

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

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2018 and 2017



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

**June 30, 2018 and 2017**

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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, 2018 and 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sid Peterson Memorial Hospital d/b/a Peterson Health as of June 30, 2018 and 2017, and the results of its operations, the changes in net assets and 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 26, 2018

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

## Consolidated Balance Sheets

June 30, 2018 and 2017

	2018	2017
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 26,113,180	\$ 36,496,213
Short-term investments	10,601,922	12,208,123
Patient accounts receivable, net of allowance; 2018 - \$14,501,000, 2017 - \$11,681,000	14,357,871	10,989,981
Contributions receivable	1,317,166	3,815,847
Supplies	3,053,853	2,773,034
Prepaid expenses and other	9,915,318	5,297,324
Total current assets	65,359,310	71,580,522
<b>Assets Limited As To Use</b>		
Internally designated, self-insurance	1,597,155	1,605,316
Internally designated, capital acquisition and other	10,067,892	7,993,815
	11,665,047	9,599,131
<b>Investments</b>	87,487,310	82,432,313
<b>Property and Equipment, At Cost</b>		
Land	3,703,715	3,668,549
Buildings and leasehold improvements	96,384,994	91,255,322
Equipment	66,514,212	71,435,115
Construction in progress	9,184,081	3,784,385
	175,787,002	170,143,371
Less accumulated depreciation	91,567,684	94,405,902
	84,219,318	75,737,469
<b>Other Assets</b>		
Contributions receivable	526,781	416,056
Other	57,025	57,025
	583,806	473,081
Total assets	\$ 249,314,791	\$ 239,822,516

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

**Consolidated Balance Sheets (Continued)  
June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 2,110,000	\$ 2,030,000
Accounts payable	3,534,641	4,109,247
Accrued expenses	11,901,527	9,171,974
Estimated amounts due to third-party payers	2,373,212	795,462
Estimated self-insured employee benefit costs	1,252,889	1,091,166
Total current liabilities	21,172,269	17,197,849
<b>Estimated Self-insured Professional Liability Costs</b>	542,442	530,625
<b>Deferred Compensation Obligation</b>	165,156	141,941
<b>Long-term Debt</b>	52,127,219	54,413,604
Total liabilities	74,007,086	72,284,019
<b>Net Assets</b>		
Unrestricted	164,165,046	156,880,932
Temporarily restricted	10,922,659	10,437,565
Permanently restricted	220,000	220,000
Total net assets	175,307,705	167,538,497
Total liabilities and net assets	\$ 249,314,791	\$ 239,822,516

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

## Consolidated Statements of Operations Years Ended June 30, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Patient service revenue (net of contractual allowances and discounts)	\$ 167,967,556	\$ 157,643,094
Provision for uncollectible accounts	22,652,562	21,928,345
Net patient service revenue less provision for uncollectible accounts	145,314,994	135,714,749
Other	3,841,745	5,449,531
Total unrestricted revenues, gains and other support	149,156,739	141,164,280
<b>Expenses and Losses</b>		
Salaries and wages	62,738,539	58,950,273
Employee benefits	15,666,930	13,330,829
Purchased services	14,667,094	12,960,635
Physician professional fees	5,353,917	4,634,301
Supplies and pharmaceuticals	21,550,828	22,296,814
Maintenance and repairs	4,024,304	3,543,299
Depreciation and amortization	7,890,689	7,940,086
Interest	2,452,424	2,531,503
Other	14,432,726	9,275,351
Loss on sale of property and equipment	101,606	834,572
Total expenses and losses	148,879,057	136,297,663
<b>Operating Income</b>	277,682	4,866,617
<b>Other Income</b>		
Investment return	6,701,063	7,331,169
Contributions	205,384	50,444
Total other income	6,906,447	7,381,613
<b>Excess of Revenues Over Expenses</b>	7,184,129	12,248,230
Net assets released from restriction used for purchase of property and equipment	99,985	-
<b>Increase in Unrestricted Net Assets</b>	\$ 7,284,114	\$ 12,248,230

**Sid Peterson Memorial Hospital d/b/a  
Peterson Health**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Unrestricted Net Assets</b>		
Excess of revenues over expenses	\$ 7,184,129	\$ 12,248,230
Net assets released from restriction used for purchase of property and equipment	<u>99,985</u>	<u>-</u>
Increase in unrestricted net assets	<u>7,284,114</u>	<u>12,248,230</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions received	498,293	1,684,535
Investment return and change in unrealized gains and losses on other-than-trading securities	138,784	384,774
Net assets released from restriction	<u>(151,983)</u>	<u>(122,757)</u>
Increase in temporarily restricted net assets	<u>485,094</u>	<u>1,946,552</u>
<b>Change in Net Assets</b>	7,769,208	14,194,782
<b>Net Assets, Beginning of Year</b>	<u>167,538,497</u>	<u>153,343,715</u>
<b>Net Assets, End of Year</b>	<u>\$ 175,307,705</u>	<u>\$ 167,538,497</u>

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

## Consolidated Statements of Cash Flows Years Ended June 30, 2018 and 2017

	2018	2017
<b>Operating Activities</b>		
Change in net assets	\$ 7,769,208	\$ 14,194,782
Items not requiring (providing) operating cash flow:		
Depreciation and amortization	7,890,689	7,940,086
Net gains on investments	(4,485,703)	(5,887,106)
Loss on sale of property and equipment	101,606	834,572
Provision for uncollectible accounts	22,652,562	21,928,345
Restricted contributions	(498,293)	(1,684,535)
Changes in:		
Patient accounts receivable	(26,020,452)	(20,072,870)
Estimated amounts due from and to third-party payers	1,577,750	(4,102,439)
Accounts payable and accrued expenses	1,922,160	1,370,396
Deferred compensation obligation	23,215	(743,562)
Other current assets and liabilities	(4,786,672)	(2,140,753)
	6,146,070	11,636,916
<b>Investing Activities</b>		
Purchases of investments	(8,787,928)	(54,245,381)
Sales of investments	7,758,919	54,010,933
Proceeds from insurance settlement on property loss	-	2,113,291
Proceeds from sale of property and equipment	-	14,475
Purchase of property and equipment	(16,356,343)	(6,551,156)
	(17,385,352)	(4,657,838)
<b>Financing Activities</b>		
Proceeds from restricted contributions	2,886,249	2,311,040
Payments on long-term debt	(2,030,000)	(1,950,000)
	856,249	361,040
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(10,383,033)	7,340,118
<b>Cash and Cash Equivalents, Beginning of Year</b>	36,496,213	29,156,095
<b>Cash and Cash Equivalents, End of Year</b>	\$ 26,113,180	\$ 36,496,213
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 2,562,305	\$ 2,562,305
Fixed asset additions in accounts payable	232,787	808,800

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

## **Notes to Consolidated Financial Statements June 30, 2018 and 2017**

### **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) 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. The Medical Center became its 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, 2018 and 2017, 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, 2018 and 2017**

At June 30, 2018 and 2017, the Medical Center's cash accounts exceeded federally insured limits by approximately \$15,387,000 and \$31,523,000, 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 collectability 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

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

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 decreased from 93 percent of self-pay accounts receivable at June 30, 2017, to 92 percent of self-pay accounts receivable at June 30, 2018. The Medical Center's write-offs decreased approximately \$1,940,000 from approximately \$21,773,000 for the year ended June 30, 2017, to approximately \$19,833,000 for the year ended June 30, 2018. 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 net realizable value.

### ***Property and Equipment***

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

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

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

## **Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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, 2018 or 2017.

### ***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, 2018, 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, 2018 and 2017

### **Charity Care**

The Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as 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, 2018 and 2017, 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 2014.

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

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

## **Notes to Consolidated Financial Statements June 30, 2018 and 2017**

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, 2018 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.

### ***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.

### ***Reclassifications***

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 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

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

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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.

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, 2018 and 2017, is as follows.

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

**Notes to Consolidated Financial Statements  
June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Medicare	\$ 60,582,610	\$ 61,392,921
Medicaid	17,853,432	11,975,933
Other third-party payers	70,502,766	68,222,831
Self-pay	19,028,748	16,051,409
	<b>\$ 167,967,556</b>	<b>\$ 157,643,094</b>

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.

The Medical Center recognized as a component of net patient service revenue approximately \$9,887,000 and \$4,222,000 under these programs for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, is as follows.

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

## Notes to Consolidated Financial Statements June 30, 2018 and 2017

	2018	2017
Medicare	41%	38%
Medicaid	2%	4%
Other third-party payers	47%	48%
Patients	10%	10%
	100%	100%

### Note 4: Investments and Investment Return

#### *Assets Limited As To Use*

Assets limited as to use as of June 30, 2018 and 2017, include the following items:

	2018	2017
Internally designated for self-insurance:		
Cash and cash equivalents	\$ 22,648	\$ 20,999
Certificates of deposit	148,078	298,383
U.S. Treasury and agency obligations	35,190	187,586
Mutual funds principally invested in corporate and government bonds	1,391,239	1,098,348
	\$ 1,597,155	\$ 1,605,316
Internally designated for capital acquisition and other:		
Cash and cash equivalents	\$ 7,184,542	\$ 827,523
Certificates of deposit	1,281,070	1,741,834
Municipal bonds and notes	6,620	1,105,065
Mutual funds principally invested in corporate and government bonds	206,197	659,588
Corporate fixed income instruments	10,304	5,093
Domestic mutual funds	102,123	142,298
Foreign mutual funds	-	1,890
Domestic equity securities	1,277,036	3,510,524
	\$ 10,067,892	\$ 7,993,815

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

## Notes to Consolidated Financial Statements June 30, 2018 and 2017

### **Other Investments**

Other investments at June 30, 2018 and 2017, include:

	<b>2018</b>	<b>2017</b>
Certificates of deposit	\$ 758,123	\$ 1,570,711
Mutual funds principally invested in corporate and government bonds	42,344,033	42,575,918
Domestic mutual funds	1,979,585	2,090,141
Foreign mutual funds	9,323,115	8,929,932
Domestic equity securities	43,684,376	39,473,734
	98,089,232	94,640,436
Less long-term investments	87,487,310	82,432,313
Short-term investments	\$ 10,601,922	\$ 12,208,123

Total investment return is comprised of the following:

	<b>2018</b>	<b>2017</b>
Interest and dividend income	\$ 2,354,144	\$ 1,828,837
Net realized gains	951,588	333,366
Net unrealized gains	3,534,115	5,553,740
	\$ 6,839,847	\$ 7,715,943

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

	<b>2018</b>	<b>2017</b>
Unrestricted net assets:		
Other income - investment return	\$ 6,701,063	\$ 7,331,169
Temporarily restricted net assets:		
Change in unrealized gains on other-than-trading securities	138,784	384,774
	\$ 6,839,847	\$ 7,715,943

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

## Notes to Consolidated Financial Statements June 30, 2018 and 2017

### Note 5: Contributions Receivable

Contributions receivable consisted of the following items at June 30, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Due within one year	\$ 1,317,166	\$ 3,815,847
Due in one to five years	750,629	1,369,576
	2,067,795	5,185,423
Less:		
Allowance for doubtful contributions	113,018	640,591
Unamortized discount	110,830	312,929
	223,848	953,520
	\$ 1,843,947	\$ 4,231,903

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 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, 2018 and 2017, were approximately \$542,000 and \$531,000, respectively, 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, 2018 and 2017.

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

## Notes to Consolidated Financial Statements June 30, 2018 and 2017

### ***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 for each of the years ended June 30, 2018 and 2017. 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 \$1,253,000 and \$1,091,000 for the years ended June 30, 2018 and 2017, respectively.

### **Note 7: Long-term Debt**

	<b>2018</b>	<b>2017</b>
Revenue bonds payable (A)	\$ 51,215,000	\$ 53,245,000
Bond premium	3,937,354	4,167,148
	55,152,354	57,412,148
Less unamortized deferred financing costs	915,135	968,544
	<b>\$ 54,237,219</b>	<b>\$ 56,443,604</b>

(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 \$915,135 and \$968,544 at June 30, 2018 and 2017, respectively. The effective interest rate was 4.41 percent and 4.48 percent for the years ended June 30, 2018 and 2017, respectively.

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.

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

## Notes to Consolidated Financial Statements June 30, 2018 and 2017

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.

Aggregate annual maturities of long-term debt at June 30, 2018, are:

2019	\$ 2,110,000
2020	2,200,000
2021	2,270,000
2022	2,365,000
2023	2,485,000
Thereafter	<u>39,785,000</u>
	<u>\$ 51,215,000</u>

### Note 8: Line of Credit

At June 30, 2018 and 2017, the Medical Center had an unsecured \$3,000,000 line of credit with a prime rate (5.00 percent at June 30, 2018), 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, 2018 or 2017.

### Note 9: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for health care services. During the years ended June 30, 2018 and 2017, net assets released from donor restrictions by incurring qualifying purchases or by the passage of time were approximately \$152,000 and \$123,000, respectively.

Permanently restricted net assets as of June 30, 2018 and 2017, were \$220,000 for each year, which are investments to be held in perpetuity with the income to be used for operations.

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

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### 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 \$2,711,000 and \$1,709,000 for the years ended June 30, 2018 and 2017, 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:

	<u>2018</u>	<u>2017</u>
Health care services	\$ 135,180,372	\$ 123,756,619
General and administrative	<u>13,698,685</u>	<u>12,541,044</u>
	<u>\$ 148,879,057</u>	<u>\$ 136,297,663</u>

### 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 \$550,000 and \$708,000 for the years ended June 30, 2018 and 2017, respectively, and net of forfeitures for the years ended June 30, 2018 and 2017, of \$50,000 and \$1,000, 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 \$40,000 and \$190,000 for the years ended June 30, 2018 and 2017, respectively.

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

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### 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, 2018 and 2017.

	<b>Fair Value Measurement Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
June 30, 2018:				
Mutual funds principally invested in corporate and government bonds	\$ 43,941,469	\$ 43,941,469	\$ -	\$ -
U.S. Treasury and agency obligations	35,190	35,190	-	-
Domestic mutual funds	2,081,708	2,081,708	-	-
Foreign mutual funds	9,323,115	9,323,115	-	-
Domestic equity securities	44,961,412	44,961,412	-	-
Municipal bonds and notes	6,620	-	6,620	-
Corporate fixed income instruments	10,304	-	10,304	-

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

## Notes to Consolidated Financial Statements June 30, 2018 and 2017

	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	-

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, 2018 or 2017.

### **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 and mutual funds principally invested in corporate and government bonds. 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 no Level 3 investments at June 30, 2018 or 2017.

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.

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

## Notes to Consolidated Financial Statements June 30, 2018 and 2017

### ***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, 2018 and 2017.

	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, 2018:				
Financial assets:				
Cash and cash equivalents	\$ 26,113,180	\$ 26,113,180	\$ -	\$ -
Assets limited as to use and other investments	109,754,279	109,737,355	16,924	-
Contributions receivable	1,843,947	-	1,843,947	-
Financial liabilities:				
Long-term debt	54,237,219	-	55,198,714	-
June 30, 2017:				
Financial assets:				
Cash and cash equivalents	36,496,213	36,496,213	-	-
Assets limited as to use and other investments	104,239,567	103,129,409	1,110,158	-
Contributions receivable	4,231,903	-	4,231,903	-
Financial liabilities:				
Long-term debt	56,443,604	-	57,950,125	-

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.

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

## **Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

### ***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.

### **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 \$6,591,000 and \$2,447,000 to access Medicare Supplemental payments during the years ended June 30, 2018 and 2017, 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

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

## **Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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.

### ***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: Future Change in Accounting Principle**

### ***Revenue Recognition***

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). As the Medical Center is a conduit debt obligor, the effective date of adoption is for the year ending June 30, 2019. The Medical Center is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

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

## **Notes to Consolidated Financial Statements June 30, 2018 and 2017**

### ***Accounting for Leases***

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019 (2018 for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2020 (2018 for not-for-profits that are conduit debt obligors). As the Medical Center is a conduit debt obligor, the effective date of adoption is for the year ending June 30, 2020. The Medical Center is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

### **Note 17: Subsequent Events**

Subsequent events have been evaluated through November 26, 2018 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, 2018

	The Medical Center	The Foundation	PMA	HPGSA	Eliminations	Consolidated
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 25,109,923	\$ 673,700	\$ (84,413)	\$ 413,970	\$ -	\$ 26,113,180
Short-term investments	10,601,922	-	-	-	-	10,601,922
Patient accounts receivable, net of allowance	13,458,004	-	899,867	-	-	14,357,871
Contributions receivable	-	1,317,166	-	-	-	1,317,166
Supplies	3,051,359	-	2,494	-	-	3,053,853
Prepaid expenses and other	9,831,405	-	83,913	-	-	9,915,318
	<u>62,052,613</u>	<u>1,990,866</u>	<u>901,861</u>	<u>413,970</u>	<u>0</u>	<u>65,359,310</u>
<b>Assets Limited As To Use</b>						
Internally designated, self-insurance	1,597,155	-	-	-	-	1,597,155
Internally designated, capital acquisition and other	1,786,694	8,281,198	-	-	-	10,067,892
	<u>3,383,849</u>	<u>8,281,198</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,665,047</u>
<b>Investments</b>	<u>86,823,256</u>	<u>664,054</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>87,487,310</u>

**Sid Peterson Memorial Hospital d/b/a  
Peterson Health**  
**Balance Sheet Information – Consolidating Schedule (Continued)**  
**June 30, 2018**

	<b>The Medical Center</b>	<b>The Foundation</b>	<b>PMA</b>	<b>HPGSA</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Property and Equipment, At Cost</b>						
Land	\$ 3,703,715	\$ -	\$ -	\$ -	\$ -	\$ 3,703,715
Buildings and leasehold improvements	96,384,994	-	-	-	-	96,384,994
Equipment	66,514,212	-	-	-	-	66,514,212
Construction in progress	9,184,081	-	-	-	-	9,184,081
	175,787,002	0	0	0	0	175,787,002
Less accumulated depreciation	91,567,684	-	-	-	-	91,567,684
	84,219,318	0	0	0	0	84,219,318
<b>Other Assets</b>						
Contributions receivable	-	526,781	-	-	-	526,781
Other	-	-	-	57,025	-	57,025
	0	526,781	0	57,025	0	583,806
Total assets	\$ 236,479,036	\$ 11,462,899	\$ 901,861	\$ 470,995	\$ 0	\$ 249,314,791

**Sid Peterson Memorial Hospital d/b/a  
Peterson Health**  
**Balance Sheet Information – Consolidating Schedule (Continued)**  
**June 30, 2018**

	<b>The Medical Center</b>	<b>The Foundation</b>	<b>PMA</b>	<b>HPGSA</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities</b>						
Current maturities of long-term debt	\$ 2,110,000	\$ -	\$ -	\$ -	\$ -	\$ 2,110,000
Accounts payable	3,288,968	-	131,015	114,658	-	3,534,641
Accrued expenses	11,565,516	-	336,011	-	-	11,901,527
Estimated amounts due to third-party payers	2,373,212	-	-	-	-	2,373,212
Estimated self-insured employee benefit costs	1,252,889	-	-	-	-	1,252,889
Total current liabilities	20,590,585	0	467,026	114,658	0	21,172,269
<b>Estimated Self-insured Professional Liability Costs</b>	542,442	-	-	-	-	542,442
<b>Deferred Compensation Obligation</b>	165,156	-	-	-	-	165,156
<b>Long-term Debt</b>	52,127,219	-	-	-	-	52,127,219
Total liabilities	73,425,402	0	467,026	114,658	0	74,007,086
<b>Net Assets</b>						
Unrestricted	162,638,373	735,501	434,835	356,337	-	164,165,046
Temporarily restricted	415,261	10,507,398	-	-	-	10,922,659
Permanently restricted	-	220,000	-	-	-	220,000
Total net assets	163,053,634	11,462,899	434,835	356,337	0	175,307,705
Total liabilities and net assets	\$ 236,479,036	\$ 11,462,899	\$ 901,861	\$ 470,995	\$ 0	\$ 249,314,791

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

### Statement of Operations and Changes in Net Assets Information – Consolidating Schedule Year Ended June 30, 2018

	The Medical Center	The Foundation	PMA	HPGSA	Eliminations	Consolidated
<b>Unrestricted Revenues, Gains and Other Support</b>						
Patient service revenue (net of contractual allowances and discounts)	\$ 159,737,777	\$ -	\$ 8,229,779	\$ -	\$ -	\$ 167,967,556
Provision for uncollectible accounts	22,652,562	-	-	-	-	22,652,562
Net patient service revenue less provision for uncollectible accounts	137,085,215	0	8,229,779	0	0	145,314,994
Other	1,201,721	-	358,612	1,535,849	745,563	3,841,745
Total unrestricted revenues, gains and other support	138,286,936	0	8,588,391	1,535,849	745,563	149,156,739
<b>Expenses and Losses</b>						
Salaries and wages	53,358,362	188,236	9,191,941	-	-	62,738,539
Employee benefits	14,053,116	35,185	1,578,629	-	-	15,666,930
Purchased services	11,016,436	50,103	1,337,627	1,517,365	745,563	14,667,094
Physician professional fees	5,272,784	-	81,133	-	-	5,353,917
Supplies and pharmaceuticals	20,716,726	16,595	793,405	24,102	-	21,550,828
Maintenance and repairs	3,985,410	-	38,894	-	-	4,024,304
Depreciation and amortization	7,890,689	-	-	-	-	7,890,689
Interest	2,452,424	-	-	-	-	2,452,424
Other	13,222,890	-	1,209,836	-	-	14,432,726
Loss on sale of property and equipment	101,606	-	-	-	-	101,606
Total expenses and losses	132,070,443	290,119	14,231,465	1,541,467	745,563	148,879,057
<b>Operating Income (Loss)</b>	6,216,493	(290,119)	(5,643,074)	(5,618)	0	277,682

## 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, 2018

	The Medical Center	The Foundation	PMA	HPGSA	Eliminations	Consolidated
<b>Other Income</b>						
Investment return	\$ 6,668,503	\$ 32,560	\$ -	\$ -	\$ -	\$ 6,701,063
Contributions	-	205,384	-	-	-	205,384
Total other income	<u>6,668,503</u>	<u>237,944</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,906,447</u>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	12,884,996	(52,175)	(5,643,074)	(5,618)	-	7,184,129
Net assets released from restriction used for purchase of property and equipment	99,985	-	-	-	-	99,985
Transfer (to) from affiliates	<u>(5,803,265)</u>	<u>266,692</u>	<u>5,536,573</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>\$ 7,181,716</u>	<u>\$ 214,517</u>	<u>\$ (106,501)</u>	<u>\$ (5,618)</u>	<u>\$ 0</u>	<u>\$ 7,284,114</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, 2018

	The Medical Center	The Foundation	PMA	HPGSA	Eliminations	Consolidated
<b>Temporarily Restricted Net Assets</b>						
Contributions received	\$ 52,711	\$ 445,582	\$ -	\$ -	\$ -	\$ 498,293
Investment return, change in unrealized gains and losses on other-than-trading securities	1,695	137,089	-	-	-	138,784
Net assets released from restriction	(127,947)	(24,036)	-	-	-	(151,983)
	<u>(73,541)</u>	<u>558,635</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>485,094</u>
Increase (decrease) in temporarily restricted net assets						
<b>Change in Net Assets</b>	7,108,175	773,152	(106,501)	(5,618)	-	7,769,208
<b>Net Assets, Beginning of Year</b>	<u>155,945,459</u>	<u>10,689,747</u>	<u>541,336</u>	<u>361,955</u>	<u>-</u>	<u>167,538,497</u>
<b>Net Assets, End of Year</b>	<u>\$ 163,053,634</u>	<u>\$ 11,462,899</u>	<u>\$ 434,835</u>	<u>\$ 356,337</u>	<u>\$ 0</u>	<u>\$ 175,307,705</u>