

**Sid Peterson Memorial Hospital d/b/a
Peterson Health**

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2017 and 2016



**Sid Peterson Memorial Hospital d/b/a
Peterson Health
June 30, 2017 and 2016**

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Independent Auditor's Report

Board of Directors
Sid Peterson Memorial Hospital d/b/a
Peterson Health
Kerrville, Texas

We have audited the accompanying consolidated financial statements of Sid Peterson Memorial Hospital d/b/a Peterson Health, which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sid Peterson Memorial Hospital d/b/a Peterson Health as of June 30, 2017 and 2016, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Supplementary Information

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

BKD, LLP

Houston, Texas
November 17, 2017

**Sid Peterson Memorial Hospital d/b/a
Peterson Health**

**Consolidated Balance Sheets
June 30, 2017 and 2016**

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 36,521,105	\$ 29,156,095
Short-term investments	12,208,123	27,382,048
Patient accounts receivable, net of allowance; 2017 - \$11,681,000, 2016 - \$11,526,000	10,965,089	12,845,456
Contributions receivable	3,815,847	3,695,397
Supplies	2,773,034	2,801,306
Prepaid expenses and other	5,001,971	4,684,373
Total current assets	71,285,169	80,564,675
Assets Limited As To Use		
Internally designated, self-insurance	1,605,316	1,572,450
Internally designated, capital acquisition and other	7,989,930	19,250,065
	9,595,246	20,822,515
Investments	82,432,313	49,909,565
Property and Equipment, At Cost		
Land	3,668,549	3,668,549
Buildings and leasehold improvements	91,255,322	92,725,119
Equipment	71,435,115	67,324,621
Construction in progress	3,784,385	979,642
	170,143,371	164,697,931
Less accumulated depreciation	94,405,902	87,664,468
	75,737,469	77,033,463
Other Assets		
Contributions receivable	416,056	1,163,011
Other	356,263	653,455
	772,319	1,816,466
Total assets	\$ 239,822,516	\$ 230,146,684

**Sid Peterson Memorial Hospital d/b/a
Peterson Health**

**Consolidated Balance Sheets (Continued)
June 30, 2017 and 2016**

	2017	2016
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 2,030,000	\$ 1,950,000
Accounts payable	3,706,920	2,715,709
Accrued expenses	9,574,301	8,387,116
Estimated amounts due to third-party payers	795,462	4,897,901
Estimated self-insured employee benefit costs	1,091,166	816,125
Total current liabilities	17,197,849	18,766,851
Estimated Self-insured Professional Liability Costs	530,625	530,625
Deferred Compensation Obligation	141,941	885,503
Long-term Debt	54,413,604	56,619,990
Total liabilities	72,284,019	76,802,969
Net Assets		
Unrestricted	156,880,932	144,632,702
Temporarily restricted	10,437,565	8,491,013
Permanently restricted	220,000	220,000
Total net assets	167,538,497	153,343,715
Total liabilities and net assets	\$ 239,822,516	\$ 230,146,684

Sid Peterson Memorial Hospital d/b/a Peterson Health

Consolidated Statements of Operations Years Ended June 30, 2017 and 2016

	2017	2016
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual allowances and discounts)	\$ 157,643,094	\$ 138,073,536
Provision for uncollectible accounts	21,928,345	14,575,336
Net patient service revenue less provision for uncollectible accounts	135,714,749	123,498,200
Other	5,449,531	4,201,067
Total unrestricted revenues, gains and other support	141,164,280	127,699,267
Expenses and Losses		
Salaries and wages	58,950,273	55,037,925
Employee benefits	13,332,579	12,738,839
Purchased services	13,392,936	11,815,844
Physician professional fees	4,634,301	4,885,057
Supplies and pharmaceuticals	21,694,134	21,787,987
Maintenance and repairs	3,543,299	3,286,664
Depreciation and amortization	7,940,086	9,128,971
Interest	2,531,503	2,842,341
Other	9,443,980	8,046,801
Loss on sale of property and equipment	834,572	7,182
Total expenses and losses	136,297,663	129,577,611
Operating Income (Loss)	4,866,617	(1,878,344)
Other Income (Expense)		
Investment return	7,331,169	1,053,713
Loss on extinguishment of debt	-	(819,301)
Contributions	50,444	111,713
Total other income	7,381,613	346,125
Excess (Deficiency) of Revenues Over Expenses	12,248,230	(1,532,219)
Net assets released from restriction used for purchase of property and equipment	-	10,000
Increase (Decrease) in Unrestricted Net Assets	\$ 12,248,230	\$ (1,522,219)

**Sid Peterson Memorial Hospital d/b/a
Peterson Health**
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ 12,248,230	\$ (1,532,219)
Net assets released from restriction used for purchase of property and equipment	<u>-</u>	<u>10,000</u>
Increase (decrease) in unrestricted net assets	<u>12,248,230</u>	<u>(1,522,219)</u>
Temporarily Restricted Net Assets		
Contributions received	1,684,535	6,611,041
Investment return, change in unrealized gains and losses on other-than-trading securities	384,774	39,627
Net assets released from restriction	<u>(122,757)</u>	<u>(119,709)</u>
Increase in temporarily restricted net assets	<u>1,946,552</u>	<u>6,530,959</u>
Change in Net Assets	14,194,782	5,008,740
Net Assets, Beginning of Year	<u>153,343,715</u>	<u>148,334,975</u>
Net Assets, End of Year	<u><u>\$ 167,538,497</u></u>	<u><u>\$ 153,343,715</u></u>

Sid Peterson Memorial Hospital d/b/a Peterson Health

Consolidated Statements of Cash Flows Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 14,194,782	\$ 5,008,740
Items not requiring (providing) operating cash flow:		
Depreciation and amortization	7,940,086	9,128,971
Net (gains) losses on investments	(5,887,106)	1,210,704
Loss on sale of property and equipment	834,572	7,182
Loss on extinguishment of debt	-	819,301
Provision for uncollectible accounts	21,928,345	14,575,336
Restricted contributions	(1,684,535)	(6,611,041)
Changes in:		
Patient accounts receivable	(20,047,978)	(15,152,266)
Estimated amounts due from and to third-party payers	(4,102,439)	10,524,071
Accounts payable and accrued expenses	1,370,396	(3,875,568)
Deferred compensation obligation	(743,562)	(8,247)
Other current assets and liabilities	(2,140,753)	295,043
Net cash provided by operating activities	11,661,808	15,922,226
Investing Activities		
Purchases of investments	(54,245,381)	(16,503,771)
Sales of investments	54,010,933	16,097,909
Proceeds from insurance settlement on property loss	2,113,291	-
Proceeds from sale of property and equipment	14,475	1,700
Purchase of property and equipment	(6,551,156)	(5,662,708)
Net cash used in investing activities	(4,657,838)	(6,066,870)
Financing Activities		
Proceeds from restricted contributions	2,311,040	2,017,836
Payment of debt issuance costs	-	(1,053,121)
Proceeds from issuance of long-term debt	-	59,726,042
Payments on long-term debt	(1,950,000)	(66,024,300)
Net cash provided by (used in) financing activities	361,040	(5,333,543)
Increase in Cash and Cash Equivalents	7,365,010	4,521,813
Cash and Cash Equivalents, Beginning of Year	29,156,095	24,634,282
Cash and Cash Equivalents, End of Year	\$ 36,521,105	\$ 29,156,095
Supplemental Cash Flows Information		
Interest paid	\$ 2,562,305	\$ 585,294
Fixed asset additions in accounts payable	808,800	704,253

Sid Peterson Memorial Hospital d/b/a Peterson Health

Notes to Consolidated Financial Statements June 30, 2017 and 2016

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

Nature of Operations

Sid Peterson Memorial Hospital d/b/a Peterson Health (the Medical Center), formerly Peterson Regional Medical Center, is a not-for-profit acute care hospital located in Kerrville, Texas. The Medical Center was incorporated on February 13, 1989. The Medical Center is governed by a Board of Directors (the Board) of not less than three or more than 15 members elected at an annual meeting of the Board. The Medical Center earns revenues by providing inpatient, outpatient and emergency services to residents in and around Kerr County, Texas.

Peterson Regional Health Care Center Foundation d/b/a Peterson Health Foundation (the Foundation) is a not-for-profit fund raising foundation organized to raise funds for the benefit of the Medical Center, its sole member.

Peterson Medical Associates (PMA) is a physician group practice organization. PMA's sole member is the Medical Center.

Healthcare Partnership of Greater San Antonio (HPGSA) is a service organization that facilitates affiliation agreements with hospitals to access Medicaid supplemental payments through the State of Texas. During 2014, the Medical Center became the sole member of HPGSA.

Principles of Consolidation

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

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 Medical Center considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Sid Peterson Memorial Hospital d/b/a Peterson Health

Notes to Consolidated Financial Statements June 30, 2017 and 2016

At June 30, 2017 and 2016, the Medical Center's cash accounts exceeded federally insured limits by approximately \$31,523,000 and \$27,109,000, respectively.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution), or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited As To Use

Assets limited as to use include (1) assets internally designated for self-insurance arrangements, (2) assets internally designated under the supplemental executive retirement plan agreement, and (3) assets internally designated for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Patient Accounts Receivable

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

For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary. 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 Medical Center records a significant provision for uncollectible accounts on the basis of its past

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Notes to Consolidated Financial Statements June 30, 2017 and 2016

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.

The Medical Center's allowance for doubtful accounts for self-pay patients increased from 85 percent of self-pay accounts receivable at June 30, 2016, to 93 percent of self-pay accounts receivable at June 30, 2017. The Medical Center's write-offs increased approximately \$2,889,000 from approximately \$18,884,000 for the year ended June 30, 2016, to approximately \$21,773,000 for the year ended June 30, 2017. The change in the allowance for doubtful accounts is the result of increased resources towards the collection of accounts receivable and stricter policies regarding charity care.

Supplies

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

Property and Equipment

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

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

Buildings and leasehold improvements	5-40 years
Equipment	3-10 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets, unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-lived Asset Impairment

The Medical Center evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows

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expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value, and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2017 or 2016.

Deferred Financing Costs

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

Physician Guarantees

In an effort to recruit new physicians to its service area, the Medical Center has entered into various physician income guarantee agreements. Under these agreements, the Medical Center guarantees minimum monthly income, revenues or collections, or guarantees reimbursement of expenses up to maximum limits to physicians during a specified period of time (typically, 12 to 24 months, the guarantee period). In return for the guarantee payments, the physicians are required to practice in the community for a stated period of time (typically, two to three years, the retention period) or else return the guarantee payments to the Medical Center. As of June 30, 2017, all physician income guarantee agreements were in the retention period; therefore, there are no significant potential future payments that the Medical Center could be required to make under the existing physician guarantee agreements.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity.

Net Patient Service Revenue

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

Sid Peterson Memorial Hospital d/b/a Peterson Health

Notes to Consolidated Financial Statements June 30, 2017 and 2016

Charity Care

The Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires (*i.e.*, when a time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions for other than capital purchases whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Professional Liability Claims

The Medical Center recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims. Professional liability claims are described more fully in Note 6.

Income Taxes

The Medical Center, the Foundation and HPGSA have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Medical Center, the Foundation and HPGSA are subject to federal income tax on any unrelated business taxable income.

PMA is organized as a not-for-profit taxable 501(a) physician management organization. PMA's taxable income and deferred tax items as of and for the years ended June 30, 2017 and 2016, were not material.

The Medical Center, the Foundation, PMA and HPGSA file tax returns in the U.S. Federal jurisdiction. With a few exceptions, the Medical Center, the Foundation, PMA and HPGSA are no longer subject to U.S. Federal examinations by tax authorities for years before 2012.

The *Affordable Care Act* requires hospitals to conduct Community Health Needs Assessments (CHNAs) every three years. The Medical Center filed the initial CHNA in 2013. The Medical Center was required to have a new CHNA by June 30, 2016. However, the Medical Center's new

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Notes to Consolidated Financial Statements June 30, 2017 and 2016

CHNA was not completed and adopted by the Board until November 2016. Due to the untimely adoption of the Medical Center's CHNA, the Medical Center is subject to an excise tax penalty of \$50,000. As of June 30, 2017 the Medical Center has not been assigned a penalty.

Excess of Revenues Over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purpose of acquiring such assets).

Self-insurance

The Medical Center has elected to self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to income when incurred. The Medical Center has purchased insurance that limits its exposure for individual claims to \$370,000 and \$350,000 for the years ended June 30, 2017 and 2016, respectively.

Transfers Between Fair Value Hierarchy Levels

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

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payments under both programs are contingent on the Medical Center 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 administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Medical Center recognizes revenue under the grant accounting model using the cliff recognition approach. Under this approach, revenue is recognized once meaningful use status has been met for the full reporting period.

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Notes to Consolidated Financial Statements June 30, 2017 and 2016

The Medical Center has recorded revenue of approximately \$24,000 and \$634,000 for 2017 and 2016, respectively, which is included in other revenue within operating revenue in the consolidated statements of operations.

Reclassifications

Certain reclassifications have been made to the 2016 consolidated financial statements to conform to the 2017 consolidated financial statement presentation. The reclassifications had no effect on the change in net assets.

Note 2: Net Patient Service Revenue

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

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

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Medical Center is reimbursed for certain services at tentative rates, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Medical Center is reimbursed for cost reimbursable services at tentative rates, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid administrative contractor.

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Notes to Consolidated Financial Statements June 30, 2017 and 2016

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. Settlements under reimbursement agreements with Medicare and Medicaid programs are estimated and recorded in the period the related services are rendered and are adjusted in future periods as adjustments become known, or as the service years are no longer subject to audit, review or investigation. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due to the Medical Center under the reimbursement programs. These audits often require several years to reach their final determination of amounts earned under the programs. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized for the years ended June 30, 2017 and 2016, is as follows:

	2017	2016
Medicare	\$ 64,391,188	\$ 61,519,781
Medicaid	11,794,033	9,875,678
Other third-party payers	65,870,767	56,213,874
Self-pay	15,587,106	10,464,203
	\$ 157,643,094	\$ 138,073,536

The Medical Center participates in a Centers for Medicare and Medicaid Services-approved private Medicaid Upper Payment Limit (UPL) program. The Medical Center has an affiliation agreement with a third-party hospitals that provide free hospital and physician care to qualifying indigent residents of the county in Texas in which the hospital operates. The UPL payments are contingent on the hospital district making an Inter-Governmental Transfer to the state Medicaid program.

During the federal fiscal year 2012, the State of Texas began implementing a Section 1115(a) Medicaid Waiver program, which substantially replaced the existing UPL program. Under this waiver, hospitals are paid supplemental funds for uncompensated care costs and delivery system improvement projects. Payments are based on approved uncompensated care costs and delivery system improvement projects, and payments are generated by Inter-Governmental Transfer payments that are funded by the Medical Center.

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Notes to Consolidated Financial Statements June 30, 2017 and 2016

The Medical Center recognized as a component of net patient service revenue approximately \$4,222,000 and \$4,507,000 under these programs for the years ended June 30, 2017 and 2016, respectively.

Note 3: Concentration of Credit Risk

Accounts Receivable

The Medical Center grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at June 30, 2017 and 2016, is as follows:

	2017	2016
Medicare	38%	40%
Medicaid	4%	5%
Other third-party payers	48%	35%
Patients	10%	20%
	100%	100%

Note 4: Investments and Investment Return

Assets Limited As To Use

Assets limited as to use as of June 30, 2017 and 2016, include the following items:

	2017	2016
Internally designated for self-insurance:		
Cash and cash equivalents	\$ 20,999	\$ 21,395
Certificates of deposit	298,383	-
Real estate investment trusts	-	24,842
U.S. Treasury and agency obligations	187,586	-
Mutual funds principally invested in corporate and government bonds	1,098,348	194,713
Corporate fixed income instruments	-	472,840
Domestic mutual funds	-	45,934
Foreign mutual funds	-	246,266
Domestic equity securities	-	519,781
Foreign equity securities	-	46,679
	\$ 1,605,316	\$ 1,572,450

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Notes to Consolidated Financial Statements June 30, 2017 and 2016

	2017	2016
Internally designated for capital acquisition and other:		
Cash and cash equivalents	\$ 823,638	\$ 1,510,126
Certificates of deposit	1,741,834	1,563,316
Municipal bonds and notes	1,105,065	230,323
Mutual funds principally invested in corporate and government bonds	659,588	175,817
Corporate fixed income instruments	5,093	318,662
Real estate investment trusts	-	388,013
Domestic mutual funds	142,298	4,441,320
Foreign mutual funds	1,890	3,215,293
Domestic equity securities	3,510,524	6,795,369
Foreign equity securities	-	611,826
	\$ 7,989,930	\$ 19,250,065

Other Investments

Other investments at June 30, 2017 and 2016, include:

	2017	2016
Certificates of deposit	\$ 1,570,711	\$ 142,593
Mutual funds principally invested in corporate and government bonds	42,575,918	49,456,906
Alternative investment	-	1,014,322
Domestic mutual funds	2,090,141	2,615,306
Foreign mutual funds	8,929,932	3,377,125
Domestic equity securities	39,473,734	19,548,448
Foreign equity securities	-	728,759
Real estate investment trusts	-	408,154
	94,640,436	77,291,613
Less long-term investments	82,432,313	49,909,565
Short-term investments	\$ 12,208,123	\$ 27,382,048

Total investment return is comprised of the following:

	2017	2016
Interest and dividend income	\$ 1,795,355	\$ 2,304,044
Net realized gains	333,366	182,252
Net unrealized gains (losses)	5,587,222	(1,392,956)
	\$ 7,715,943	\$ 1,093,340

Sid Peterson Memorial Hospital d/b/a Peterson Health

Notes to Consolidated Financial Statements June 30, 2017 and 2016

Total investment return is reflected in the consolidated statements of operations and changes in net assets as follows:

	2017	2016
Unrestricted net assets:		
Other income - investment return	\$ 7,331,169	\$ 1,053,713
Temporarily restricted net assets:		
Change in unrealized gains on other-than-trading securities	384,774	39,627
	\$ 7,715,943	\$ 1,093,340

Note 5: Contributions Receivable

Contributions receivable consisted of the following items at June 30, 2017 and 2016:

	2017	2016
Due within one year	\$ 3,815,847	\$ 3,695,397
Due in one to five years	1,369,576	2,677,972
	5,185,423	6,373,369
Less:		
Allowance for doubtful contributions	640,591	965,741
Unamortized discount	312,929	549,220
	953,520	1,514,961
	\$ 4,231,903	\$ 4,858,408

Contributions receivable are primarily for capital contributions and have been discounted using an adjusted risk free rate at the time of the contribution.

Note 6: Risk Management

Professional and General Liability

The Medical Center is self-insured for medical malpractice risks. Losses from asserted and unasserted claims identified under the Medical Center's incident reporting system are accrued based on estimates that incorporate the Medical Center's past experience, as well as other

Sid Peterson Memorial Hospital d/b/a Peterson Health

Notes to Consolidated Financial Statements June 30, 2017 and 2016

considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible the Medical Center's estimate of losses will change by a material amount in the near term.

The Medical Center has engaged professional actuarial consultants to assist in computing its accrual for malpractice exposure. Amounts accrued by the Medical Center as of June 30, 2017 and 2016, were approximately \$531,000 for each year, which are shown as estimated self-insured professional liability costs in the accompanying consolidated balance sheets. Estimated losses have been discounted assuming a 2 percent rate of return for each of the years ended June 30, 2017 and 2016.

Employee Health and Workers' Compensation

The Medical Center is also self-insured for employee health care and workers' compensation claims. The Medical Center has purchased excess insurance coverage for employee health care, which limits their annual individual exposure to \$370,000 and \$350,000 in 2017 and 2016, respectively. A reserve has been established for unpaid claims and claims incurred, but not received, and are shown as estimated self-insured employee benefit costs in the accompanying consolidated balance sheets. Amounts accrued by the Medical Center for employee health and workers' compensation claims were approximately \$1,091,000 and \$816,000 for the years ended June 30, 2017 and 2016, respectively.

Note 7: Long-term Debt

	2017	2016
Revenue bonds payable (A)	\$ 53,245,000	\$ 55,195,000
Bond premium	4,167,148	4,396,943
	57,412,148	59,591,943
Less unamortized debt issuance costs	968,544	1,021,953
	\$ 56,443,604	\$ 58,569,990

(A) City of Kerrville, Texas, Health Facilities Development Corporation Hospital Revenue Bonds (Sid Peterson Memorial Hospital Project, Series 2015) (Series 2015 bonds) in the original amount of \$55,195,000, plus a net original issue premium of \$4,531,042 dated November 24, 2015, bearing interest at rates ranging from 2.20 percent to 5.00 percent. The bond indenture requires the Medical Center to make annual principal payments each August 15 beginning in 2016 through 2035, with interest due each August 15 and February 15. Unamortized debt issuance costs were \$968,544 and \$1,021,953 at June 30, 2017 and 2016, respectively. The effective interest rate was 4.48 percent and 4.39 percent for the years ended June 30, 2017 and 2016, respectively.

Sid Peterson Memorial Hospital d/b/a Peterson Health

Notes to Consolidated Financial Statements June 30, 2017 and 2016

The bond issue includes \$23,635,000 of term bonds due August 15, 2025. Bonds maturing after August 15, 2026, are subject to general redemption prior to maturity, in whole or in part, on August 15, 2025.

The City of Kerrville, Texas, Health Facilities Development Corporation (the Corporation) issued the bonds on behalf of the Medical Center. The bonds are secured by a pledge of the Medical Center's revenues, the reserve funds established with the bond trustee pursuant to the loan agreement and bond indenture, and a mortgage lien on substantially all land and buildings of the Medical Center. The bonds have not been guaranteed by the Corporation.

The agreements requires the Medical Center to comply with certain restrictive covenants including rate covenant, a liquidity covenant that requires a minimum of 60 days of cash and unrestricted investments on hand, and debt service average ratio.

Upon issuance and delivery of the Series 2015 bonds the Medical Center defeased its outstanding Series 2005 bonds in the total principal amount of \$64,950,406. Proceeds from the Series 2016 bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased bonds. This advance refunding transaction resulted in an extinguishment of debt, since the Medical Center was legally released from its obligation on the Series 2005 bonds at the time of the defeasance.

Aggregate annual maturities of long-term debt at June 30, 2017, are:

2018	\$	2,030,000
2019		2,110,000
2020		2,200,000
2021		2,270,000
2022		2,365,000
Thereafter		<u>42,270,000</u>
	\$	<u><u>53,245,000</u></u>

Note 8: Line of Credit

At June 30, 2017 and 2016, the Medical Center had an unsecured \$3,000,000 line of credit with a prime rate (4.25 percent at June 30, 2017), with a local financial institution, which expires on February 1, 2019. No amounts were drawn on the line of credit during the years ended June 30, 2017 or 2016.

Sid Peterson Memorial Hospital d/b/a Peterson Health

Notes to Consolidated Financial Statements June 30, 2017 and 2016

Note 9: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for health care services. During the years ended June 30, 2017 and 2016, net assets released from donor restrictions by incurring qualifying expenses or by the passage of time were approximately \$123,000 and \$120,000, respectively.

Permanently restricted net assets as of June 30, 2017 and 2016, were \$220,000 for each year, which are investments to be held in perpetuity with the income to be used for operations.

Note 10: Charity Care

In support of its mission, the Medical Center voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Medical Center provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and many times the payments are less than the cost of rendering the services provided.

The costs of charity care provided under the Medical Center's charity care policy were approximately \$2,119,000 and \$2,566,000 for the years ended June 30, 2017 and 2016, respectively. The cost of providing charity care is estimated by applying the ratio of cost to gross charges to gross uncompensated charges.

Note 11: Functional Expenses

The Medical Center provides health care services primarily to residents within its geographic area. Expenses related to providing these services are shown below:

	2017	2016
Health care services	\$ 123,756,619	\$ 117,654,894
General and administrative	12,541,044	11,922,717
	\$ 136,297,663	\$ 129,577,611

Sid Peterson Memorial Hospital d/b/a Peterson Health

Notes to Consolidated Financial Statements June 30, 2017 and 2016

Note 12: Pension Plan

The Medical Center has a defined contribution pension plan covering substantially all employees. The Board annually determines the amount, if any, of the Medical Center's contributions to the pension plan. Pension expense was approximately \$708,000 and \$428,000 for the years ended June 30, 2017 and 2016, respectively, and net of forfeitures for the years ended June 30, 2017 and 2016, in the amount of \$1,000 and \$216,000, respectively.

Effective July 1, 2010, the Medical Center implemented a supplemental executive retirement plan covering certain members of management. The Medical Center's funding policy is to contribute the minimum annual contribution that is required by applicable regulations, plus such amounts as the Medical Center may determine to be appropriate from time to time. The Medical Center contributed approximately \$190,000 and \$170,000 for the years ended June 30, 2017 and 2016, respectively.

Note 13: Disclosures About Fair Value of Financial Instruments

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

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

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and 2016.

Sid Peterson Memorial Hospital d/b/a Peterson Health

Notes to Consolidated Financial Statements June 30, 2017 and 2016

	Fair Value Measurement Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017:				
Mutual funds principally invested in corporate and government bonds	\$ 44,333,854	\$ 44,333,854	\$ -	\$ -
U.S. Treasury and agency obligations	187,586	187,586	-	-
Domestic mutual funds	2,232,439	2,232,439	-	-
Foreign mutual funds	8,931,822	8,931,822	-	-
Domestic equity securities	42,984,258	42,984,258	-	-
Municipal bonds and notes	1,105,065	-	1,105,065	-
Corporate fixed income instruments	5,093	-	5,093	-
June 30, 2016:				
Mutual funds principally invested in corporate and government bonds	49,827,436	49,827,436	-	-
Alternative investments	1,014,322	-	-	1,014,322
Domestic mutual funds	7,102,560	7,102,560	-	-
Foreign mutual funds	6,838,684	6,838,684	-	-
Domestic equity securities	26,863,598	26,863,598	-	-
Foreign equity securities	1,387,264	1,387,264	-	-
Real estate investment trusts	821,009	821,009	-	-
Municipal bonds and notes	230,323	-	230,323	-
Corporate fixed income instruments	791,502	-	791,502	-

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2017 or 2016.

Sid Peterson Memorial Hospital d/b/a Peterson Health

Notes to Consolidated Financial Statements June 30, 2017 and 2016

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include domestic and foreign mutual funds and equity securities, mutual funds principally invested in corporate and government bonds, and real estate investment trusts. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include corporate and municipal fixed income securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Medical Center had one Level 3 investment in an alternative investment at June 30, 2016.

Quoted market prices were used to determine the fair value of Level 1 items listed previously. For Level 2 investments, inputs include maturity and coupon rates and/or closing prices of similar securities from comparable industry financial data. The Level 3 investment was valued based on the fair value of partnership investment at year-end as reported in the audited consolidated financial statements of the partnership.

Fair Value of Financial Instruments

The following table presents estimated fair values of the Medical Center's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and 2016.

	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017:				
Financial assets:				
Cash and cash equivalents	\$ 36,521,105	\$ 36,521,105	\$ -	\$ -
Assets limited as to use and other investments	104,235,682	103,125,524	1,110,158	-
Contributions receivable	4,231,903	-	4,231,903	-
Financial liabilities:				
Long-term debt	56,443,604	-	57,950,125	-

**Sid Peterson Memorial Hospital d/b/a
Peterson Health**

**Notes to Consolidated Financial Statements
June 30, 2017 and 2016**

	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016:				
Financial assets:				
Cash and cash equivalents	\$ 29,156,095	\$ 29,156,095	\$ -	\$ -
Assets limited as to use and other investments	98,114,128	96,077,981	1,021,825	1,014,322
Contributions receivable	4,858,408	-	4,858,408	-
Financial liabilities:				
Long-term debt	59,591,943	-	64,095,048	-

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Certificates of Deposit

Amortized cost approximates fair value.

Contributions Receivable

Fair value is estimated by discounting the cash flows of the future payments expected to be received using rates of return on assets with similar cash flows.

Long-term Debt

Fair value is estimated based on the borrowing rates currently available to the Medical Center for debt with similar terms and maturities.

Sid Peterson Memorial Hospital d/b/a Peterson Health

Notes to Consolidated Financial Statements June 30, 2017 and 2016

Note 14: Related-party Transactions

The Medical Center is party to an indigent care affiliation agreement with the City of Seguin and Guadalupe County, Texas d/b/a Guadalupe Regional Medical Center to collaborate with HPGSA, to access Medicaid supplemental payments through the State of Texas. The Medical Center contributed approximately \$2,447,000 and \$2,253,000 to access Medicare Supplemental payments during the years ended June 30, 2017 and 2016, respectively. These contributions, which were used to fund indigent care in west Texas, are reflected as a component of supplies and other expense in the consolidated statements of operations.

Note 15: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Professional Liability Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 6.

Litigation

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

Self-insured Employee Health Care and Workers' Compensation

Estimates related to the accrual for self-insured employee health care and workers' compensation claims are discussed in Note 6.

**Sid Peterson Memorial Hospital d/b/a
Peterson Health**

**Notes to Consolidated Financial Statements
June 30, 2017 and 2016**

Investments

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

Note 16: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were issued.

Supplementary Information

**Sid Peterson Memorial Hospital d/b/a
Peterson Health**
Balance Sheet Information – Consolidating Schedule
June 30, 2017

	The Medical Center	The Foundation	PMA	HPGSA	Eliminations	Consolidated
Assets						
Current Assets						
Cash and cash equivalents	\$ 35,322,384	\$ 32,453	\$ 762,909	\$ 403,359	\$ -	\$ 36,521,105
Short-term investments	12,208,123	-	-	-	-	12,208,123
Patient accounts receivable, net of allowance	10,726,889	-	238,200	-	-	10,965,089
Contributions receivable	-	3,815,847	-	-	-	3,815,847
Supplies	2,773,034	-	-	-	-	2,773,034
Prepaid expenses and other	4,976,450	-	25,521	-	-	5,001,971
	<u>66,006,880</u>	<u>3,848,300</u>	<u>1,026,630</u>	<u>403,359</u>	<u>0</u>	<u>71,285,169</u>
Assets Limited As To Use						
Internally designated, self-insurance	1,605,316	-	-	-	-	1,605,316
Internally designated, capital acquisition and other	2,105,601	5,884,329	-	-	-	7,989,930
	<u>3,710,917</u>	<u>5,884,329</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,595,246</u>
Investments	<u>81,888,629</u>	<u>543,684</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>82,432,313</u>

Sid Peterson Memorial Hospital d/b/a Peterson Health

Balance Sheet Information – Consolidating Schedule (Continued)

June 30, 2017

	The Medical Center	The Foundation	PMA	HPGSA	Eliminations	Consolidated
Property and Equipment, At Cost						
Land	\$ 3,668,549	\$ -	\$ -	\$ -	\$ -	\$ 3,668,549
Buildings and leasehold improvements	91,255,322	-	-	-	-	91,255,322
Equipment	71,435,115	-	-	-	-	71,435,115
Construction in progress	3,784,385	-	-	-	-	3,784,385
	170,143,371	0	0	0	0	170,143,371
Less accumulated depreciation	94,405,902	-	-	-	-	94,405,902
	75,737,469	0	0	0	0	75,737,469
Other Assets						
Contributions receivable	-	416,056	-	-	-	416,056
Other	299,238	-	-	57,025	-	356,263
	299,238	416,056	0	57,025	0	772,319
Total assets	\$ 227,643,133	\$ 10,692,369	\$ 1,026,630	\$ 460,384	\$ 0	\$ 239,822,516

**Sid Peterson Memorial Hospital d/b/a
Peterson Health**
Balance Sheet Information – Consolidating Schedule (Continued)
June 30, 2017

	The Medical Center	The Foundation	PMA	HPGSA	Eliminations	Consolidated
Liabilities and Net Assets						
Current Liabilities						
Current maturities of long-term debt	\$ 2,030,000	\$ -	\$ -	\$ -	\$ -	\$ 2,030,000
Accounts payable	3,482,233	-	126,258	98,429	-	3,706,920
Accrued expenses	9,212,643	2,622	359,036	-	-	9,574,301
Estimated amounts due to third-party payers	795,462	-	-	-	-	795,462
Estimated self-insured employee benefit costs	1,091,166	-	-	-	-	1,091,166
Total current liabilities	16,611,504	2,622	485,294	98,429	0	17,197,849
Estimated Self-insured Professional Liability Costs	530,625	-	-	-	-	530,625
Deferred Compensation Obligation	141,941	-	-	-	-	141,941
Long-term Debt	54,413,604	-	-	-	-	54,413,604
Total liabilities	71,697,674	2,622	485,294	98,429	0	72,284,019
Net Assets						
Unrestricted	155,456,657	520,984	541,336	361,955	-	156,880,932
Temporarily restricted	488,802	9,948,763	-	-	-	10,437,565
Permanently restricted	-	220,000	-	-	-	220,000
Total net assets	155,945,459	10,689,747	541,336	361,955	0	167,538,497
Total liabilities and net assets	\$ 227,643,133	\$ 10,692,369	\$ 1,026,630	\$ 460,384	\$ 0	\$ 239,822,516

Sid Peterson Memorial Hospital d/b/a Peterson Health

Statement of Operations and Changes in Net Assets Information – Consolidating Schedule Year Ended June 30, 2017

	The Medical Center	The Foundation	PMA	HPGSA	Eliminations	Consolidated
Unrestricted Revenues, Gains and Other Support						
Patient service revenue (net of contractual allowances and discounts)	\$ 151,848,383	\$ -	\$ 5,794,711	\$ -	\$ -	\$ 157,643,094
Provision for uncollectible accounts	21,928,345	-	-	-	-	21,928,345
Net patient service revenue less provision for uncollectible accounts	129,920,038	0	5,794,711	0	0	135,714,749
Other	3,423,848	-	166,852	1,256,151	602,680	5,449,531
Total unrestricted revenues, gains and other support	133,343,886	0	5,961,563	1,256,151	602,680	141,164,280
Expenses and Losses						
Salaries and wages	53,207,912	195,371	5,546,990	-	-	58,950,273
Employee benefits	12,251,833	38,320	1,042,426	-	-	13,332,579
Purchased services	10,054,289	68,795	1,036,472	1,630,700	602,680	13,392,936
Physician professional fees	4,532,546	-	101,755	-	-	4,634,301
Supplies and pharmaceuticals	21,011,177	103,934	568,943	10,080	-	21,694,134
Maintenance and repairs	3,502,907	-	40,392	-	-	3,543,299
Depreciation and amortization	7,940,086	-	-	-	-	7,940,086
Interest	2,531,503	-	-	-	-	2,531,503
Other	8,771,898	-	672,082	-	-	9,443,980
Loss on sale of property and equipment	834,572	-	-	-	-	834,572
Total expenses and losses	124,638,723	406,420	9,009,060	1,640,780	602,680	136,297,663
Operating Income (Loss)	8,705,163	(406,420)	(3,047,497)	(384,629)	0	4,866,617

**Sid Peterson Memorial Hospital d/b/a
Peterson Health**

**Statement of Operations and Changes in Net Assets Information – Consolidating Schedule (Continued)
Year Ended June 30, 2017**

	The Medical Center	The Foundation	PMA	HPGSA	Eliminations	Consolidated
Other Income						
Investment return	\$ 7,297,856	\$ 33,313	\$ -	\$ -	\$ -	\$ 7,331,169
Contributions	-	50,444	-	-	-	50,444
Total other income	<u>7,297,856</u>	<u>83,757</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,381,613</u>
Excess (Deficiency) of Revenues Over Expenses	16,003,019	(322,663)	(3,047,497)	(384,629)	-	12,248,230
Net assets released from restriction used for purchase of property and equipment	-	-	-	-	-	-
Transfer (to) from affiliates	(3,271,743)	290,544	2,981,199	-	-	-
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 12,731,276</u>	<u>\$ (32,119)</u>	<u>\$ (66,298)</u>	<u>\$ (384,629)</u>	<u>\$ 0</u>	<u>\$ 12,248,230</u>

**Sid Peterson Memorial Hospital d/b/a
Peterson Health**

**Statement of Operations and Changes in Net Assets Information – Consolidating Schedule (Continued)
Year Ended June 30, 2017**

	The Medical Center	The Foundation	PMA	HPGSA	Eliminations	Consolidated
Temporarily Restricted Net Assets						
Contributions received	\$ 85,391	\$ 1,599,144	\$ -	\$ -	\$ -	\$ 1,684,535
Investment return, change in unrealized gains and losses on other-than-trading securities	33,238	351,536	-	-	-	384,774
Net assets released from restriction	(35,403)	(87,354)	-	-	-	(122,757)
	<u>83,226</u>	<u>1,863,326</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,946,552</u>
Change in Net Assets	12,814,502	1,831,207	(66,298)	(384,629)	-	14,194,782
Net Assets, Beginning of Year	143,130,957	8,858,540	607,634	746,584	-	153,343,715
Net Assets, End of Year	<u>\$ 155,945,459</u>	<u>\$ 10,689,747</u>	<u>\$ 541,336</u>	<u>\$ 361,955</u>	<u>\$ 0</u>	<u>\$ 167,538,497</u>