poverty Level are eligible for 100% financial assistance, with a sliding scale up to 400% of Federal Poverty Guidelines for eligibility of 80% financial assistance.

The System's management estimates its costs of care provided under its charity care programs utilizing a calculated ratio of total costs (less bad debt expense) to gross charges multiplied by the System's gross charity care charges provided to charity patients for the period. The System's gross charity care charges include only services provided to patients who are unable to pay and qualify under the charity care policy. The System does not report a charity care patient's charges in net patient service revenue or in the estimated uncollectible as it is the System's policy not to pursue collection of amounts related to these patients.

The following information measures the level of charity care provided during the years ended May 31, 2019 and 2018:

		<u>2019</u>	<u>2018</u>
Charges forgone based on established rates	\$	18,136	14,131
Estimated costs and expenses incurred to provide charity care		5,988	4,780
Equivalent percentage of charity care charges to all charges		1.0 %	0.8 %

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

### Notes to Consolidated Financial Statements

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The System received approximately \$13,400 and \$2,387 in 2019 and 2018, respectively, from the Commonwealth of Kentucky as a Disproportionate Share Hospital payment for the provision of care to indigent citizens.

#### (4) Business and Credit Concentration

The System provides healthcare service through its inpatient and outpatient care facilities located primarily in Owensboro, Kentucky. The System grants credit to its patients and generally does not require collateral or other security in extending credit to patients. However, the System routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations, and commercial insurance policies).

Patient accounts receivable include net receivables from the federal government (Medicare), the Commonwealth of Kentucky (Medicaid), and Blue Cross at May 31, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 29,735	33,203
Medicaid	11,673	15,508
Blue cross	<u>21,659</u>	<u>26,411</u>
Total	<u>\$ 63,067</u>	<u>75,122</u>

At May 31, 2019 and 2018, the System had deposits at financial institutions of approximately \$14,248 and \$52,948, respectively, in excess of the Federal Deposit Insurance Corporation limits. Further, investments in U.S. government and U.S. government agency securities are not guaranteed by the U.S. government or otherwise insured.

#### (5) Investments and Assets Limited as to Use

In accordance with ASC Topic 820, the System has categorized its financial instruments, based on the priority of inputs used in related valuation techniques, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument.

When available, the System generally uses quoted market prices to determine fair value and classifies such items as Level 1. The System's Level 2 securities are bonds whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

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The System's Level 3 securities comprise alternative investments that have less liquidity, a stale quoted price, or varying price from independent sources. The System's Level 3 alternative investments' prices are obtained from the related fund manager. For the System's funds of funds, the manager receives account statements directly from independent administrators or the underlying hedge fund managers, who are responsible for the pricing of these funds. Before relying on these valuations, the System evaluates the fair value estimation processes and control environment, the investee fund's policies and procedures in estimating the fair value of underlying investments, the investee fund's use of independent third-party valuation experts, the portion (approximately 100% for the System) of the underlying securities traded on active markets, and the professional reputation and standing of the investee fund's auditor.

Investments stated at fair value at May 31, 2019 and 2018 include the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 7,659	6,346
U.S. Treasury obligations	39,534	17,730
Federal mortgage-backed securities	1,727	1,934
Corporate bonds	57,864	45,426
Equity securities	28,086	15,996
Mutual funds	93,454	87,703
Certificates of deposit	5,380	5,356
Accrued interest receivable	680	419
Total	<u>\$ 234,384</u>	<u>180,910</u>

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

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The fair value hierarchy of investments is as follows:

	<b>2019</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Cash and cash equivalents	\$ 7,659	—	—	7,659
U.S. Treasury obligations	39,534	—	—	39,534
Federal mortgage-backed securities:				
Residential	—	1,727	—	1,727
Corporate bonds:				
Domestic	—	44,577	—	44,577
International	—	13,287	—	13,287
Equity securities:				
Consumer discretionary	3,176	—	—	3,176
Consumer staples	209	—	—	209
Energy	2,741	—	—	2,741
Financial	6,634	—	—	6,634
Healthcare	4,812	—	—	4,812
Industrials	3,174	—	—	3,174
Information technology	2,469	—	—	2,469
Materials	1,991	—	—	1,991
Real estate	648	—	—	648
Telecommunication services	2,039	—	—	2,039
Utilities	194	—	—	194
Mutual funds:				
Large-cap equity securities	16,459	—	—	16,459
Small- and mid-cap equity securities	19,498	—	—	19,498
International equity securities	20,600	—	—	20,600
Bond funds	36,896	—	—	36,896
Certificates of deposit	5,380	—	—	5,380
Accrued interest receivable	680	—	—	680
	<u>\$ 174,793</u>	<u>59,591</u>	<u>—</u>	<u>234,384</u>

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

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	<b>2018</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Cash and cash equivalents	\$ 6,346	—	—	6,346
U.S. Treasury obligations	17,730	—	—	17,730
Federal mortgage-backed securities:				
Residential	—	1,934	—	1,934
Corporate bonds:				
Domestic	—	29,374	—	29,374
International	—	16,052	—	16,052
Equity securities:				
Consumer discretionary	993	—	—	993
Energy	2,164	—	—	2,164
Financial	5,341	—	—	5,341
Healthcare	2,618	—	—	2,618
Industrials	1,394	—	—	1,394
Information technology	2,088	—	—	2,088
Materials	923	—	—	923
Telecommunication services	376	—	—	376
Utilities	99	—	—	99
Mutual funds:				
Large-cap equity securities	18,319	—	—	18,319
Small- and mid-cap equity securities	17,533	—	—	17,533
International equity securities	16,342	—	—	16,342
Bond funds	35,509	—	—	35,509
Certificates of deposit	5,356	—	—	5,356
Accrued interest receivable	419	—	—	419
	<u>\$ 133,550</u>	<u>47,360</u>	<u>—</u>	<u>180,910</u>

The System had no investments classified as Level 3 investments during 2019 or 2018.

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

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Assets limited as to use stated at fair value at May 31, 2019 and 2018 include the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 26,224	31,162
Accrued interest receivable	<u>1</u>	<u>12</u>
Total assets limited as to use	26,225	31,174
Less amounts required to meet current obligations	<u>23,096</u>	<u>22,864</u>
	\$ <u>3,129</u>	<u>8,310</u>

As of May 31, 2019 and 2018, all of assets limited as to use were considered Level 1 investments.

Assets limited as to use in the accompanying consolidated balance sheets were established in accordance with the requirements of the indentures related to the various revenue bond issues discussed in note 9, which require the following funds:

	<u>2019</u>	<u>2018</u>
Principal and interest funds	\$ 23,099	22,874
Construction funds	<u>3,126</u>	<u>8,300</u>
	\$ <u>26,225</u>	<u>31,174</u>

The interest funds are used to pay interest on the various bond issues.

**(6) Investment Income**

Investment income comprised the following for the years ended May 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Investment income:		
Interest and dividend income	\$ 4,978	3,416
Net realized gains on sales of securities	4,604	7,932
Net unrealized (losses) gains on trading securities	(8,404)	200
Management fees and other	<u>(399)</u>	<u>(367)</u>
Investment income, net	\$ <u>779</u>	<u>11,181</u>

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

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(In thousands)

**(7) Property and Equipment**

A summary of property and equipment at May 31, 2019 and 2018 is as follows:

	<b>2019</b>	<b>2018</b>
Land	\$ 20,281	20,280
Land improvements	4,502	4,457
Buildings	684,676	677,129
Fixed equipment	47,365	46,631
Major movable equipment and capitalized software costs	278,656	267,763
	1,035,480	1,016,260
Less accumulated depreciation and amortization	454,427	415,879
	581,053	600,381
Construction in progress	9,642	5,662
	\$ 590,695	606,043

Construction in progress at May 31, 2019 consists primarily of costs incurred for improvements related to various buildings. At May 31, 2019, the remaining commitments on construction contracts approximated \$20,164 for the system, which primarily relate to the Mitchell Memorial Cancer Center project that is expected to be completed during 2020.

There was no capitalized interest expenses for 2019. Capitalized interest expenses for 2018 were approximately \$2,089.

OHMCH is committed to a lease that requires \$600 of annual rent and funding of capital expenditures of \$2,200 per year; however, this amount can be renegotiated annually as expenditures are needed. The System has estimated the present value of this capital expenditure obligation at \$4,600 as of July 1, 2015. This amount is being accreted over the seven-year noncancelable lease term. Accretion was \$657 for the years ended May 31, 2019 and 2018. The lease is for a period of 20 years, with an option for the System to cancel after 7 years.

**(8) Net Patient Service Revenue**

The System participates in the Medicare and Medicaid programs (the Programs). The Programs reimburse the System at amounts different from the established billing rates. Contractual adjustments under the Programs represent the difference between the System's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors is as follows:

**Medicare** – The System is paid for substantially all services rendered to inpatient Medicare Program beneficiaries under prospectively determined rates per discharge. Those rates vary according to a classification system that is based on clinical, diagnostic, and other factors. The Medicare Program reimburses the System on a prospective payment system for hospital outpatient services known as the

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

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Ambulatory Payment Classification (APC) system. Under the APC system, outpatient services are classified into an APC category based on the Current Procedural Terminology-4 code for the service provided, and payment for the APC category is determined using prospectively determined federal payment rates adjusted for regional wage differences. Depreciation and other defined capital costs are reimbursed under a capital prospective payment system. Reimbursement is calculated based on a federal capital payment rate per discharge. The System receives cash payments at a tentative rate, with final settlement determined after the System's submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The System's classification of patients under the Medicare Prospective Payment System and the appropriateness of the patients' admissions are subject to validation reviews by the Medicare peer review organization with which the System is required by law to contract for the performance of such reviews. Revenue from the Medicare program totals approximately 39.1% and 38.8% of the System's net patient service revenue for the years ended May 31, 2019 and 2018, respectively.

**Medicaid** – The System is paid for substantially all services rendered to inpatient Medicaid Program beneficiaries under prospectively determined rates per discharge. Those rates vary according to a classification system that is based on clinical, diagnostic, and other factors. Outpatient services, except for lab services, are reimbursed by the Medicaid program based upon a cost-reimbursement methodology. Final reimbursement rates are determined after submission of annual cost reports by the System and audits by third-party intermediaries. Lab services are reimbursed on a predetermined fee schedule based upon the CPT-4 code for the service provided. Revenue from the Medicaid program totals approximately 12.84% and 14.00% of the System's net patient service revenue for the years ended May 31, 2019 and 2018, respectively. Kentucky Medicaid began to contract with managed care organizations in late 2011. Approximately 90.00% of Kentucky Medicaid enrollees are in a managed care plan.

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

The Kentucky General Assembly enacted a temporary tax on all healthcare providers beginning July 1, 1993. The tax on hospitals is 2.5% of net patient service revenue and contributions received. The tax expense recognized was approximately \$6,447 and \$5,009 at 2019 and 2018, respectively.

Amounts due to third-party payors represent the excess of interim payments received or receivable over estimated final payment rates. Provision has been made in the accompanying consolidated financial statements for the effects of estimated final settlements on open years. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased approximately \$1,439 and \$2,706 for the years ended May 31, 2019 and 2018, respectively, as a result of prior year final settlements in excess of amounts previously estimated and the removal of liabilities related to prior years that are no longer necessary as such years are no longer subject to audits, reviews, and investigations.

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

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The composition of net patient service revenue is as follows:

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$ 1,975,084	1,836,029
Less contractual adjustments, implicit price concessions, and other discounts	<u>1,330,753</u>	<u>1,220,254</u>
Net patient service revenue	\$ <u>644,331</u>	<u>615,775</u>

**(9) Long-Term Debt**

A summary of long-term debt and current maturities of long-term debt at May 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
2010 revenue bonds, Series A, under a Master Trust Indenture, interest from 5.00% to 6.50%, through March 2045	\$ 12,655	18,515
2015 revenue bonds, Series A, under a Master Trust Indenture, interest from 4.50% to 5.25%, through June 2050	67,585	67,585
2015 revenue bonds, Series B, under a Master Trust Indenture, interest from 3.00% to 5.00%, through June 2031	21,235	22,515
2017 revenue bonds, Series A, under a Master Trust Indenture, interest from 4.00% to 5.25%, through June 2045	432,005	433,620
2017 revenue bonds, Series B, under a Master Trust Indenture, interest from 3.75% to 5.00%, through June 2040	<u>39,015</u>	<u>39,015</u>
Total contractual debt	572,495	581,250
Unamortized premiums, net	24,808	26,768
Unamortized debt issuance costs, net	<u>(8,452)</u>	<u>(9,093)</u>
Total debt	588,851	598,925
Less current portion	<u>9,205</u>	<u>8,755</u>
	\$ <u>579,646</u>	<u>590,170</u>

In May 2017, the System, through the Kentucky Economic Development Finance Authority, issued Hospital Revenue Refunding Bonds, Series 2017A and Hospital Revenue Refunding Bonds, Series 2017B (collectively, the 2017 revenue bonds) in the amount of \$433,620 and \$39,015, totaling \$472,635. The proceeds from the issuance were used to partially advance refund the Series 2010A and to fully advance refund the Series 2010B. The portion of the Series 2010A bonds maturing prior to June 1, 2021 were not refunded in the principal amount of approximately \$24,095. As a result of the issuance of the Series 2017 bonds and the defeasance of the Refunded 2010 bonds, in fiscal year 2017, the System recorded a noncash loss on bond defeasance of approximately \$83,073 primarily from the difference between the purchase prices and the par values of the purchased securities of approximately \$63,727 and write-off of

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

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the unamortized bond discounts and issuance costs of approximately \$19,346. The remaining net proceeds were used to pay the premium for the surety bond, to fund the debt service reserve requirement, pay the premium for the policy insuring payment, and pay certain expenses incurred in connection with the issuance.

In July 2015, the System, through the Kentucky Economic Development Finance Authority, issued Hospital Revenue Bonds, Series 2015A and Hospital Revenue Refunding Bonds, Series 2015B (collectively, the 2015 revenue bonds) in the amount of \$67,585 and \$24,885, totaling \$92,470. The proceeds from the issuance were used to provide funding to finance the cost of acquiring, constructing, and equipping the Healthplexes project, refund \$26,758 for portion of the Series 2010B bonds, fund a portion of the interest on the 2015 Series A bonds, and pay certain expenses incurred in connection with the issuance.

In March 2010, the System, through the Kentucky Economic Development Finance Authority, issued Hospital Revenue Bonds, Series 2010A and Hospital Revenue Refunding Bonds, Series 2010B (collectively, the 2010 revenue bonds) in the amount of \$460,645 and \$66,695, totaling \$527,340. The proceeds from the issuance were used to provide funding to finance the cost of acquiring, constructing, and equipping a new nine-story replacement acute care hospital and related service buildings, refund \$152,000 in aggregate principal amount of the 2001 revenue bonds, fund a debt service reserve fund to be used to pay down future debt service, fund a portion of the interest on the 2010 Series A bonds, and pay certain expenses incurred in connection with the issuance. In May 2017, the 2010 Series A bonds were partially refunded by 2017 Series A bonds with current outstanding amount of \$24,095 and 2010 Series B bonds outstanding balance of \$66,695 was fully advanced refunded through the use of proceeds of the 2017 Series B bonds described above.

The 2010, 2015, and 2017 revenue bonds are collateralized by related bond trust funds and pledged revenue. The System has also agreed under the Master Trust Indenture to subject the obligated group to various operational and financial covenants typical of such agreements. The obligated group includes Owensboro Health and OHMG, excluding its subsidiary, OMCL. In addition, the System has granted to the Master Trustee a deed of trust lien on the land and buildings owned by Owensboro Health and a security interest in Owensboro Health's accounts receivable to secure payment of the outstanding revenue bonds.

Scheduled principal repayments on long-term debt are as follows:

	<u>Long-term debt</u>
Year ending May 31:	
2020	\$ 9,205
2021	9,685
2022	10,190
2023	10,710
2024	11,245
Thereafter	<u>521,460</u>
	<u>\$ 572,495</u>

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

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Debt issuance costs, net of approximately \$8,452 and \$9,093 at May 31, 2019 and 2018, respectively, are being amortized over the term of the bonds using the effective-interest method. Amortization was approximately \$641 and \$534 at May 31, 2019 and 2018, respectively.

**(10) Operating Leases**

The System leases certain buildings and equipment under noncancelable operating leases with terms ranging from two to four years. Rent expense under these leases approximated \$888 and \$1,002 for the years ended May 31, 2019 and 2018, respectively. Rental expense, including short-term cancelable rentals, was \$1,898 and \$2,203 for the years ended May 31, 2019 and 2018, respectively.

Future minimum lease payments under these noncancelable operating leases with initial or remaining terms in excess of one year are as follows:

Year ending May 31:		
2020	\$	826
2021		600
2022		600
2023		—
2024		—
Thereafter		—
		<hr/>
Total minimum lease payments	\$	<u><u>2,026</u></u>

**(11) Net Assets with Donor Restrictions**

Net assets with donor restrictions at May 31, 2019 and 2018 are available for use as follows:

	<u>2019</u>	<u>2018</u>
Breast cancer	\$ 85	75
Cancer center	295	322
Cancer center transportation	21	20
Gaines scholarship	28	25
HOPE fund	526	439
Hospitality house	108	112
Kuhlin endowment fund	25	25
Lifespring	24	10
McAuley clinic	196	196
Medicus	73	73
NICU	53	20
Other	198	201
	<hr/>	<hr/>
Net assets with donor restrictions	\$ <u><u>1,632</u></u>	<u><u>1,518</u></u>

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

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**(12) Retirement Plan**

The System has a defined-benefit pension plan, the Owensboro Health Retirement Plan (the Plan), a single-employer pension trust fund. The Plan is available to employees age 21 or older who have completed one year of continuous service and have 1,000 hours of annual service. The benefits are based upon years of service and the employee's average monthly earnings. On January 1, 2014, the plan was frozen, and no further employees were eligible after this date.

The funding policy of the System is to contribute amounts to the Plan at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and subsequent amendments. The System expects to contribute approximately \$11,192 to the Plan during fiscal year 2020.

The following table summarizes the allocation of the assets available for plan benefits at May 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	— %	— %
Equities	—	—
Mutual funds	100	100

The Plan utilizes an investment strategy that focuses on maximizing total return and places limited emphasis on generating income. The Plan's average asset allocation target is 60% equities, 38% fixed income, and 2% cash. The Plan's diversification offers the expectation of higher and more stable returns that will meet the obligations of the Plan.

The actuarially computed net periodic pension cost for 2019 and 2018 included the following components:

	<u>2019</u>	<u>2018</u>
Service cost – benefits earned during the year	\$ 8,617	9,179
Interest cost on projected benefit obligation	6,084	5,589
Expected return on plan assets	(5,875)	(5,338)
Net amortization and deferral	<u>1,853</u>	<u>2,601</u>
Net periodic pension cost	\$ <u>10,679</u>	<u>12,031</u>

The following are the estimated amounts that will be amortized from unrestricted net assets over the next fiscal year:

Amortization of loss	\$ 1,853
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The following tables set forth the Plan's funded status (measured at May 31, 2019 and 2018) and amounts recognized in the System's accompanying consolidated financial statements at May 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Accumulated benefit obligation	\$ (139,919)	(131,245)
Change in projected benefit obligation:		
Projected benefit obligation at the beginning of measurement year	\$ (168,681)	(166,925)
Service cost	(8,617)	(9,179)
Interest cost	(6,085)	(5,589)
Actuarial gain	2,077	4,930
Benefits paid	9,332	8,082
Projected benefit obligation at the end of measurement year	\$ <u>(171,974)</u>	<u>(168,681)</u>
	<u>2019</u>	<u>2018</u>
Change in plan assets:		
Fair value of plan assets at the beginning of measurement year	\$ 113,156	96,562
Actual return on plan assets	1,488	6,081
Employer contributions	12,559	18,595
Benefits paid	(9,332)	(8,082)
Fair value of plan assets at the end of measurement year	\$ <u>117,871</u>	<u>113,156</u>
Funded status	\$ (54,103)	(55,525)
Unrecognized net actuarial loss	—	—
Unrecognized prior service cost	—	—
Accrued pension cost	\$ <u>(54,103)</u>	<u>(55,525)</u>
	<u>2019</u>	<u>2018</u>
Amounts recognized in net assets without donor restrictions:		
Net actuarial loss	\$ <u>36,082</u>	<u>35,624</u>
	\$ <u>36,082</u>	<u>35,624</u>

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	<u>2019</u>	<u>2018</u>
Employer contributions	\$ 12,559	18,595
Plan participants' contributions	—	—
Benefits paid	9,332	8,082

The benefits expected to be paid from the Plan in each year from 2020 to 2024 are approximately \$17,496, \$13,069, \$13,418, \$12,999, and \$13,737, respectively. The aggregate expected benefits to be paid in the five years from 2025 to 2029 are approximately \$74,874. The expected benefits to be paid are based on the same assumptions used to measure the Plan's benefit obligation at May 31 and include estimated future employee service.

Weighted average assumptions used to determine benefit obligation at May 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	3.54 %	3.96 %
Rate of compensation increase	3.00	4.00

Weighted average assumptions used to determine net periodic pension cost for the years ended May 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	3.96 %	3.65 %
Expected long-term rate of return on plan assets	5.60	5.75
Rate of compensation increase	4.00	4.00

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. This assumption is based on historical returns of the Plan. Unrecognized gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets are amortized on a straight-line basis over the average remaining service period of participants expected to receive benefits under the Plan, which is 10 years at May 31, 2019 and 2018.

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In accordance with ASC Subtopic 715-20, the System has categorized its plan assets, based on ASC Topic 820 and the priority of inputs used in related valuation techniques, into a three-level fair value hierarchy, as described in note 5. All plan assets at May 31, 2019 and 2018 include the following:

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 117,871	113,156
Total	\$ <u>117,871</u>	<u>113,156</u>

The fair value hierarchy of plan assets is as follows:

					<u>2019</u>			
					<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:								
Large-cap equity securities	\$	21,127	—	—	21,127			
Small- and mid-cap equity securities		15,891	—	—	15,891			
International equity securities		22,290	—	—	22,290			
Debt securities		50,660	7,903	—	58,563			
	\$	<u>109,968</u>	<u>7,903</u>	<u>—</u>	<u>117,871</u>			

					<u>2018</u>			
					<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:								
Large-cap equity securities	\$	21,845	—	—	21,845			
Small- and mid-cap equity securities		17,071	—	—	17,071			
International equity securities		21,733	—	—	21,733			
Debt securities		37,222	15,285	—	52,507			
	\$	<u>97,871</u>	<u>15,285</u>	<u>—</u>	<u>113,156</u>			

Effective January 2006, the System adopted the Owensboro Health, Inc. Nonqualified Supplemental Retirement Plan (Supplemental Retirement Plan). The Supplemental Retirement Plan was formed under Section 457(f) of the IRC of 1986, and management believes that it complies with all provisions applicable to a nonqualified deferred compensation plan under IRC Section 409A. Participants are eligible for employer contributions from 12% to 15% based on their position with the System. The employer contribution for each year is 100% vested after five years. Employer contributions occur each December 31. The System has accrued expenses related to the Supplemental Retirement Plan of

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

Notes to Consolidated Financial Statements

May 31, 2019 and 2018

(In thousands)

approximately \$292 and \$250 as of May 31, 2019 and 2018, and these are included in accrued payroll and related liabilities in the consolidated balance sheets.

### **(13) Risk Management and Self-Insured Liabilities**

Effective January 1, 2003, the System maintains malpractice liability insurance with a commercial carrier on a claims-made basis for losses in excess of \$250 per occurrence. The System is self-insured for the first \$250 per occurrence. On January 1, 2004, the self-insured amount increased from \$250 to \$500 per occurrence. On January 1, 2005, the self-insured amount increased from \$500 to \$1,000 per occurrence. On December 1, 2010, the self-insured amount increased from \$1,000 to \$1,500 per occurrence. On June 1, 2018, the self-insured amount increased from \$1,500 to \$2,000. Accordingly, the System has made a provision in the accompanying consolidated financial statements for estimated unpaid malpractice claims, including incurred but not reported claims. The current retention for claims and incidents reported is \$2,000 per claim, with an \$8,000 policy retention aggregate. The overall retroactive application date is January 1, 1978.

Through December 31, 2002, the System had professional liability insurance coverage with Reciprocal of America (ROA) on a claims-made basis. On April 30, 2003, the Commonwealth of Virginia filed an application to order ROA into liquidation. On June 20, 2003, the Virginia State Corporation Commission entered an Order of Liquidation declaring that ROA should be liquidated. Management believes that only a portion of all claims reported to ROA through December 31, 2002 will be paid through the ROA liquidation process. Management also believes that the System has adequately accrued for any potential shortfall for the payment of these reported claims and any incurred but not reported claims.

The System is self-insured up to the stop-loss amount of \$500 annually per individual for its medical and other healthcare benefits provided to its employees and their families. Contributions by the System and participating employees are based on actual claims experience. A provision for known claims and estimated incurred but not reported claims for those employees in the self-insured plan has been provided in the accompanying consolidated financial statements.

The System is self-insured up to \$500 per occurrence for workers' compensation claims and has purchased insurance to provide coverage for claims in excess of the self-insured retention. Such insurance coverage is on an occurrence basis. The System has made a provision in the accompanying consolidated financial statements for estimated workers' compensation claims known and estimated incurred but not reported claims.

The System is subject to various claims and lawsuits arising in the normal course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect in the System's accompanying consolidated financial statements. Additionally, management is unaware of any unasserted claims that would have a material impact on the accompanying consolidated financial statements.

**OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

Notes to Consolidated Financial Statements

May 31, 2019 and 2018

(In thousands)

**(14) Functional Expenses**

The System provides general healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended May 31, 2019 and 2018 are as follows:

	2019									
	Program expenses					Supporting activities				
	Hospitals (OHRH & OHMCH)	Medical Group (OHMG)	Owensboro Ambulatory Surgery Facility	One Health Network	Total programs	General and administrative	Owensboro Health Foundation	Total supporting	Total operating expenses	
Salaries and benefits	\$ 201,151	95,635	3,079	231	300,096	57,784	454	58,238	358,334	
Supplies	122,340	4,302	2,561	—	129,203	3,234	6	3,240	132,443	
Interest, depreciation, and amortization	42,716	5,388	239	—	48,343	16,114	2	16,116	64,459	
Purchased services and other	53,750	10,584	1,284	33	65,651	27,928	498	28,426	94,077	
Total operating expenses	\$ <u>419,957</u>	<u>115,909</u>	<u>7,163</u>	<u>264</u>	<u>543,293</u>	<u>105,060</u>	<u>960</u>	<u>106,020</u>	<u>649,313</u>	

  

	2018									
	Program expenses					Supporting activities				
	Hospitals (OHRH & OHMCH)	Medical Group (OHMG)	Owensboro Ambulatory Surgery Facility	One Health Network	Total programs	General and administrative	Owensboro Health Foundation	Total supporting	Total operating expenses	
Salaries and benefits	\$ 192,085	89,342	2,834	1,279	285,540	56,741	401	57,142	342,682	
Supplies	111,370	3,919	2,468	109	117,866	3,125	4	3,129	120,995	
Interest, depreciation, and amortization	47,613	3,842	214	—	51,669	17,223	2	17,225	68,894	
Purchased services and other	39,214	11,833	1,276	46	52,369	35,788	302	36,090	88,459	
Total operating expenses	\$ <u>390,282</u>	<u>108,936</u>	<u>6,792</u>	<u>1,434</u>	<u>507,444</u>	<u>112,877</u>	<u>709</u>	<u>113,586</u>	<u>621,030</u>	

**(15) Availability of Resources and Liquidity**

The System has \$340,686 of financial assets available within one year of the consolidated balance sheet date to meet cash needs for general expenditure consisting of cash and cash equivalents of \$16,187; investments of \$234,384; and patient accounts receivable, net of \$90,115. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. Patient accounts receivable is expected to be collected within one year. The System has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

## **OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES**

Notes to Consolidated Financial Statements

May 31, 2019 and 2018

(In thousands)

### **(16) Related-Party Transactions**

Owensboro Health has a 50% ownership in Owensboro Community Health Network, Inc. (OCHN); the other 50% owner is Ohio Valley Physicians Association, Inc. OCHN was incorporated in August 1999 and operates a preferred provider organization in the Commonwealth of Kentucky by contracting with various providers to provide medical services to the employees of contracted employers. Owensboro Health accounts for their OCHN investment on the equity method based on its ownership percentage. Owensboro Health is an employer utilizing OCHN's network. Owensboro Health paid OCHN approximately \$77 and \$73, respectively, in network administration fees for the years ended May 31, 2019 and 2018. Owensboro Health leases employees to OCHN for an amount equal to the employees' salaries plus benefits. For the years ended May 31, 2019 and 2018, OCHN reimbursed Owensboro Health approximately \$229 and \$215, respectively, for the salaries and benefits of these leased employees. Owensboro Health provides accounting functions to OCHN for a fee. Fees charged for the years ended May 31, 2019 and 2018 were approximately \$10.

Owensboro Health has a 65.7% ownership in OASF as of May 31, 2019 and 2018, with the remaining 34.3% owned by individual physicians and co-general partner Surgical Care Affiliates (SCA) for both years. OASF pays a management fee to SCA of 5.0% of net revenue, less bad debt expense. This management fee was approximately \$527 and \$471 for the years ended May 31, 2019 and 2018, respectively.

### **(17) Subsequent Events**

The System has evaluated events subsequent to September 3, 2019 and through the date on which the consolidated financial statements were issued and identified no items.

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

Consolidating Schedule – Balance Sheet Information

May 31, 2019

(In thousands)

Assets	Owensboro	The	OMCL	HNWK	CIN	Muhlenberg	Elimination	Owensboro	OASF	OASF	Consolidated
	Health	OHMG						Foundation for Health, Inc.		Health subtotal	
Current assets:											
Cash and cash equivalents	\$ 11,666	2,176	655	—	—	605	—	15,102	1,085	—	16,187
Investments	231,396	—	2,988	—	—	—	—	234,384	—	—	234,384
Patient accounts receivable, net	79,461	5,438	—	—	—	4,428	—	89,327	788	—	90,115
Inventories	11,721	142	—	—	—	1,541	—	13,404	3	—	13,407
Prepaid expenses and other current assets	457,544	700	20	—	938	5,194	(450,762)	13,634	102	—	13,736
Assets limited as to use, current portion	23,096	—	—	—	—	—	—	23,096	—	—	23,096
Total current assets	814,884	8,456	3,663	—	938	11,768	(450,762)	388,947	1,978	—	390,925
Assets limited as to use, less current portion	3,129	—	—	—	—	—	—	3,129	—	—	3,129
Property and equipment, net	479,584	104,848	2	—	—	5,205	—	589,639	1,056	—	590,695
Deferred compensation plan assets	13,389	—	—	—	—	—	—	13,389	—	—	13,389
Other assets	40,328	1,429	53	—	—	—	(26,906)	14,904	1,220	(2,469)	13,655
Total assets	\$ 1,351,314	114,733	3,718	—	938	16,973	(477,668)	1,010,008	4,254	(2,469)	1,011,793
<b>Liabilities and Net Assets</b>											
Current liabilities:											
Current maturities of long-term debt	\$ 9,205	—	—	—	—	—	—	9,205	—	—	9,205
Accounts payable	16,249	1,530	48	—	—	681	—	18,508	111	—	18,619
Accrued payroll and related liabilities	23,418	2,329	—	—	—	691	—	26,438	294	—	26,732
Other current liabilities	34,053	421,217	97	—	2,105	4,320	23,058	(450,761)	34,089	224	34,313
Due to third-party payors	25,246	65	—	—	—	849	—	26,160	—	—	26,160
Total current liabilities	108,171	425,141	145	—	2,105	4,320	25,279	(450,761)	114,400	629	115,029
Deferred compensation plan obligations	13,389	—	—	—	—	—	—	13,389	—	—	13,389
Long-term debt, less current maturities	579,646	—	—	—	—	—	—	579,646	—	—	579,646
Other noncurrent liabilities	—	—	—	—	—	—	—	—	76	—	76
Contractual lease obligation	—	—	—	—	—	2,026	—	2,026	—	—	2,026
Accrued pension cost	54,103	—	—	—	—	—	—	54,103	—	—	54,103
Total liabilities	755,309	425,141	145	—	2,105	4,320	27,305	(450,761)	763,564	705	764,269
Net assets (deficit):											
Without donor restrictions	596,005	(310,408)	1,941	—	(2,105)	(3,382)	(10,332)	244,812	3,549	(3,600)	244,761
With donor restrictions	—	—	1,632	—	—	—	—	1,632	—	—	1,632
Total net assets (deficit) attributable to Owensboro Health, Inc.	596,005	(310,408)	3,573	—	(2,105)	(3,382)	(10,332)	246,444	3,549	(3,600)	246,393
Noncontrolling interests	—	—	—	—	—	—	—	—	—	1,131	1,131
Total net assets (deficit)	596,005	(310,408)	3,573	—	(2,105)	(3,382)	(10,332)	246,444	3,549	(2,469)	247,524
Total liabilities and net assets (deficit)	\$ 1,351,314	114,733	3,718	—	938	16,973	(477,668)	1,010,008	4,254	(2,469)	1,011,793

See accompanying independent auditors' report.

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

Consolidating Schedule – Statement of Operations and Changes in Net Assets Information

Year ended May 31, 2019

(In thousands)

	OHRH	OHMG	The Foundation for Health, Inc.	OMCL	HNWK	CIN	Muhlenberg	Elimination entries	Owensboro Health subtotal	OASF	OASF consolidation and elimination entries	Consolidated
Net patient service revenue	\$ 535,751	65,136	—	—	—	—	33,101	—	633,988	10,343	—	644,331
Other operating revenue	7,111	10,818	1,431	—	—	—	2,316	(10,863)	10,813	11	(484)	10,340
Total revenue without donor restrictions	542,862	75,954	1,431	—	—	—	35,417	(10,863)	644,801	10,354	(484)	654,671
Patient service and other expenses:												
Personnel	224,421	106,904	454	—	—	231	24,256	(1,011)	355,255	3,079	—	358,334
Professional fees	15,623	11,826	107	—	—	—	1,446	(3,692)	25,310	577	—	25,887
Drugs and supplies	119,571	5,021	6	—	—	—	6,671	(1,387)	129,882	2,561	—	132,443
Plant maintenance and operations	15,509	5,534	38	—	—	3	2,765	(3,956)	19,893	736	(484)	20,145
Kentucky provider tax	5,776	—	—	—	—	—	671	—	6,447	—	—	6,447
Other expenses	34,504	4,136	574	—	—	30	2,898	(1,000)	41,142	456	—	41,598
Depreciation and amortization	28,022	7,185	2	—	—	—	1,022	—	36,231	312	—	36,543
Interest expense	27,909	—	—	—	—	—	—	—	27,909	7	—	27,916
Total patient service and other expenses	471,335	140,606	1,181	—	—	264	39,729	(11,046)	642,069	7,728	(484)	649,313
Operating income (loss)	71,527	(64,652)	250	—	—	(264)	(4,312)	183	2,732	2,626	—	5,358
Nonoperating gains (losses):												
Investment income (loss), net	757	3	—	—	—	—	19	—	779	—	—	779
Contributions and other	2,016	35	—	—	—	(5)	(40)	(183)	1,823	(69)	(1,681)	73
Nonoperating gains, net	2,773	38	—	—	—	(5)	(21)	(183)	2,602	(69)	(1,681)	852
Excess (deficiency) of revenue and gains over expenses and losses before noncontrolling interests	74,300	(64,614)	250	—	—	(269)	(4,333)	—	5,334	2,557	(1,681)	6,210
Noncontrolling interests	—	—	—	—	—	—	—	—	—	—	(876)	(876)
Excess (deficiency) of revenue and gains over expenses and losses	74,300	(64,614)	250	—	—	(269)	(4,333)	—	5,334	2,557	(2,557)	5,334
Accrued pension cost adjustment	(458)	—	—	—	—	—	—	—	(458)	—	—	(458)
Change in net assets without donor restrictions	73,842	(64,614)	250	—	—	(269)	(4,333)	—	4,876	2,557	(2,557)	4,876
Net assets with donor restrictions:												
Contributions	—	—	315	—	—	—	—	—	315	—	—	315
Net assets released from restrictions used for operations	—	—	(201)	—	—	—	—	—	(201)	—	—	(201)
Change in net assets with donor restrictions	—	—	114	—	—	—	—	—	114	—	—	114
Noncontrolling interests:												
Excess (deficiency) of revenue and gains over expenses and losses	—	—	—	—	—	(1)	—	—	(1)	—	877	876
Distributions to minority shareholders	—	—	—	—	—	2	—	—	2	(2,580)	1,695	(883)
Change in noncontrolling interests	—	—	—	—	—	1	—	—	1	(2,580)	2,572	(7)
Change in total net assets (deficit)	73,842	(64,614)	364	—	—	(268)	(4,333)	—	4,991	(23)	15	4,983
Net assets (deficit), beginning of year	522,163	(245,794)	3,209	—	(2,105)	(3,114)	(5,999)	(26,907)	241,453	3,572	(2,484)	242,541
Net assets (deficit), end of year	\$ 596,005	(310,408)	3,573	—	(2,105)	(3,382)	(10,332)	(26,907)	246,444	3,549	(2,469)	247,524

See accompanying independent auditors' report.



## OBLIGATED GROUP

## Combining Schedule – Statement of Operations and Changes in Net Assets Information

Year ended May 31, 2019

(In thousands)

	Owensboro Health	OMHG	Combination and elimination entries	Obligated Group
Net patient service revenue	\$ 535,751	65,136	—	600,887
Other operating revenue	7,111	10,818	(8,678)	9,251
Total revenue without donor restrictions	542,862	75,954	(8,678)	610,138
Patient service and other expenses:				—
Personnel	224,421	106,904	(1,078)	330,247
Professional fees	15,623	11,826	(3,568)	23,881
Drugs and supplies	119,571	5,021	(1,678)	122,914
Plant maintenance and operation	15,509	5,534	(2,347)	18,696
Kentucky provider tax	5,776	—	—	5,776
Other expenses	34,504	4,136	(7)	38,633
Depreciation and amortization	28,022	7,185	—	35,207
Interest expense	27,909	—	—	27,909
Total patient service and other expenses	471,335	140,606	(8,678)	603,263
Operating income (loss)	71,527	(64,652)	—	6,875
Nonoperating gains:				—
Investment income net	757	3	—	760
Contributions and other	2,016	35	—	2,051
Nonoperating gains, net	2,773	38	—	2,811
Excess of revenue (deficiency) and gains over expenses and losses	74,300	(64,614)	—	9,686
Accrued pension cost adjustment	(458)	—	—	(458)
Change in net assets without donor restrictions	73,842	(64,614)	—	9,228
Net assets (deficiency), beginning of year	522,163	(245,794)	(26,906)	249,463
Net assets (deficiency), end of year	\$ 596,005	(310,408)	(26,906)	258,691

See accompanying independent auditors' report.

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

OHRH Utilization Statistics (Unaudited)

Years ended May 31

	2019	2018	2017	2016	2015
Patient days:					
Acute patient days	63,234	62,507	71,770	75,943	70,289
TCC patient days	6,887	8,073	8,129	7,038	7,288
Rehab patient days	4,273	4,777	4,418	4,754	3,675
Total patient days	74,394	75,357	84,317	87,735	81,252
Average adult daily census	204	206	231	240	223
Licensed beds	477	477	477	477	477
Average number of available beds	384	384	380	352	352
Average adult occupancy	53%	54%	61%	68%	63%
Adult discharges:					
Acute discharges	15,254	14,920	16,145	17,073	15,909
Transitional Care Center (TCC) discharges	643	778	741	698	744
Rehab discharges	378	398	380	426	326
Total adult discharges	16,275	16,096	17,266	18,197	16,979
Average adult length of stay:					
Acute length of stay	4.2	4.2	4.5	4.4	4.4
Transitional Care Center (TCC) length of stay	11.3	10.7	11.0	10.1	9.8
Rehab length of stay	11.4	11.8	11.5	11.2	11.3
Total average adult length of stay	4.6	4.7	4.9	4.8	4.8
Number of deliveries	2,080	2,060	2,059	2,123	1,961
Surgical cases:					
Inpatient	3,602	3,495	3,832	4,224	3,888
Outpatient	9,341	9,108	8,975	8,746	8,186
Endoscopy	5,415	4,577	4,650	4,939	4,978
Ambulatory Surgery Center	7,601	6,902	6,249	6,068	5,918
Total surgical cases	25,959	24,082	23,706	23,977	22,970
Emergency room visits	68,067	70,286	73,129	73,074	68,718
Average number of visits per day	186	193	200	200	188

## OWENSBORO HEALTH, INC. AND AFFILIATED ENTITIES

## OHRH &amp; OHMG Utilization Statistics (Unaudited)

Years ended May 31

	2019	2018	2017	2016	2015
Outpatient visits:					
OHMG clinic visits	495,793	473,309	480,105	442,017	468,716
OHRH outpatient ED visits	58,478	60,844	62,826	62,220	58,373
OHRH observation visits	5,259	4,523	3,778	3,059	3,526
Total outpatient visits	<u>559,530</u>	<u>538,676</u>	<u>546,709</u>	<u>507,296</u>	<u>530,615</u>
Outpatient surgery cases:					
OHRH	9,341	9,108	8,975	8,746	8,186
ASC	7,601	6,902	6,249	6,068	5,918
Total outpatient surgery cases	<u>16,942</u>	<u>16,010</u>	<u>15,224</u>	<u>14,814</u>	<u>14,104</u>
OHRH ancillary visits:					
Lab	209,381	203,907	129,803	109,421	90,497
Physical therapy	32,355	32,198	30,502	28,417	24,340
Wound care	3,298	3,444	3,432	3,113	3,086
Total ancillary visits	<u>245,034</u>	<u>239,549</u>	<u>163,737</u>	<u>140,951</u>	<u>117,923</u>
OHRH diagnostic visits:					
Radiology	132,602	128,557	128,816	125,855	110,768
Cath lab:					
Inpatient cases	1,117	1,133	1,174	1,035	1,119
Outpatient cases	2,738	2,257	2,216	1,732	1,864
Total cath lab cases	<u>3,855</u>	<u>3,390</u>	<u>3,390</u>	<u>2,767</u>	<u>2,983</u>
Total diagnostic visits	<u>136,457</u>	<u>131,947</u>	<u>132,206</u>	<u>128,622</u>	<u>113,751</u>
Total outpatient visits	<u>956,846</u>	<u>925,049</u>	<u>856,702</u>	<u>790,648</u>	<u>775,274</u>
Employees only:					
Hospital	2,931	2,929	2,861	3,016	2,966
System	4,268	4,279	4,195	4,292	3,518
FTE's with contract:					
Hospital	2,637	2,597	2,627	2,676	2,604
System	3,842	3,805	3,831	3,787	3,246

See accompanying independent auditors' report.