



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

**Combined Financial Statements
For the Years Ended June 30, 2019 and 2018,
Supplemental Information
For the Year Ended June 30, 2019
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, 2019 AND 2018	
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, 2019	
Combining Balance Sheet	24
Combining Statement of Operations	25

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, 2019 and 2018 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, 2019 and 2018 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the Health System adopted Financial Accounting Standards Board Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2016-04, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, effective July 1, 2018. Our opinion is not modified with respect to these matters.

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 24 and 25 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 26, 2019

PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

COMBINED BALANCE SHEETS JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 17,557,305	\$ 15,717,609
Short-term investments	20,305,241	12,509,500
Current portion of assets limited as to use	5,308,220	4,916,823
Patient accounts receivable, net	46,867,588	45,297,398
Inventories	8,190,695	6,584,659
Other current assets	<u>7,514,199</u>	<u>5,555,056</u>
Total current assets	105,743,248	90,581,045
LONG-TERM INVESTMENTS	206,405,280	213,507,909
ASSETS LIMITED AS TO USE		
Investments held by bond trustee	30,592,810	43,393,300
LAND, BUILDINGS AND EQUIPMENT, NET	213,268,382	197,057,193
INTANGIBLE ASSETS, NET	2,298,535	2,635,235
OTHER ASSETS	<u>2,077,021</u>	<u>972,538</u>
TOTAL ASSETS	<u>\$ 560,385,276</u>	<u>\$ 548,147,220</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 39,548,966	\$ 35,449,559
Estimated third-party payor settlements	12,905,676	29,060,812
Current maturities of bonds and notes payable	<u>3,805,559</u>	<u>3,286,508</u>
Total current liabilities	56,260,201	67,796,879
BONDS AND NOTES PAYABLE	<u>164,026,908</u>	<u>168,203,073</u>
TOTAL LIABILITIES	<u>220,287,109</u>	<u>235,999,952</u>
NET ASSETS		
Without donor restrictions:		
Parkview Health System	336,934,533	309,214,830
Non-controlling interest in subsidiary	<u>781,087</u>	<u>871,686</u>
Total without donor restrictions	337,715,620	310,086,516
With donor restrictions	<u>2,382,547</u>	<u>2,060,752</u>
Total net assets	<u>340,098,167</u>	<u>312,147,268</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 560,385,276</u>	<u>\$ 548,147,220</u>

See notes to combined financial statements.

PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

COMBINED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUES		
Patient service revenue, net of contractual allowances		\$ 443,154,647
Provision for bad debts		<u>(31,350,549)</u>
Net patient service revenue	\$ 429,677,227	411,804,098
Other operating revenue	<u>9,075,793</u>	<u>8,859,060</u>
Total	<u>438,753,020</u>	<u>420,663,158</u>
OPERATING EXPENSES		
Salaries and benefits	171,706,270	165,335,886
Physician practice expenses	95,764,232	88,817,104
Supplies and drugs	81,034,227	74,885,372
Purchased services	35,339,312	34,525,567
Depreciation and amortization	17,197,043	17,063,396
Medical education	6,260,278	5,810,950
Interest	4,731,438	3,680,354
Other expenses	<u>15,190,878</u>	<u>14,637,298</u>
Total	<u>427,223,678</u>	<u>404,755,927</u>
INCOME FROM OPERATIONS	<u>11,529,342</u>	<u>15,907,231</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	5,890,535	6,336,856
Other income (expense), net	<u>649,200</u>	<u>(60,233)</u>
Total	<u>6,539,735</u>	<u>6,276,623</u>
EXCESS OF REVENUES OVER EXPENSES	18,069,077	22,183,854
Net unrealized gains (losses) on investments	9,856,412	(3,299,037)
Net assets released from restrictions — capital acquisition and other	327,090	263,061
Distributions to non-controlling member of subsidiary	<u>(623,475)</u>	<u>(442,581)</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 27,629,104</u>	<u>\$ 18,705,297</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, 2019 AND 2018

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess of revenues over expenses	\$ 18,069,077	\$ 22,183,854
Net unrealized (gains) losses on investments	9,856,412	(3,299,037)
Net assets released from restrictions — capital acquisitions and other	327,090	263,061
Distributions to non-controlling member of subsidiary	<u>(623,475)</u>	<u>(442,581)</u>
Increase in net assets without donor restrictions	<u>27,629,104</u>	<u>18,705,297</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions restricted for capital acquisitions and other purposes	648,885	420,471
Net assets released from restrictions — capital acquisitions and other	<u>(327,090)</u>	<u>(263,061)</u>
Increase in net assets with donor restrictions	<u>321,795</u>	<u>157,410</u>
INCREASE IN NET ASSETS	27,950,899	18,862,707
NET ASSETS, Beginning of year	<u>312,147,268</u>	<u>293,284,561</u>
NET ASSETS, End of year	<u>\$ 340,098,167</u>	<u>\$ 312,147,268</u>

See notes to combined financial statements.

PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 27,950,899	\$ 18,862,707
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,197,043	17,063,396
Unrealized gains on investments	(9,856,412)	3,299,037
Other	(721,164)	804,064
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(1,570,190)	(3,329,797)
Other current assets	(3,565,179)	(220,371)
Accounts payable and accrued liabilities	4,099,407	(2,639,562)
Estimated third-party payor settlements	<u>(16,155,136)</u>	<u>(18,472,001)</u>
Net cash provided by operating activities	<u>17,379,268</u>	<u>15,367,473</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales or maturities of investments	29,805,213	12,124,162
Purchases of investments	(19,574,518)	(12,983,605)
Purchases of land, buildings and equipment	(34,446,397)	(39,505,325)
Decrease in assets limited as to use	12,409,093	27,828,560
Other	<u>(446,455)</u>	<u>332,135</u>
Net cash used in investing activities	<u>(12,253,064)</u>	<u>(12,204,073)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of bonds		19,214,440
Principal payments on bonds and notes	<u>(3,286,508)</u>	<u>(25,669,945)</u>
Net cash used in financing activities	<u>(3,286,508)</u>	<u>(6,455,505)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,839,696	(3,292,105)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>15,717,609</u>	<u>19,009,714</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 17,557,305</u>	<u>\$ 15,717,609</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest, net of interest capitalized of \$1,461,211 and \$2,215,673 during 2019 and 2018, respectively	<u>\$ 5,147,964</u>	<u>\$ 4,162,276</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of equipment through issuance of promissory note	<u>\$ —</u>	<u>\$ 446,587</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, 2019 and 2018, 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, 2019 and 2018 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 15). All significant intercompany transactions have been eliminated in combination.

Basis of Presentation — The Health System reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which represents the expendable resources that are available for operations at management's discretion; and net assets with donor restrictions, which represents resources restricted by donors as to purpose or by the passage of time and resources whose use by the Health System is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Health System.

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.

Net Patient Service Revenue and Patient Receivables — Net patient service revenue is reported at the amount that reflects the consideration to which the Health System expects to be entitled for providing patient care. These amounts are due from patients, third-party payors, and others and includes variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. Generally, the Health System bills the patients and third-party payors several days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied.

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

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

The Health System is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Health System accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the Health System has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

The Health System has agreements with third-party payors that generally provide for payments to the Health System at amounts different from its established rates. For uninsured patients who do not qualify for charity care, the Health System recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by the Health System. The

Health System determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured patients in accordance with the Health System's policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration the Health System expects to receive from patients, which are determined based on historical collection experience, current market conditions and other factors.

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The Health System estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not material during the years ended June 30, 2019 or June 30, 2018.

The Health System is paid a prospectively determined rate for the majority of services provided (principally Medicare, Medicaid, and certain insurers). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments are received on a prospective basis for the Health System's medical education costs, subject to certain limits. The Health System is paid for certain cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicare Administrative Contractor.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation as well as significant regulatory action, and, in the normal course of business, the Health System is subject to contractual reviews and audits, including audits initiated by the Medicare Recovery Audit Contractor program. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. The Health System believes it is in compliance with applicable laws and regulations governing the Medicare and Medicaid programs and that adequate provisions have been made for any adjustments that may result from final settlements.

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Health 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 or as years are settled or are no longer subject to such reviews and audits.

Adjustments arising from a change in estimated settlements increased net patient service revenue by approximately \$4.8 million and \$13.9 million in 2019 and 2018, respectively. The 2018 amount includes approximately \$11 million 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.

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, 2019 and 2018.

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. Cost method investments total \$1,396,826 and \$396,826 as of June 30, 2019 and 2018, respectively. Equity method investments total \$495,366 and \$351,057 as of June 30, 2019 and 2018, respectively. Such investments are recorded in Other Assets in the combined balance sheets.

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.

Statements of Operations — The statements of operations include the performance indicator, Excess of Revenues over Expenses. Changes in net assets without donor restrictions which are excluded from Excess of Revenues over Expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, 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, 2019 and 2018. 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.

Changes in Accounting Principles — In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance, including industry-specific guidance, and requires expanded disclosures about revenue recognition. The core principles of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Health System adopted ASU 2014-09 on July 1, 2018 using the modified retrospective method of transition. The Health System performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for net patient service revenue, the Health System performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for bad debts and presented as a reduction to net patient service revenue on the combined statements of operations is treated as a price concession that reduces the transaction price, which is reported as net patient service revenue. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The impact of adopting ASU 2014-09 had no net impact on income from operations, excess of revenues over expenses or total net assets.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. This standard sets forth changes to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The Health System adopted ASU 2016-14 in its 2019 combined financial statements, applied retrospectively to all periods presented. The impact of adoption changes the classification of net assets on the combined balance sheets and combined statements of operations and changes in net assets to two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted. The Health System also added disclosure for the liquidity and availability of financial assets at the balance sheet date to meet cash needs for general expenditures within one year and disaggregated functional expense classifications by their natural expense classification. The impact of adopting ASU 2016-14 had no impact on income from operations, excess of revenues over expenses or total net assets.

Reclassifications — Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

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

The composition of patient service revenue by primary payor and service provider for the years ended June 30, 2019 and 2018 consists of the following:

	2019		
	Hospital	Physician	Total
Medicare	\$ 103,111,382	\$ 22,871,318	\$ 125,982,700
Medicaid	43,563,437	8,222,747	51,786,184
Other third-party payors	232,053,976	18,646,053	250,700,029
Self-pay	<u>1,003,290</u>	<u>205,024</u>	<u>1,208,314</u>
Net patient service revenue	<u>\$ 379,732,085</u>	<u>\$ 49,945,142</u>	<u>\$ 429,677,227</u>

	2018		
	Hospital	Physician	Total
Medicare	\$ 97,947,794	\$ 20,749,385	\$ 118,697,179
Medicaid	41,778,840	8,622,524	50,401,364
Other third-party payors	225,833,762	15,733,285	241,567,047
Self-pay	<u>833,627</u>	<u>304,881</u>	<u>1,138,508</u>
Net patient service revenue	<u>\$ 366,394,023</u>	<u>\$ 45,410,075</u>	<u>\$ 411,804,098</u>

The Health System has agreements with third-party payors 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 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.

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. See Note 9 regarding charity and indigent care provided by the Health System.

3. INVESTMENTS

Investments consist of the following as of June 30:

	2019	2018
Short-term investments	\$ 20,305,241	\$ 12,509,500
Long-term investments	206,405,280	213,507,909
Investments held by bond trustee	<u>35,901,030</u>	<u>48,310,123</u>
Total	<u>\$ 262,611,551</u>	<u>\$ 274,327,532</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:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2019				
U.S. government and agency securities	\$ 158,414,669		\$158,414,669	
Corporate fixed income securities	33,199,925	\$ 33,199,925		
Domestic equities	25,352,703	25,352,703		
Cash equivalents	15,650,659	15,650,659		
Domestic equity mutual funds	11,526,327	11,526,327		
Certificates of deposit	10,779,576		10,779,576	
International equity mutual funds	5,120,968	5,120,968		
Real estate mutual fund	<u>2,566,724</u>	<u>2,566,724</u>		
Total	<u>\$ 262,611,551</u>	<u>\$ 93,417,306</u>	<u>\$169,194,245</u>	<u>\$ —</u>
2018				
U.S. government and agency securities	\$ 179,163,584		\$179,163,584	
Domestic equities	25,351,811	\$ 25,351,811		
Corporate fixed income securities	21,640,805		21,640,805	
International equities	10,868,235	10,868,235		
Certificates of deposit	10,747,993		10,747,993	
Domestic equity mutual funds	10,575,169	10,575,169		
Cash equivalents	8,608,219	8,608,219		
International equity mutual funds	5,084,336	5,084,336		
Real estate mutual fund	<u>2,287,380</u>	<u>2,287,380</u>		
Total	<u>\$ 274,327,532</u>	<u>\$ 62,775,150</u>	<u>\$211,552,382</u>	<u>\$ —</u>

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 \$1,014,488 and \$34,150 of realized losses for the years ended June 30, 2019 and 2018, 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:

	2019	2018
Medicare	26%	25%
Medicaid	8%	12%
Other third-party payers	64%	61%
Patients	<u>2%</u>	<u>2%</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, 2019 and 2018, outstanding loans not yet collected by the bank totaled approximately \$3,267,000 and \$3,034,000, respectively. The Health System has recorded an allowance of approximately \$1,230,000 and \$1,134,000 for estimated losses relating to potential repurchases of such loans as of June 30, 2019 and 2018, respectively.

5. LAND, BUILDINGS AND EQUIPMENT

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

	2019	2018
Buildings and improvements	\$ 242,230,079	\$ 240,271,558
Equipment and furniture	139,161,700	129,049,748
Land and improvements	18,553,773	14,264,157
Construction in progress	<u>37,582,916</u>	<u>20,855,822</u>
Total	437,528,468	404,441,285
Less accumulated depreciation	<u>224,260,086</u>	<u>207,384,092</u>
Land, buildings and equipment, net	<u>\$ 213,268,382</u>	<u>\$ 197,057,193</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
2019			
Amortized intangible assets:			
Existing physician relationships	\$ 3,264,000	\$ (1,604,800)	\$ 1,659,200
Trademarks	<u>103,000</u>	<u>(50,642)</u>	<u>52,358</u>
Total	3,367,000	(1,655,442)	1,711,558
Goodwill	<u>586,977</u>	<u> </u>	<u>586,977</u>
Intangible assets, net	<u>\$ 3,953,977</u>	<u>\$ (1,655,442)</u>	<u>\$ 2,298,535</u>
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>

Amortization expense on amortized intangible assets for both the years ended June 30, 2019 and 2018 was \$336,700.

Estimated future amortization expense as of June 30, 2019 is as follows:

2020	\$ 336,700
2021	336,700
2022	336,700
2023	336,700
2024	336,700
Thereafter	<u>28,058</u>
Total	<u>\$ 1,711,558</u>

7. BONDS AND NOTES PAYABLE

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

	2019	2018
Series 2017 Hospital Revenue Refunding Bonds	\$ 16,260,000	\$ 16,815,000
Series 2016 Hospital Revenue Bonds	70,590,000	70,590,000
Series 2015A Hospital Revenue Refunding Bonds	3,620,000	4,065,000
Series 2015B Hospital Revenue Refunding Bonds	37,205,000	37,315,000
Series 2014 Hospital Revenue Refunding Bonds	7,820,000	8,850,000
Series 2012 Hospital Revenue Bonds	24,395,000	25,460,000
Notes payable	<u>1,702,235</u>	<u>1,783,743</u>
Bonds and notes payable, principal balances	161,592,235	164,878,743
Bond issue premiums	7,490,380	7,959,308
Bond issuance costs	<u>(1,250,148)</u>	<u>(1,348,470)</u>
Total	167,832,467	171,489,581
Less current maturities	<u>3,805,559</u>	<u>3,286,508</u>
Long-term maturities	<u>\$ 164,026,908</u>	<u>\$ 168,203,073</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, 2019 and 2018, the following accounts were held in trustee accounts to satisfy these requirements (see Note 3):

	2019	2018
Construction funds	\$ 30,515,238	\$ 43,268,897
Debt service funds	<u>5,385,792</u>	<u>5,041,226</u>
Total	<u>\$ 35,901,030</u>	<u>\$ 48,310,123</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, 2019 and 2018 which is collateralized by a building and bears interest payable quarterly at 6% to 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 \$352,235 and \$433,743 at June 30, 2019 and 2018,

respectively. The loan is collateralized by equipment and bears interest payable monthly at 4.86%. Principal is payable monthly through April 2023.

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

2020	\$ 3,805,559
2021	3,924,811
2022	4,054,274
2023	4,187,591
2024	4,265,000

8. COMMITMENTS

Future minimum lease payments under various operating lease agreements are as follows as of June 30, 2019:

2020	\$ 2,446,124
2021	1,010,872
2022	254,419
2023	<u>252,809</u>
Total	<u>\$ 3,964,224</u>

Rental expense under operating leases, including month-to-month leases, for the years ended June 30, 2019 and 2018 was approximately \$2,667,000 and \$2,040,000, 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, 2019.

Minimum future rentals to be received on non-cancelable leases for each of the next five fiscal years as of June 30, 2019 are as follows:

2020	\$ 1,452,809
2021	1,392,699
2022	1,392,699
2023	1,392,699
2024	<u>1,392,699</u>
Total	<u>\$ 7,023,605</u>

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):

	2019	2018
Medicaid	\$ 77,107,000	\$ 76,691,000
Charity care	913,000	1,113,000

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 provider fees discussed below, was approximately \$43,563,000 and \$41,779,000 for the years ended June 30, 2019 and 2018, respectively (amounts do not include physician practice 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:

	2019	2018
Supplemental payments received	\$ 60,831,143	\$ 56,615,640
Provider fees paid	<u>(40,301,823)</u>	<u>(38,826,899)</u>
Net excess of payments received over provider fees paid	<u>\$ 20,529,320</u>	<u>\$ 17,788,741</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 contributed 4% of the employee's compensation and matches 50% of the first 3% of compensation contributed by the employee through December 31, 2018. As of January 1, 2019, the Health System matched contributions equal to 100% of participants' deferral contributions up to 4% of compensation, plus 50% of deferral contributions over 4% but not over 7% of compensation. 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, 2019 and 2018 was \$7,580,088 and \$7,841,052, 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, 2019 and 2018.

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. LIQUIDITY AND AVAILABILITY

The Health System's financial assets available within one year of the balance sheet date for general expenditure are as follows as of June 30, 2019 and 2018:

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 17,557,305	\$ 15,717,609
Investments	226,710,521	226,017,409
Assets limited as to use (held by bond trustee for debt service)	35,901,030	48,310,123
Patient accounts receivable, net	<u>46,867,588</u>	<u>45,297,398</u>
Total financial assets	<u>327,036,444</u>	<u>335,342,539</u>
Less amounts unavailable for general expenditures within one year:		
Long-term investments	206,405,280	213,507,909
Assets limited as to use (held by bond trustee for debt service)	35,901,030	48,310,123
Restricted by donors with purpose restrictions	<u>2,382,547</u>	<u>2,060,752</u>
Total amounts unavailable for general expenditures within one year	<u>244,688,857</u>	<u>263,878,784</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 82,347,587</u>	<u>\$ 71,463,755</u>

The Health System structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash in excess of daily requirements for general expenditures is invested in long-term investments. The Health System's long-term investment

portfolio contains liquid investments that can be drawn upon, if necessary, to meet the liquidity needs of the Health System.

13. FUNCTIONAL EXPENSES

The Health System provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services and general and administrative functional expense classifications based on the relevant statistics, square footage and other methods. In accordance with the adoption of ASU 2016-14, the following schedule for 2019 presents the natural classification of expenses by function. The 2018 schedule presents only totals for the year.

	Health Care Services	General and Administrative	Total
2019			
Salaries and benefits	\$ 111,595,174	\$ 60,111,096	\$ 171,706,270
Physician practice expenses	63,177,730	32,586,502	95,764,232
Supplies and drugs	75,302,097	5,732,130	81,034,227
Purchased services	26,895,055	8,444,257	35,339,312
Depreciation and amortization	151,979	17,045,064	17,197,043
Medical education		6,260,278	6,260,278
Interest		4,731,438	4,731,438
Other expenses	<u>686,279</u>	<u>14,504,599</u>	<u>15,190,878</u>
Total expenses	<u>\$ 277,808,314</u>	<u>\$ 149,415,364</u>	<u>\$ 427,223,678</u>
2018			
Total expenses	<u>\$ 256,566,273</u>	<u>\$ 148,189,654</u>	<u>\$ 404,755,927</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 both of the years ended June 30, 2019 and 2018, payments to these practices for services provided to the Health System totaled approximately \$33,000,000.

15. 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, 2019 and 2018:

	Controlling Interest	Non-controlling Interest	Total
Unrestricted net assets, July 1, 2017	\$ 290,523,361	\$ 857,858	\$ 291,381,219
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	309,214,830	871,686	310,086,516
Excess of revenues over expenses	17,536,201	532,876	18,069,077
Net unrealized losses on investments	9,856,412		9,856,412
Net assets released from restrictions	327,090		327,090
Distributions to non-controlling member	<u> </u>	<u>(623,475)</u>	<u>(623,475)</u>
Unrestricted net assets, June 30, 2019	<u>\$ 336,934,533</u>	<u>\$ 781,087</u>	<u>\$ 337,715,620</u>

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

SUPPLEMENTAL COMBINING INFORMATION

PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

COMBINING BALANCE SHEET

JUNE 30, 2019

	Obligated Group ⁽¹⁾	Other Combined Entities	Eliminations	Combined
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 16,932,067	\$ 625,238		\$ 17,557,305
Short-term investments	18,864,953	1,440,288		20,305,241
Current portion of assets limited as to use	5,308,220			5,308,220
Patient accounts receivable, net	46,867,588			46,867,588
Inventories	8,190,695			8,190,695
Other current assets	<u>7,512,750</u>	<u>19,331</u>	\$ (17,882)	<u>7,514,199</u>
Total current assets	103,676,273	2,084,857	(17,882)	105,743,248
LONG-TERM INVESTMENTS	204,430,296	1,974,984		206,405,280
ASSETS LIMITED AS TO USE				
Investments held by bond trustee	30,592,810			30,592,810
LAND, BUILDINGS AND EQUIPMENT, NET	213,364,742		(96,360)	213,268,382
INTANGIBLE ASSETS, NET	2,298,535			2,298,535
INVESTMENTS IN OTHER COMBINED ENTITIES	199,018		(199,018)	
OTHER ASSETS	<u>4,459,568</u>		<u>(2,382,547)</u>	<u>2,077,021</u>
TOTAL ASSETS	<u>\$ 559,021,242</u>	<u>\$ 4,059,841</u>	<u>\$ (2,695,807)</u>	<u>\$ 560,385,276</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 39,509,945	\$ 56,903	\$ (17,882)	\$ 39,548,966
Estimated third-party payer settlements	12,905,676			12,905,676
Current maturities of bonds and notes payable	<u>3,805,559</u>			<u>3,805,559</u>
Total current liabilities	56,221,180	56,903	(17,882)	56,260,201
BONDS AND NOTES PAYABLE	<u>164,026,908</u>			<u>164,026,908</u>
TOTAL LIABILITIES	<u>220,248,088</u>	<u>56,903</u>	<u>(17,882)</u>	<u>220,287,109</u>
NET ASSETS				
Without donor restrictions:				
Net assets without donor restrictions	335,609,520	1,620,391	(295,378)	336,934,533
Non-controlling interest in subsidiary	<u>781,087</u>			<u>781,087</u>
Total without donor restrictions	336,390,607	1,620,391	(295,378)	337,715,620
With donor restrictions	<u>2,382,547</u>	<u>2,382,547</u>	<u>(2,382,547)</u>	<u>2,382,547</u>
Total net assets	<u>338,773,154</u>	<u>4,002,938</u>	<u>(2,677,925)</u>	<u>340,098,167</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 559,021,242</u>	<u>\$ 4,059,841</u>	<u>\$ (2,695,807)</u>	<u>\$ 560,385,276</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, 2019

	Obligated Group ⁽¹⁾	Other Combined Entities	Eliminations	Combined
OPERATING REVENUES				
Net patient service revenue	\$ 429,677,227			\$ 429,677,227
Other operating revenue	<u>8,957,669</u>	<u>\$ 284,687</u>	<u>\$ (166,563)</u>	<u>9,075,793</u>
Total	<u>438,634,896</u>	<u>284,687</u>	<u>(166,563)</u>	<u>438,753,020</u>
OPERATING EXPENSES				
Salaries and benefits	171,502,085	204,185		171,706,270
Physician practice expenses	95,764,232			95,764,232
Supplies and drugs	81,034,227			81,034,227
Purchased services	35,389,580		(50,268)	35,339,312
Depreciation and amortization	17,210,334		(13,291)	17,197,043
Medical education	6,260,278			6,260,278
Interest	4,731,438			4,731,438
Other expenses	<u>15,090,255</u>	<u>116,551</u>	<u>(15,928)</u>	<u>15,190,878</u>
Total	<u>426,982,429</u>	<u>320,736</u>	<u>(79,487)</u>	<u>427,223,678</u>
INCOME (LOSS) FROM OPERATIONS	<u>11,652,467</u>	<u>(36,049)</u>	<u>(87,076)</u>	<u>11,529,342</u>
NON-OPERATING INCOME (EXPENSE)				
Investment income	5,763,822	126,713		5,890,535
Other income (expense), net	829,600	(280,766)	100,366	649,200
Equity in loss of controlled entities	<u>(36,049)</u>	<u></u>	<u>36,049</u>	<u></u>
Total	<u>6,557,373</u>	<u>(154,053)</u>	<u>136,415</u>	<u>6,539,735</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 18,209,840</u>	<u>\$ (190,102)</u>	<u>\$ 49,339</u>	<u>\$ 18,069,077</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.