

**PARKVIEW HEALTH SYSTEM, INC.
AND AFFILIATES**

**Combined Financial Statements
For the Years Ended June 30, 2018 and 2017,
Supplemental Information
For the Year Ended June 30, 2018
And
Independent Auditors' Report**

PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017	
Combined Balance Sheets	3
Combined Statements of Operations	4
Combined Statements of Changes in Net Assets	5
Combined Statements of Cash Flows	6
Notes to Combined Financial Statements	7
SUPPLEMENTAL COMBINING INFORMATION FOR THE YEAR ENDED JUNE 30, 2018	
Combining Balance Sheet	22
Combining Statement of Operations	23

INDEPENDENT AUDITORS' REPORT

Board of Directors
Parkview Health System, Inc.

We have audited the accompanying combined financial statements of Parkview Health System, Inc. and Affiliates (collectively, the Health System) which comprise the combined balance sheets as of June 30, 2018 and 2017 and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Parkview Health System, Inc. and affiliates as of June 30, 2018 and 2017 and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental combining information on pages 22 and 23 is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Stockman Kast Ryan & Co., LLP

September 24, 2018

PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

COMBINED BALANCE SHEETS JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 15,717,609	\$ 19,009,714
Short-term investments	12,509,500	6,952,210
Current portion of assets limited as to use	4,916,823	5,448,539
Patient accounts receivable, net	45,297,398	41,967,601
Inventories	6,584,659	6,060,566
Other current assets	<u>5,555,056</u>	<u>5,858,778</u>
Total current assets	90,581,045	85,297,408
LONG-TERM INVESTMENTS	213,507,909	221,387,487
ASSETS LIMITED AS TO USE		
Investments held by bond trustee	43,393,300	70,690,144
LAND, BUILDINGS AND EQUIPMENT, NET	197,057,193	175,250,623
INTANGIBLE ASSETS, NET	2,635,235	2,971,935
OTHER ASSETS	<u>972,538</u>	<u>886,924</u>
TOTAL ASSETS	<u>\$ 548,147,220</u>	<u>\$ 556,484,521</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 35,449,559	\$ 37,736,660
Estimated third-party payer settlements	29,060,812	47,532,813
Current maturities of bonds and notes payable	<u>3,286,508</u>	<u>3,707,101</u>
Total current liabilities	67,796,879	88,976,574
BONDS AND NOTES PAYABLE	<u>168,203,073</u>	<u>174,223,386</u>
TOTAL LIABILITIES	<u>235,999,952</u>	<u>263,199,960</u>
NET ASSETS		
Unrestricted:		
Parkview Health System	309,214,829	290,523,360
Non-controlling interest in subsidiary	<u>871,686</u>	<u>857,858</u>
Total unrestricted	310,086,515	291,381,218
Temporarily restricted	<u>2,060,753</u>	<u>1,903,343</u>
Total net assets	<u>312,147,268</u>	<u>293,284,561</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 548,147,220</u>	<u>\$ 556,484,521</u>

See notes to combined financial statements.

PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

COMBINED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Patient service revenue, net of contractual allowances	\$ 443,154,647	\$ 409,582,537
Provision for bad debts	<u>(31,350,549)</u>	<u>(24,035,008)</u>
Net patient service revenue, less provision for bad debts	411,804,098	385,547,529
Other operating revenue	<u>8,859,060</u>	<u>9,640,392</u>
Total	<u>420,663,158</u>	<u>395,187,921</u>
OPERATING EXPENSES		
Salaries and benefits	165,335,886	159,038,906
Physician practice expenses	88,817,104	70,599,591
Supplies and drugs	74,885,372	68,081,171
Purchased services	34,525,567	43,549,675
Depreciation and amortization	17,063,396	18,793,560
Medical education	5,810,950	5,793,800
Interest	3,680,354	4,240,706
Other expenses	<u>14,637,298</u>	<u>13,195,898</u>
Total	<u>404,755,927</u>	<u>383,293,307</u>
INCOME FROM OPERATIONS	<u>15,907,231</u>	<u>11,894,614</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	6,336,856	5,171,991
Other expense, net	<u>(60,233)</u>	<u>(2,529,797)</u>
Total	<u>6,276,623</u>	<u>2,642,194</u>
EXCESS OF REVENUES OVER EXPENSES	22,183,854	14,536,808
Net unrealized losses on investments	(3,299,037)	(359,441)
Net assets released from restrictions — capital acquisition and other	263,061	224,922
Distributions to non-controlling member of subsidiary	<u>(442,581)</u>	<u>(411,962)</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 18,705,297</u>	<u>\$ 13,990,327</u>

See notes to combined financial statements.

PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

COMBINED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
UNRESTRICTED NET ASSETS		
Excess of revenues over expenses	\$ 22,183,854	\$ 14,536,808
Net unrealized losses on investments	(3,299,037)	(359,441)
Net assets released from restrictions — capital acquisitions and other	263,061	224,922
Distributions to non-controlling member of subsidiary	<u>(442,581)</u>	<u>(411,962)</u>
Increase in unrestricted net assets	<u>18,705,297</u>	<u>13,990,327</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions restricted for capital acquisitions and other purposes	420,471	412,586
Net assets released from restrictions — capital acquisitions and other	<u>(263,061)</u>	<u>(224,922)</u>
Increase in temporarily restricted net assets	<u>157,410</u>	<u>187,664</u>
INCREASE IN NET ASSETS	18,862,707	14,177,991
NET ASSETS, Beginning of year	<u>293,284,561</u>	<u>279,106,570</u>
NET ASSETS, End of year	<u>\$ 312,147,268</u>	<u>\$ 293,284,561</u>

See notes to combined financial statements.

PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 18,862,707	\$ 14,177,991
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,063,396	18,793,560
Unrealized losses on investments	3,299,037	359,441
Other	804,064	4,099,567
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(3,329,797)	(1,729,478)
Other current assets	(220,371)	1,062,112
Accounts payable and accrued liabilities	(2,639,562)	(1,459,838)
Estimated third-party payer settlements	<u>(18,472,001)</u>	<u>(7,431,051)</u>
Net cash provided by operating activities	<u>15,367,473</u>	<u>27,872,304</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales or maturities of investments	12,124,162	39,315,297
Purchases of investments	(12,983,605)	(58,237,011)
Purchases of land, buildings and equipment	(39,505,325)	(26,574,119)
(Increase) decrease in assets limited as to use	27,828,560	(68,944,674)
Other	<u>332,135</u>	<u>165,371</u>
Net cash used in investing activities	<u>(12,204,073)</u>	<u>(114,275,136)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of bonds	19,214,440	73,974,770
Principal payments on bonds and notes	<u>(25,669,945)</u>	<u>(3,597,141)</u>
Net cash provided by (used in) financing activities	<u>(6,455,505)</u>	<u>70,377,629</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,292,105)	(16,025,203)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>19,009,714</u>	<u>35,034,917</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 15,717,609</u>	<u>\$ 19,009,714</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest, net of interest capitalized of \$2,215,673 and \$2,200,850 during 2018 and 2017, respectively	<u>\$ 4,162,276</u>	<u>\$ 3,506,231</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Construction in progress and equipment acquired with accounts payable	<u>\$ 352,461</u>	<u>\$ 2,260,149</u>
Acquisition of equipment through issuance of promissory note	<u>\$ 446,587</u>	<u>\$ —</u>

See notes to combined financial statements.

PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

FOR NOTES TO COMBINED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Parkview Health System, Inc. (Parkview Health System), a Colorado not-for-profit corporation, controls the following affiliates: Parkview Medical Center, Inc. (the Medical Center); Parkview Ancillary Services, LLC (Parkview Ancillary Services); and Pueblo Health Care, Inc. (Pueblo Health Care). Parkview Health System provides management and financial services to the other entities. The Medical Center operates hospital facilities and provides a wide range of acute care services primarily to patients in southeastern Colorado. Parkview Ancillary Services operates physician practices and provides billing services. Pueblo Health Care provides contract management services for the Medical Center and other health care providers. Parkview Foundation, Inc. (the Foundation), an affiliated entity, solicits and holds charitable contributions for the benefit of the Health System.

As of June 30, 2018 and 2017, the Medical Center has a 51% interest in Parkwest Imaging Center, LLC, an imaging center (Parkwest Imaging Center).

Principles of Combination — The combined financial statements for the years ended June 30, 2018 and 2017 include the accounts of Parkview Health System, the Medical Center, the Foundation, Parkview Ancillary Services, Pueblo Health Care, and Parkwest Imaging Center (collectively, the Health System). The combined financial statements include all assets, liabilities, revenues and expenses of Parkwest Imaging Center. Accordingly, the financial statements include the earnings and equity of the 49% non-controlling interest in Parkwest Imaging Center (see Note 13). All significant intercompany transactions have been eliminated in combination.

Basis of Presentation — The combined financial statements are prepared on the accrual basis of accounting. The Health System reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Temporarily restricted net assets are those whose use has been limited by donors to a specific purpose. Permanently restricted net assets are those whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization. The Health System has no permanently restricted net assets as of June 30, 2018 and 2017.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — The Health System considers all highly liquid investments not included in assets limited as to use and purchased with an initial maturity of three months or less to be cash equivalents. The Health System maintains deposits in financial institutions and these deposits exceed federally insured limits.

Investments — Investments in debt and equity securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized losses that are not considered other-than-temporary and unrealized gains are excluded from the excess of revenues over expenses.

Patient Accounts Receivable — The Health System reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients, and others. The Health System provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions for its major payer groups. Management regularly reviews information about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

As a service to the patient, the Health System bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off based on individual credit evaluation and specific circumstances of the patient or third-party payer.

For receivables associated with services provided to patients who have third-party coverage, the Health System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

At June 30, 2018 and 2017, accounts receivable are net of allowances for doubtful accounts of \$4,493,137 and \$3,182,974, respectively. The Health System's allowance for doubtful accounts for self-pay patients was 97% and 93% of self-pay accounts receivable at June 30, 2018 and 2017, respectively. The Health System did not have a material allowance for doubtful accounts from third-party payers as of June 30, 2018 and 2017.

Net Patient Service Revenue — Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are recognized 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.

Inventories — Inventories are stated at the lower of cost (first-in, first-out) or market.

Assets Limited as to Use — Assets limited as to use consist of investments held by the bond trustee for construction and debt service. Amounts required to meet current liabilities of the Health System are classified as current assets.

Land, Buildings and Equipment — Land, buildings and equipment are recorded at cost. Net interest incurred during the construction period is included in the cost of buildings. Depreciation is computed using the straight-line method over the estimated useful lives of assets. All acquisitions of land, buildings and equipment in excess of \$2,000 and expenditures for repairs, maintenance and improvements that materially extend the useful lives of assets are capitalized. Effective October 1, 2017, the Health System elected a change in accounting estimate and restated the remaining useful lives of the assets based upon a detailed professional study. Depreciable lives range from 3 to 20 years (was 3 to 15 years) for equipment and 5 to 40 years for buildings and building components. The effect of this change was to increase the excess of revenues over expenses by approximately \$2,700,000 for the year ended June 30, 2018.

Intangible Assets — Intangible assets relate to the acquisition of Pueblo Imaging Center, LLC during the year ended June 30, 2015 and consist of existing referring physician relationships, trademarks, and goodwill. The Health System amortizes the existing referring physician relationships over their estimated useful life of 10 years. The Health System does not amortize goodwill, but it is tested for impairment using a fair value approach. The Health System has determined that there was no impairment of goodwill as of June 30, 2018 and 2017.

Deferred Financing Costs — Financing costs incurred in connection with the issuance of bonds are deferred and amortized using the effective interest method over the life of the bonds. Such financing costs are netted with Bond and Notes Payable in the combined balance sheets.

Investments in Affiliates — The Health System accounts for its investments in affiliates using the cost or equity methods depending on its ability to exercise influence over the affiliates' operating and financial policies. Such investments are recorded in Other Assets in the combined balance sheets.

Statement of Operations — The statement of operations includes the performance indicator, Excess of Revenues over Expenses. Changes in unrestricted net assets which are excluded from Excess of Revenues over Expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Income Taxes — Parkview Health System and its affiliates, except Pueblo Health Care, are exempt from income taxes. Pueblo Health Care is a taxable entity but did not incur material tax liabilities for the years ended June 30, 2018 and 2017. Parkview Imaging Center and Parkview Ancillary Services are limited liability companies and are not subject to income taxes.

The Health System accounts for any uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Health System believes that it does not have any uncertain tax positions that are material to the financial statements.

Electronic Health Records Incentive Program — The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible medical centers that demonstrate meaningful use of certified electronic health records technology. Payments under both programs are contingent on the Health System continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events

could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Health System recognizes revenue when management has determined compliance with all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. During the year ended June 30, 2017, the Health System recognized \$1,109,637 of other operating revenue relating to electronic health records incentives. No revenue was recognized during the year ended June 30, 2018.

Subsequent Events — The Health System has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date of issuance of the financial statements.

2. NET PATIENT SERVICE REVENUE

A summary of patient service revenue and contractual adjustments is as follows for the years ended June 30:

	2018	2017
Patient service revenue		
Inpatient	\$ 1,020,770,400	\$ 944,106,917
Outpatient	<u>1,177,843,161</u>	<u>1,036,778,083</u>
Total gross patient service revenue	2,198,613,561	1,980,885,000
Contractual allowances	<u>(1,755,458,914)</u>	<u>(1,571,302,463)</u>
Patient service revenue, net of contractual allowances	443,154,647	409,582,537
Provision for bad debts	<u>(31,350,549)</u>	<u>(24,035,008)</u>
Net patient service revenue, less provision for bad debts	<u>\$ 411,804,098</u>	<u>\$ 385,547,529</u>

Patient service revenue, net of contractual allowances (but before the provision for bad debts), recognized during the years ended June 30, 2018 and 2017 consists of the following:

	2018	2017
Medicare	\$ 119,722,101	\$ 121,733,682
Medicaid	50,838,536	46,107,874
Other third-party payers	243,930,162	218,877,977
Self-pay	<u>28,663,848</u>	<u>22,863,004</u>
Total	<u>\$ 443,154,647</u>	<u>\$ 409,582,537</u>

The Health System has agreements with third-party payers that provide for payments to the Health System at amounts different from its established rates. A summary of the payment arrangements under the Medicare and Medicaid programs follows:

- *Medicare* - Services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Health System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicare fiscal intermediary.

- *Medicaid* - Services rendered to Medicaid program beneficiaries were reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for other services through October 2016. Beginning in November 2016, services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. The Health System is reimbursed at a tentative rate with final settlement determined after audits by the Medicaid fiscal intermediary. Although state-administered, the Medicaid program is a joint federal and state program for which the federal government pays a portion of the cost.

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. The 2018 and 2017 net patient service revenue amounts increased by approximately \$13,899,000 and \$13,157,000, respectively, due to prior-year settlements, revisions of estimates, and the reversal of allowances previously estimated that are no longer necessary as a result of final settlements. The 2018 and 2017 amounts include approximately \$11 million and \$6 million, respectively, resulting from a reduction in the estimated liability for repayment of Medicaid provider fees received in prior years. During 2018, a court ruling resulted in changes to the calculation of the amounts of provider fees to be repaid. As a result of the updated calculation, the Health System eliminated its entire estimated provider fee repayment liability for all years of approximately \$11 million. The Medicare and Medicaid programs could be materially modified in future years. Any material changes in the funds provided under these programs would have a correspondingly material effect on the Health System's results from operations.

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

The Health System grants equal access to health care services to all members of its community regardless of financial status. It is the Health System's policy to bill for, and pursue collection of, all services rendered. At the point in time that a charge is believed to be uncollectible, the related receivable is written off. Annual provisions are made for estimated uncompensated services, which include bad debts and other uncollectible amounts. See Note 9 regarding charity and indigent care provided by the Health System.

3. INVESTMENTS

Investments consist of the following as of June 30:

	2018	2017
Short-term investments	\$ 12,509,500	\$ 6,952,210
Long-term investments	213,507,909	221,387,487
Investments held by bond trustee	<u>48,310,123</u>	<u>76,138,683</u>
Total	<u>\$ 274,327,532</u>	<u>\$ 304,478,380</u>

Generally accepted accounting principles require the Health System to use a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Health System has the ability to access.

Level 2: Valuations determined using significant other observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Valuations determined using significant unobservable inputs.

The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Cash equivalents, mutual funds and equity securities are valued at quoted prices in active markets. U.S. government and agency securities, corporate fixed income securities and certificates of deposit are valued at quoted prices in inactive markets and using other observable inputs.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Health System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by Level, within the fair value hierarchy, the Health System's investments at fair value as of June 30:

	Cost	Unrealized Gains (Losses)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
2018:					
U.S. government and agency securities	\$ 185,035,144	\$ (5,871,560)	\$ 179,163,584		\$ 179,163,584
Domestic equities	20,811,319	4,540,492	25,351,811	\$ 25,351,811	
Corporate fixed income securities	22,048,923	(408,118)	21,640,805		21,640,805
International equities	10,369,335	498,900	10,868,235	10,868,235	
Certificates of deposit	10,977,011	(229,018)	10,747,993		10,747,993
Domestic equity mutual funds	4,579,048	5,996,121	10,575,169	10,575,169	
Cash equivalents	8,608,219		8,608,219	8,608,219	
International equity mutual funds	4,266,031	818,305	5,084,336	5,084,336	
Real estate mutual fund	2,002,949	284,431	2,287,380	2,287,380	
Total	\$ 268,697,979	\$ 5,629,553	\$ 274,327,532	\$ 62,775,150	\$ 211,552,382
2017:					
U.S. government and agency securities	\$ 206,568,138	\$ (2,480,221)	\$ 204,087,917		\$ 204,087,917
Domestic equities	21,051,714	4,459,473	25,511,187	\$ 25,511,187	
Corporate fixed income securities	20,973,168	62,581	21,035,749		21,035,749
Certificates of deposit	15,140,254	40,831	15,181,085		15,181,085
Cash equivalents	14,662,157		14,662,157	14,662,157	
Domestic equity mutual funds	4,349,817	4,816,361	9,166,178	9,166,178	
International equities	6,784,813	1,059,628	7,844,441	7,844,441	
International equity mutual funds	4,122,739	630,790	4,753,529	4,753,529	
Real estate mutual fund	1,905,827	330,310	2,236,137	2,236,137	
Total	\$ 295,558,627	\$ 8,919,753	\$ 304,478,380	\$ 64,173,629	\$ 240,304,751

The Health System has no investments valued using significant unobservable inputs (Level 3) as of June 30, 2018 and 2017.

Investments in unrealized loss positions for greater than one year were as follows as of June 30:

	Cost	Unrealized Losses	Fair Value
2018:			
U.S. government and agency securities	\$ 163,661,049	\$ (6,023,075)	\$ 157,637,974
Corporate fixed income securities	4,646,174	(132,486)	4,513,688
Certificates of deposit	3,753,000	(164,006)	3,588,994
Domestic equities	792,646	(50,959)	741,687
Domestic equity mutual funds	<u>55,438</u>	<u>(412)</u>	<u>55,026</u>
Total	<u>\$ 172,908,307</u>	<u>\$ (6,370,938)</u>	<u>\$ 166,537,369</u>
2017:			
U.S. government and agency securities	\$ 11,976,729	\$ (500,839)	\$ 11,475,890
Certificates of deposit	<u>418,000</u>	<u>(12,128)</u>	<u>405,872</u>
Total	<u>\$ 12,394,729</u>	<u>\$ (512,967)</u>	<u>\$ 11,881,762</u>

The unrealized losses on the Health System's U.S. government and agency securities, corporate fixed income securities, and certificates of deposit were caused primarily by interest rate fluctuations. The unrealized losses on the domestic equities and domestic equity mutual funds relate to normal market fluctuations. Because the Health System has the ability and intent to hold these investments until a recovery of fair value, which may be maturity where applicable, the Health System does not consider these investments to be other-than-temporarily impaired at June 30, 2018 and 2017.

Realized gains and losses on disposal of investments are computed as the difference between the proceeds received from the sale and the cost of the specific investment. Investment income includes \$34,150 and \$283,687 of realized losses for the years ended June 30, 2018 and 2017, respectively.

The terms of bond indentures provide for the establishment of various bond trust funds which can be used only for the purposes designated in the agreements (see Note 7). Such funds are classified as current to the extent that funds on hand will be used to satisfy current liabilities, including maturities of bond principal. Funds held for construction are classified as long-term.

The Health System routinely invests the majority of its surplus operating funds in fixed income investments including U.S. government and agency obligations, certificates of deposit and corporate fixed income securities. Management believes that credit risk related to such investments is not material to the accompanying financial statements.

4. PATIENT ACCOUNTS RECEIVABLE

The Health System grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. The composition of net patient accounts receivable is as follows as of June 30:

	2018	2017
Medicare	25%	26%
Medicaid	12%	18%
Other third-party payers	61%	55%
Patients	<u>2%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

The Health System has an agreement with a bank under which the Health System guarantees loans made by the bank to patients to enable the patients to satisfy their obligations to the Health System. As of June 30, 2018 and 2017, outstanding loans not yet collected by the bank totaled approximately \$3,034,000 and \$3,000,000, respectively. The Health System has recorded an allowance of approximately \$1,134,000 and \$1,120,000 for estimated losses relating to potential repurchases of such loans as of June 30, 2018 and 2017, respectively.

5. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following as of June 30:

	2018	2017
Buildings and improvements	\$ 240,271,558	\$ 234,042,199
Equipment and furniture	129,049,748	115,615,562
Land and improvements	14,264,157	12,816,821
Construction in progress	<u>20,855,822</u>	<u>16,968,616</u>
Total	404,441,285	379,443,198
Less accumulated depreciation	<u>(207,384,092)</u>	<u>204,192,575</u>
Land, buildings and equipment, net	<u>\$ 197,057,193</u>	<u>\$ 175,250,623</u>

6. INTANGIBLE ASSETS

Intangible assets relate to the acquisition of Pueblo Imaging Center, LLC in August 2014 and consist of the following as of June 30:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
2018:			
Amortized intangible assets:			
Existing physician relationships	\$ 3,264,000	\$ (1,278,400)	\$ 1,985,600
Trademarks	<u>103,000</u>	<u>(40,342)</u>	<u>62,658</u>
Total	3,367,000	(1,318,742)	2,048,258
Goodwill	<u>586,977</u>	<u> </u>	<u>586,977</u>
Intangible assets, net	<u>\$ 3,953,977</u>	<u>\$ (1,318,742)</u>	<u>\$ 2,635,235</u>
2017:			
Amortized intangible assets:			
Existing physician relationships	\$ 3,264,000	\$ (952,000)	\$ 2,312,000
Trademarks	<u>103,000</u>	<u>(30,042)</u>	<u>72,958</u>
Total	3,367,000	(982,042)	2,384,958
Goodwill	<u>586,977</u>	<u> </u>	<u>586,977</u>
Intangible assets, net	<u>\$ 3,953,977</u>	<u>\$ (982,042)</u>	<u>\$ 2,971,935</u>

Amortization expense on amortized intangible assets for both the years ended June 30, 2018 and 2017 was \$336,700.

Estimated future amortization expense as of June 30, 2018 is as follows:

2019	\$ 336,700
2020	336,700
2021	336,700
2022	336,700
2023	336,700
Thereafter	<u>364,758</u>
Total	<u>\$ 2,048,258</u>

7. BONDS AND NOTES PAYABLE

Bonds and notes payable consist of the following as of June 30:

	2018	2017
Series 2017 Hospital Revenue Refunding Bonds	\$ 16,815,000	
Series 2016 Hospital Revenue Bonds	70,590,000	\$ 70,590,000
Series 2015A Hospital Revenue Refunding Bonds	4,065,000	4,500,000
Series 2015B Hospital Revenue Refunding Bonds	37,315,000	37,425,000
Series 2014 Hospital Revenue Refunding Bonds	8,850,000	9,860,000
Series 2012 Hospital Revenue Bonds	25,460,000	26,460,000
Series 2007B Hospital Revenue Refunding Bonds		23,090,000
Notes payable	<u>1,783,743</u>	<u>1,362,101</u>
Bonds and notes payable, principal balances	164,878,743	173,287,101
Bond issue premiums	7,959,308	5,845,141
Bond issuance costs	<u>(1,348,470)</u>	<u>(1,201,755)</u>
Total	171,489,581	177,930,487
Less current maturities	<u>3,286,508</u>	<u>3,707,101</u>
Long-term maturities	<u>\$ 168,203,073</u>	<u>\$ 174,223,386</u>

Bond issue premiums and bond issuance costs are being amortized over the lives of the respective bonds.

In October 2017, Hospital Revenue Refunding Bonds, Series 2017, were issued to provide for the defeasance of \$23,090,000 of the Health System's Series 2007B Bonds. The 2017 Bonds mature in varying installments through September 2029 with interest rates ranging from 3% to 5%. Bond interest and principal are deposited with the bond trustee in annual requirements ranging from \$263,900 to \$2,949,550. The 2017 Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture. The proceeds of the Series 2017 Bonds were deposited with an escrow agent to provide for the future debt service payments on the Series 2007B Bonds. Since the Series 2007B Bonds were defeased, the liability for these bonds was removed from the financial statements.

In September 2016, Hospital Revenue Bonds, Series 2016, were issued in the amount of \$70,590,000 to fund various construction projects. The 2016 Bonds mature in varying installments from 2037 through September 2046 with interest rates ranging from 3.125% to 5%. Bond interest and principal are deposited with the bond trustee in annual requirements ranging from \$2,814,256 to \$7,997,500. The 2016 Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture.

In June 2015, Hospital Revenue Refunding Bonds, Series 2015A, were issued to provide for the defeasance of \$6,370,000 of the Health System's Series 2005 Bonds. The 2015A Bonds mature in varying installments through September 2025 with interest rates ranging from 2% to 5%. Bond interest and principal are deposited with the bond trustee in annual requirements ranging from \$543,538 to \$589,425. The 2015A Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture. The proceeds of the Series 2015A Bonds were deposited with an escrow agent to provide for the future debt service payments on the Series 2005 Bonds. Since the Series 2005 Bonds were defeased, the liability for these bonds was removed from the financial statements.

In June 2015, Hospital Revenue Refunding Bonds, Series 2015B, were issued to provide for the defeasance of \$38,380,000 of the Health System's Series 2007A Bonds. The 2015B Bonds mature in varying installments through September 2031 with interest rates ranging from 2% to 5%. Bond interest and principal are deposited with the bond trustee in annual requirements ranging from \$1,769,975 to \$6,295,400. The 2015B Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture. The proceeds of the Series 2015B Bonds were deposited with an escrow agent to provide for the future debt service payments on the Series 2015A Bonds. Since the Series 2007A Bonds were defeased, the liability for these bonds was removed from the financial statements.

In September 2014, Hospital Revenue Refunding Bonds, Series 2014, were issued for the repayment of \$13,245,000 of the Health System's Series 2004 Bonds. The 2014 Bonds mature in varying installments through September 2025 with an interest rate of 2.39%. Bond interest and principal are deposited with the bond trustee in annual requirements ranging from \$1,208,202 to \$1,254,435. The 2014 Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture.

In October 2012, Hospital Revenue Bonds, Series 2012, were issued in the amount of \$29,310,000 to fund various construction projects. The 2012 Bonds mature in varying installments through September 2037 with interest rates ranging from 2% to 5%. Bond interest and principal are deposited with the bond trustee in annual requirements ranging from \$1,202,975 to \$2,123,675. The 2012 Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture.

The Bond Indentures require that certain funds be established and controlled by the bond trustee to satisfy project construction and debt service requirements for as long as any of the bonds remain outstanding. At June 30, 2018 and 2017, the following amounts were held in trustee accounts to satisfy these requirements (see Note 3):

	2018	2017
Construction funds	\$ 43,963,191	\$ 68,682,601
Debt service funds	<u>4,346,932</u>	<u>7,456,082</u>
Total	<u>\$ 48,310,123</u>	<u>\$ 76,138,683</u>

Additionally, the terms of the Bond Indenture contain restrictions regarding the issuance of additional debt and the encumbrance or disposition of certain assets and require the Health System and other members of the Obligated Group, as defined, to maintain certain levels of debt service.

The Health System has a promissory note with an outstanding principal balance of \$1,350,000 at June 30, 2018 and 2017 which is collateralized by a building and bears interest payable quarterly at 6% - 7.5%. All principal is due at maturity in January 2030.

The Health System entered into a loan agreement for the purchase of equipment in April 2018. The outstanding principal balance of the loan was \$433,743 at June 30, 2018. The loan is collateralized by equipment and bears interest payable monthly at 4.86%. Principal is payable monthly through April 2023.

The Health System entered into a loan agreement in August 2014. The outstanding principal balance of the loan was \$12,101 at June 30, 2017. The loan was collateralized by equipment and bore interest payable monthly at 4.3%. The loan was paid off in September 2017.

The aggregate future minimum principal repayment requirements of the bonds and notes for each of the next five fiscal years are as follows:

2019	\$ 3,286,508
2020	3,805,559
2021	3,924,811
2022	4,054,274
2023	4,187,591

8. COMMITMENTS

Future minimum lease payments under various operating lease agreements are as follows as of June 30, 2018:

2019	\$ 651,699
2020	313,724
2021	<u>313,724</u>
Total	<u>\$ 1,279,147</u>

Rental expense under operating leases, including month-to-month leases, for the years ended June 30, 2018 and 2017 was approximately \$2,040,000 and \$1,979,000, respectively.

The Health System is the lessor of numerous buildings under operating leases expiring in various years through 2023. The buildings have a cost of \$39,845,968 and accumulated depreciation of \$22,860,217 as of June 30, 2018.

Minimum future rentals to be received on non-cancelable leases as of June 30, 2018 are as follows:

2019	\$ 1,183,972
2020	1,197,122
2021	1,077,732
2022	68,036
2023	<u>58,397</u>
Total	<u>\$ 3,585,259</u>

The Medical Center has a commitment to lend a hospital up to \$2,500,000 under a line of credit agreement entered into in 2014. Interest is charged on advances at 4.75% and advances are collateralized by assets. This agreement will terminate on December 31, 2018, or 24 months after any advances made after December 31, 2016. No advances have been made to the hospital under this agreement.

9. CHARITY AND INDIGENT CARE

The Health System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition to charity care, the Health System provides services to individuals with low incomes under the Medicaid program, for which the payments received are less than the cost of providing the services. The Health System also qualifies indigent patients for the State of Colorado Indigent Care Program (CICP).

The estimated costs incurred under the Health System's charity care policy and Medicaid program are as follows for the years ended June 30 (amounts do not include physician practice or Parkwest Imaging Center balances):

	2018	2017
Medicaid	\$ 76,691,000	\$ 78,128,000
Charity care	1,113,000	657,000

The estimated cost amounts are calculated by multiplying gross uncompensated charges associated with the charity care and Medicaid programs with an estimate of the ratio of costs to gross charges. Patient service revenue under the Medicaid program, excluding prover fees discussed below, was approximately \$39,840,000 and \$36,451,000 for the years ended June 30, 2018 and 2017, respectively (amounts do not include physician practice or Parkwest Imaging Center balances). Patient service revenue under the charity care policy was not significant in amount.

The State of Colorado has implemented a provider fee on Medicaid and CICP providers which generates additional federal matching funds. Provider fees paid and supplemental payments received were as follows for the years ended June 30:

	2018	2017
Supplemental payments received	\$ 56,615,640	\$ 54,610,745
Provider fees paid	<u>(38,826,899)</u>	<u>(35,058,807)</u>
Net excess of payments received over provider fees paid	<u>\$ 17,788,741</u>	<u>\$ 19,551,938</u>

Such amounts have been recorded as an adjustment to net patient service revenue in the accompanying financial statements.

10. EMPLOYEE BENEFIT PLAN

The Health System has a savings plan under Internal Revenue Code Section 401(k) covering all employees who have completed one year of service. Under the Plan, an employee may defer up to 15% of compensation. The Health System contributes 4% of the employee's compensation and matches 50% of the first 3% of compensation contributed by the employee. Employee contributions vest immediately and through December 31, 2017, the Health System's contributions vested over the employee's first six years of employment. As of January 1, 2018, the Plan was amended to have the employees fully vest in the Health System's contributions over a three-year period. Employee benefit expense under this plan for the years ended June 30, 2018 and 2017 was \$7,841,052 and \$6,843,052, respectively.

11. CONTINGENCIES

Medical Malpractice Claims — The Health System maintains professional liability insurance through a claims-made type of commercial insurance policy. The policy provides coverage up to the policy limits for claims filed within the period of the policy term. The policy also provides the Health System with an option to purchase supplemental tail coverage for all claims incurred, but not reported, prior to the termination date of the current policy. The Health System has recorded an estimated liability for claims outstanding and unreported incidents as of June 30, 2018 and 2017.

Litigation — The Health System is involved in certain legal actions in the normal course of business. Management believes that the ultimate resolution with respect to these matters will not materially affect the financial position of the Health System.

12. FUNCTIONAL EXPENSES

The Health System provides health care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended June 30:

	2018	2017
Health care services	\$ 256,566,273	\$ 251,951,708
General and administrative	<u>148,189,654</u>	<u>131,341,599</u>
Total	<u>\$ 404,755,927</u>	<u>\$ 383,293,307</u>

13. NON-CONTROLLING INTEREST IN SUBSIDIARY

The combined financial statements include all assets, liabilities, revenues and expenses of Parkwest Imaging Center, which is 51% owned by the Medical Center. The following table summarizes the changes in unrestricted net assets segregated between controlling and non-controlling interest for the years ended June 30, 2018 and 2017:

	Controlling Interest	Non-controlling Interest	Total
Unrestricted net assets, July 1, 2016	\$ 276,795,689	\$ 595,202	\$ 277,390,891
Excess of revenues over expenses	13,862,190	674,618	14,536,808
Net unrealized losses on investments	(359,441)		(359,441)
Net assets released from restrictions	224,922		224,922
Distributions to non-controlling member	<u> </u>	<u>(411,962)</u>	<u>(411,962)</u>
Unrestricted net assets, June 30, 2017	290,523,360	857,858	291,381,218
Excess of revenues over expenses	21,727,445	456,409	22,183,854
Net unrealized losses on investments	(3,299,037)		(3,299,037)
Net assets released from restrictions	263,061		263,061
Distributions to non-controlling member	<u> </u>	<u>(442,581)</u>	<u>(442,581)</u>
Unrestricted net assets, June 30, 2018	<u>\$ 309,214,829</u>	<u>\$ 871,686</u>	<u>\$ 310,086,515</u>

14. RELATED PARTY TRANSACTIONS

Parkview Health System and its affiliates (see Note 1 – Organization) have board members that are also physicians in practices that contract with the Health System. During the years ended June 30, 2018 and 2017, payments to these practices for services provided to the Health System totaled approximately \$33,000,000 and \$27,000,000, respectively.

**PARKVIEW HEALTH SYSTEM, INC.
AND AFFILIATES**

SUPPLEMENTAL COMBINING INFORMATION

PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

COMBINING BALANCE SHEET JUNE 30, 2018

	Obligated Group ⁽¹⁾	Other Combined Entities	Eliminations	Combined
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 15,211,465	\$ 506,144		\$ 15,717,609
Short-term investments	11,414,827	1,094,673		12,509,500
Current portion of assets limited as to use	4,916,823			4,916,823
Patient accounts receivable, net	45,297,398			45,297,398
Inventories	6,584,659			6,584,659
Other current assets	<u>5,693,843</u>	<u>26,313</u>	<u>\$ (165,100)</u>	<u>5,555,056</u>
Total current assets	89,119,015	1,627,130	(165,100)	90,581,045
LONG-TERM INVESTMENTS	211,403,109	2,104,800		213,507,909
ASSETS LIMITED AS TO USE				
Investments held by bond trustee	43,393,300			43,393,300
LAND, BUILDINGS AND EQUIPMENT, NET	197,166,844		(109,651)	197,057,193
INTANGIBLE ASSETS, NET	2,635,235			2,635,235
INVESTMENTS IN OTHER COMBINED ENTITIES	235,066		(235,066)	
OTHER ASSETS	<u>3,033,290</u>		<u>(2,060,752)</u>	<u>972,538</u>
TOTAL ASSETS	<u>\$ 546,985,859</u>	<u>\$ 3,731,930</u>	<u>\$ (2,570,569)</u>	<u>\$ 548,147,220</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 35,426,884	\$ 187,775	\$ (165,100)	\$ 35,449,559
Estimated third-party payer settlements	29,060,812			29,060,812
Current maturities of bonds and notes payable	<u>3,286,508</u>			<u>3,286,508</u>
Total current liabilities	67,774,204	187,775	(165,100)	67,796,879
BONDS AND NOTES PAYABLE	<u>168,203,073</u>			<u>168,203,073</u>
TOTAL LIABILITIES	<u>235,977,277</u>	<u>187,775</u>	<u>(165,100)</u>	<u>235,999,952</u>
NET ASSETS				
Unrestricted:				
Unrestricted net assets	308,076,144	1,483,402	(344,717)	309,214,829
Non-controlling interest in subsidiary	<u>871,686</u>			<u>871,686</u>
Total unrestricted	308,947,830	1,483,402	(344,717)	310,086,515
Temporarily restricted	<u>2,060,752</u>	<u>2,060,753</u>	<u>(2,060,752)</u>	<u>2,060,753</u>
Total net assets	<u>311,008,582</u>	<u>3,544,155</u>	<u>(2,405,469)</u>	<u>312,147,268</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 546,985,859</u>	<u>\$ 3,731,930</u>	<u>\$ (2,570,569)</u>	<u>\$ 548,147,220</u>

⁽¹⁾ The Obligated Group as defined in the Health System's bond indenture consists of Parkview Medical Center, Inc., Parkview Health System, Inc. and Parkview Ancillary Services, LLC.

PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

COMBINING STATEMENT OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2018

	Obligated Group ⁽¹⁾	Other Combined Entities	Eliminations	Combined
OPERATING REVENUES				
Patient service revenue, net of contractual allowances	\$ 443,154,647			\$ 443,154,647
Provision for bad debts	<u>(31,350,549)</u>			<u>(31,350,549)</u>
Net patient service revenue, less provision for bad debts	411,804,098			411,804,098
Other operating revenue	<u>8,720,041</u>	<u>\$ 278,087</u>	<u>\$ (139,068)</u>	<u>8,859,060</u>
Total	<u>420,524,139</u>	<u>278,087</u>	<u>(139,068)</u>	<u>420,663,158</u>
OPERATING EXPENSES				
Salaries and benefits	165,135,567	200,319		165,335,886
Physician practice expenses	88,817,104			88,817,104
Supplies and drugs	74,885,372			74,885,372
Purchased services	34,574,555		(48,988)	34,525,567
Depreciation and amortization	17,076,687		(13,291)	17,063,396
Medical education	5,810,950			5,810,950
Interest	3,680,354			3,680,354
Other expenses	<u>14,602,507</u>	<u>50,693</u>	<u>(15,902)</u>	<u>14,637,298</u>
Total	<u>404,583,096</u>	<u>251,012</u>	<u>(78,181)</u>	<u>404,755,927</u>
INCOME FROM OPERATIONS	<u>15,941,043</u>	<u>27,075</u>	<u>(60,887)</u>	<u>15,907,231</u>
NON-OPERATING INCOME (EXPENSE)				
Investment income (loss)	6,340,054	(3,198)		6,336,856
Other income (expense), net	158,396	(292,807)	74,178	(60,233)
Equity in income of controlled entities	<u>27,075</u>		<u>(27,075)</u>	
Total	<u>6,525,525</u>	<u>(296,005)</u>	<u>47,103</u>	<u>6,276,623</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 22,466,568</u>	<u>\$ (268,930)</u>	<u>\$ (13,784)</u>	<u>\$ 22,183,854</u>

⁽¹⁾ The Obligated Group as defined in the Health System's bond indenture consists of Parkview Medical Center, Inc., Parkview Health System, Inc. and Parkview Ancillary Services, LLC.