

Reid Hospital and Health Care Services, Inc.

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2018 and 2017

Reid Hospital and Health Care Services, Inc.

December 31, 2018 and 2017

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Independent Auditor's Report

Board of Directors
Reid Hospital and Health Care Services, Inc.
Richmond, Indiana

We have audited the accompanying consolidated financial statements of Reid Hospital and Health Care Services, Inc., which comprise the consolidated balance sheets as of December 31, 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 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 Reid Hospital and Health Care Services, Inc. as of December 31, 2018 and 2017, and the results of its operations, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2018, the Hospital adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to these matters.

Supplementary Information

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating 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 has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Indianapolis, Indiana
April 24, 2019

Reid Hospital and Health Care Services, Inc.

Consolidated Balance Sheets December 31, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 23,462,111	\$ 29,902,985
Patient accounts receivable, net of 2017 allowance of \$31,000,000	51,446,176	44,974,147
Estimated amounts due from third-party payers	5,274,328	5,801,577
Supplies	6,617,271	6,826,866
Prepaid expenses and other	13,608,400	15,879,203
Total current assets	100,408,286	103,384,778
Investments Limited As To Use		
Internally designated	244,169,698	268,557,811
Internally designated - alternative investments carried at fair value	60,744,709	50,747,524
	304,914,407	319,305,335
Property and Equipment, net	236,880,807	250,395,194
Other Assets		
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	19,089,218	20,978,752
Intangible assets, net	22,136,815	17,987,590
Other	5,750,942	5,245,841
	46,976,975	44,212,183
Total assets	\$ 689,180,475	\$ 717,297,490
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 19,520,553	\$ 16,848,703
Accrued salaries, wages and related liabilities	24,391,525	24,736,259
Estimated amounts due to third-party payers	2,526,858	2,830,000
Current maturities of long-term debt	7,818,388	6,913,765
Total current liabilities	54,257,324	51,328,727
Long-Term Debt	214,936,671	211,482,221
Interest Rate Swap Agreements	14,942,698	17,524,498
Total liabilities	284,136,693	280,335,446
Net Assets		
Without Donor restriction		
Reid Hospital and Health Care Services, Inc.	384,698,640	414,036,868
Noncontrolling interest	1,255,924	1,946,424
Total net assets without donor restrictions	385,954,564	415,983,292
With donor restriction	19,089,218	20,978,752
Total net assets	405,043,782	436,962,044
Total liabilities and net assets	\$ 689,180,475	\$ 717,297,490

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues, Gains and Other Support Without Donor Restriction		
Patient service revenue, net of contractual allowance		\$ 442,325,143
Provision for uncollectible accounts		<u>(27,017,965)</u>
Net patient service revenue, less provision for uncollectible accounts	\$ 432,155,861	415,307,178
Other	11,724,764	10,811,633
Net assets released from restrictions used for operations	<u>2,760,000</u>	<u>4,274,025</u>
Total revenues, gains and other support without donor restrictions	<u>446,640,625</u>	<u>430,392,836</u>
Expenses and Losses		
Salaries, wages and benefits	264,789,928	232,345,526
Purchased services and professional fees	15,042,360	15,284,198
Supplies and other	135,604,314	124,457,383
Depreciation and amortization	32,601,097	31,405,335
Interest and amortization of financing costs	8,109,706	7,558,166
Loss on disposal of property and equipment	41,385	454,741
Provider hospital assessment fee	<u>11,421,955</u>	<u>9,340,057</u>
Total expenses and losses	<u>467,610,745</u>	<u>420,845,406</u>
Operating Income (Loss)	<u>(20,970,120)</u>	<u>9,547,430</u>
Other Income (Expense)		
Investment return, net	(9,024,558)	34,666,043
Change in fair value of interest rate swap agreements	<u>2,581,800</u>	<u>1,254,073</u>
Total other income (expense)	<u>(6,442,758)</u>	<u>35,920,116</u>
Excess (Deficiency) of Revenues Over Expenses	<u>\$ (27,412,878)</u>	<u>\$ 45,467,546</u>

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expense	\$ (27,412,878)	\$ 45,467,546
Distributions to noncontrolling interest	(2,615,850)	(2,715,750)
Net assets released from restriction for purchase of property and equipment	-	2,925,975
Other	-	(5,877)
Increase (decrease) in net assets without donor restrictions	<u>(30,028,728)</u>	<u>45,671,894</u>
Net Assets With Donor Restrictions		
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	870,466	4,798,191
Net assets released from restriction	<u>(2,760,000)</u>	<u>(7,200,000)</u>
Decrease in net assets with donor restrictions	<u>(1,889,534)</u>	<u>(2,401,809)</u>
Change in Net Assets	(31,918,262)	43,270,085
Net Assets, Beginning of Year	<u>436,962,044</u>	<u>393,691,959</u>
Net Assets, End of Year	<u>\$ 405,043,782</u>	<u>\$ 436,962,044</u>

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ (31,918,262)	\$ 43,270,085
Items not requiring (providing) cash		
Depreciation and amortization	32,601,097	31,405,335
Loss on disposal of property and equipment	41,385	454,741
Amortization of deferred financing fees and bond premium	(658,722)	(576,111)
Provision for uncollectible accounts	-	27,017,965
Unrealized (gains) losses on investments	61,396,620	(26,011,960)
Realized gain on investments	(44,187,340)	(1,409,388)
Realized and unrealized gains on other investments carried at fair value	(2,445,330)	(2,358,014)
Investment gain on investments carried under equity method	(77,334)	(262,112)
Change in fair value of interest rate swap agreements	(2,581,800)	(1,254,073)
Undistributed portion of change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	1,889,534	2,401,809
Changes in		
Patient accounts receivable	(6,472,029)	(26,562,185)
Estimated amounts due from and to third-party payers	224,107	(5,951,595)
Accounts payable, accrued expenses and accrued salaries, wages and related liabilities	606,461	4,067,077
Other current and noncurrent assets	1,975,297	952,385
Net cash provided by operating activities	10,393,684	45,183,959
Investing Activities		
Purchase of investments	(139,789,438)	(18,618,687)
Proceeds from disposition of investments	139,493,750	10,455,807
Purchase of property and equipment	(16,431,337)	(18,941,848)
Purchase of intangible assets	(5,125,328)	(13,898,480)
Net cash used in investing activities	(21,852,353)	(41,003,208)
Financing Activities		
Principal payments on long-term debt	(6,362,602)	(5,956,313)
Proceeds from issuance of long-term debt	11,599,617	948,118
Capital lease payments	(219,220)	(656,084)
Net cash provided by (used in) financing activities	5,017,795	(5,664,279)
Decrease in Cash and Cash Equivalents	(6,440,874)	(1,483,528)
Cash and Cash Equivalents, Beginning of Year	29,902,985	31,386,513
Cash and Cash Equivalents, End of Year	\$ 23,462,111	\$ 29,902,985
Supplemental Cash Flows Information		
Property and equipment included in accounts payable and accrued expenses	\$ 1,255,606	\$ 772,217
Intangible assets included in accounts payable and accrued expenses	1,237,266	-
Interest paid (net of amount capitalized)	7,477,316	7,138,205

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2018 and 2017

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

Nature of Operations and Principles of Consolidation

Reid Hospital and Health Care Services, Inc. (Hospital), located in Richmond, Indiana, is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital provides short-term acute inpatient, outpatient and emergency care to residents of Wayne county and surrounding counties. Admitting physicians are primarily practitioners in the local area.

The Hospital owns 100% of Reid Physician Associates, Inc. (RHPA), which is a not-for-profit corporation as described in Section 501(c)(3) of the Code. The Hospital also owns 100% of Reid Anesthesia, LLC (RA). RHPA is exempt from income taxes on related income pursuant to Section 501(a) of the Code. RHPA provides physician services and RA provides anesthesia and management services.

The Hospital owns 55% and holds a controlling interest in an ambulatory surgery center, Reid Outpatient Surgery and Endoscopy, LLC (ROSE).

The Hospital owns 100% of Connersville Pharmacy, LLC (CPH), which was created to own and operate a retail pharmacy in the Hospital's service area and surrounding communities. The Hospital also owns 100% of Reid Health Properties, LLC (RHP), which was formed to own and manage real estate utilized in ancillary hospital services.

In 2018, the Hospital formed Reid Health Ambulance, Inc. (RHA) and holds 100% ownership. RHA was created to provide ambulance services in the Hospital's service area. RHA had not commenced services as of December 31, 2018.

The consolidated financial statements include the accounts of the Hospital and its controlled subsidiaries, ROSE, RHPA, RA, CPH, RHP, and RHA. All material intercompany accounts and transactions have been eliminated in consolidation.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Noncontrolling Interest

Noncontrolling interest represents a 45% interest in ROSE that the Hospital does not own. For the years ended December 31, 2018 and 2017, changes in consolidated net assets without donor restrictions attributable to the controlling financial interest of the Hospital and the noncontrolling interest are:

	Total	Controlling Interest	Noncontrolling Interest
Balance, January 1, 2017	\$ 370,311,398	\$ 368,085,459	\$ 2,225,939
Excess of revenues over expenses	45,467,546	43,031,311	2,436,235
Net assets released from restriction used for purchase of property and equipment	2,925,975	2,925,975	-
Distributions to noncontrolling interest	(2,715,750)	-	(2,715,750)
Other	(5,877)	(5,877)	-
Increase (decrease) in net assets without donor restrictions	<u>45,671,894</u>	<u>45,951,409</u>	<u>(279,515)</u>
Balance, December 31, 2017	415,983,292	414,036,868	1,946,424
Excess (deficiency) of revenues over expenses	(27,412,878)	(29,338,228)	1,925,350
Distributions to noncontrolling interest	(2,615,850)	-	(2,615,850)
Decrease in net assets without donor restrictions	<u>(30,028,728)</u>	<u>(29,338,228)</u>	<u>(690,500)</u>
Balance, December 31, 2018	<u>\$ 385,954,564</u>	<u>\$ 384,698,640</u>	<u>\$ 1,255,924</u>

The change in net assets with donor restrictions is attributable solely to the controlling interest.

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Cash and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At December 31, 2018, the Hospital's cash accounts exceeded federally insured limits by approximately \$23,300,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments include investments in limited partnerships valued on the income tax basis of accounting, which approximates the equity method of accounting, and investments in limited partnerships recorded at net asset value (NAV), as a practical expedient. Certificates of deposit are stated at cost, plus accrued interest, which approximates 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 net assets without donor restriction. Other investment return is reflected in the consolidated statements of operations and changes in net assets as without donor restriction or with donor restriction based upon the existence and nature of any donor or legally imposed restrictions.

Investments - Equity Method

Investments in organizations in which the Hospital's ownership percentage is 50% or less where the Hospital exercises significant influence are accounted for under the equity method and are included with other assets on the consolidated balance sheets.

The Hospital holds a 50% equity ownership interest in Reid-ANC Home Care Services, LLC, which is accounted for under the equity method.

The Hospital formed DASCO-Reid Home Medical Equipment, LLC (DASCO) and holds 50% ownership. DASCO was created as a joint venture to provide home medical equipment in the Hospital's service area and surrounding communities.

The Hospital is a subscriber in the Crossroads Health Services Reciprocal, which was organized to provide workers compensation coverage to its subscribers. Undistributed earnings are allocated to subscriber accounts and the Hospital accounts for its interests in a manner similar to the equity method. The Hospital's capital contribution and balance of undistributed earnings is reported in other assets.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Patient Accounts Receivable

Patient accounts receivable reflects the outstanding amount of consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs) and others. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

Supplies

The Hospital records supply inventories at the lower of cost, determined using the first-in, first-out (FIFO) method, or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease and leasehold improvements are depreciated over the shorter of the estimated useful life or lease term.

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 net assets without donor restrictions when the donated asset is placed in service. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

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

Land improvements	5 - 25 years
Buildings and improvements	5 - 40 years
Building and moveable equipment	2 - 20 years

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. No interest amounts related to property and equipment were capitalized in 2018 or 2017.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Long-Lived Asset Impairment

The Hospital 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 expected to result from the use and eventual disposition of the asset are 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 December 31, 2018 and 2017.

Interest in Net Assets of Reid Hospital and Health Care Services Foundation, Inc.

Reid Hospital and Health Care Services Foundation, Inc. (Foundation) and the Hospital are financially interrelated organizations. The Foundation seeks private support for, and holds net assets on behalf of, the Hospital. The Hospital accounts for its interest in the net assets of the Foundation (Interest) in a manner similar to the equity method. Changes in the Interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the Interest.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are presented as a reduction from long-term debt and are being amortized over the term of the respective debt using the straight-line method, which approximates the effective interest method.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Hospital has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Hospital in perpetuity.

Patient Care Service Revenue

Patient care service revenue is recognized as the Hospital satisfies performance obligations under its contracts with patients. Patient care service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Hospital's policies and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payer groups. The Hospital determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payers.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Contract Assets and Liabilities

Amounts related to health care services provided to patients which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract asset balances consist primarily of health care services provided to patients who are still receiving inpatient care in the Hospital at the end of the year. Contract asset balances at December 31, 2018 approximated \$10,821,000 and are included in patient accounts receivable. At December 31, 2017, amounts related to health care services provided to patients which have not been billed and did not meet the conditions of an unconditional right to payment as of the year then ended are included on the consolidated balance sheet in accounts receivable, less allowance for doubtful accounts.

Amounts received related to health care services that have not yet been provided to patients are contract liabilities. Contract liabilities consist of payments made by patients and third-party payers for services not yet performed. The Hospital had no contract liabilities on the consolidated balance sheet at December 31, 2018. At December 31, 2017, there were no amounts related to payments received for future health care services.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as patient care service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$23,365,336 and \$28,112,399 for 2018 and 2017, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately \$6,700,000 and \$8,200,000 for 2018 and 2017, respectively.

The Hospital also provides unreimbursed services to the community, which include free or low cost health screenings, educational programs and information and financial support to, and meeting space for, various community groups. In addition, services to beneficiaries of governmental programs (principally those relating to the Medicare and Medicaid programs) are generally provided at governmentally established rates, which are substantially lower than the Hospital's standard rates and are considered part of the Hospital's benefits to the community. Assistance is also provided to senior citizens and other patients and their families for the submission of forms for insurance, financial counseling and the application to the Medicare and Medicaid programs for health service coverage. The costs of these programs are included in operating expenses.

Professional Liability Claims

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully later in these notes.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Excess of Revenues Over Expenses

Substantially all resources of the Hospital are derived from providing health care services, similar to that provided by a business enterprise. Therefore, the consolidated statements of operations include the excess of revenues over expenses (performance indicator). Changes in net assets without donor restrictions which are excluded from the excess of revenues over expenses, consistent with industry practice, include net assets released from restriction used for the purchase of property and equipment, distributions to noncontrolling interests and other.

Self-Insurance

The Hospital has elected to self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to expense when incurred. The Hospital has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$275,000.

Income Taxes

The Hospital and RHPA 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 Hospital is subject to federal income tax on any unrelated business taxable income. ROSE, RA, CPH and RHP are not directly subject to income taxes under the provisions of the Internal Revenue Code and applicable state laws. Taxable income or loss is allocated to its members in accordance with their respective percentage ownership for inclusion in their respective tax returns.

The Hospital and its controlled subsidiaries file tax returns in the U.S. federal jurisdiction.

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 actual transfer date.

Intangible Assets

Intangible assets with finite lives represent software licensing agreements. Amounts are amortized on the straight-line basis over the lease term, which is a period of ten years. Such assets are periodically evaluated as to the recoverability of their carrying values.

The Hospital capitalizes interest costs related to software licensing as a component of intangible assets, based on the weighted-average rates paid for long-term borrowing. Interest amounts capitalized were \$169,465 and \$432,388 in 2018 and 2017, respectively.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on the change in net assets.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2018 and 2017

Note 2: Change in Accounting Principles

ASU 2016-14, Not-For-Profit Entities (Topic 958)

In 2018, the Hospital, adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

Balance Sheet

The balance sheet distinguishes between two new class of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets-unrestricted, temporarily restricted and permanently restricted.

Statement of Operations

Investment income is shown net of external and direct internal investment expense. Disclosure of the expense netted against investment income is no longer required.

Notes to the Financial Statements

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expense for one-year from the date of the balance sheet.

Expense are reported by both nature and function in one location.

This change had no impact on previously report total change in net assets and has been applied retrospectively to all periods presented.

ASU 2018-09, Revenue From Contracts With Customers (Topic 606)

On January 1, 2018, the Hospital adopted the FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using a modified-retrospective method of adoption to all contracts with customers (patients) at January 1, 2018. The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers or patients in an amount that reflects the consideration to which the Hospital expects to be entitled in exchange for those goods or services. The amount to which the Hospital expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient care services to its patients. Adoption of ASU 2014-09 resulted in changes in presentation of the consolidated financial statements and related disclosures in the notes to the consolidated financial statements. Prior to the adoption of ASU 2014-09, the majority of the provision for doubtful accounts related to patients without insurance, as well as patient responsibility balances for co-pays, co-insurance and deductibles for patients with insurance. Under ASU 2014-09, the estimated amounts due from patients for which the Hospital does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the Hospital's estimation of the transaction price or revenue recorded.

The adoption had no impact on operating income, overall change in net assets or net cash provided by operating activities.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Note 3: Patient Care Service Revenue

Patient care service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Hospital bills the patients and third-party payers several days after the services are performed or the patient is discharged from the facility and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services or patients receiving services in its outpatient centers. The Hospital measures the performance obligation from inpatient admission, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Hospital does not believe it is required to provide additional goods related to the patient.

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

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions which consist of contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Hospital's policy and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Reid Hospital and Health Care Services, Inc.

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Agreements with third-party payers typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payers follows:

Medicare. Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2015. The Hospital is a Medicare Designated Sole Community Hospital. Special Medicare payments under this designation approximated \$14.0 million and \$15.0 million for the years ended December 31, 2018 and 2017, respectively.

Medicaid. Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service or per covered member.

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment based on Hospital-established charges and prospectively determined rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. The Hospital believes it is in compliance with applicable laws and regulations governing Medicare, Medicaid, and other governmental programs. Compliance with such laws and regulations may be subject to future government review and interpretation, as well as significant regulatory action. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. In addition, the Hospital is subject to retroactive audit and claim review by commercial payers.

In January 2017, the Hospital received notice that its Medicaid Inpatient Utilization Rate (MIUR) exceeded state-wide thresholds, as defined by state regulation, and qualified as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law for State Fiscal Years 2016 and 2017. With this approval, the Hospital is eligible to receive supplemental Medicaid payments for the period July 1, 2015 through June 30, 2017. The Hospital received notification in November 2018 of its continued eligibility for the period July 1, 2017 through June 30, 2019. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have not been made to the Hospital by the State of Indiana. The Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received.

The Hospital recognized approximately \$800,000 and \$1.9 million within patient care service revenue related to this supplemental payment program in 2018 and 2017, respectively. Amounts outstanding totaled \$4.4 million and \$3.6 million at December 31, 2018 and 2017, respectively, and are included in estimated amounts due from third-party payers. These amounts represent funds due to the Hospital retroactive to June 1, 2015 and are management's best estimate of DSH funds due to the Hospital, which are typically paid in arrears.

Reid Hospital and Health Care Services, Inc.

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The Hospital participates in a state-specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$11.4 million and \$9.3 million of fees related to the program in 2018 and 2017, respectively, which is recorded as an operating expense. A benefit of having the Hospital's MIUR over state-wide thresholds includes paying 75% of the provider assessment fee, where nonqualified hospitals must pay 100% of the provider assessment fee. Total amounts due to the Hospital related to the fee reduction were \$2.2 million at December 31, 2017. These amounts are included in estimated amounts due from third-party payers. No amounts were due as of December 31, 2018, as the state had settled previous years where Reid was assessed at 100% of the provider assessment fee. The provider assessment fee program is subject to further retroactive rate setting by the State of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital, including the 25% benefit through December 31, 2018.

The State measures MIUR percentages no less than every four years and no more than every two years. At each measurement period, the state-defined MIUR threshold changes, which could affect the Hospital's eligibility status. Any change in eligibility status would affect the Hospital's ability to qualify for Medicaid DSH payments and receive the 25% provider assessment fee reduction. Any changes in the amount of tax due or expected proceeds from the DSH program as a result of eligibility changes will be recorded in the period once the state has made its determination.

Settlements with third-party payers for retroactive adjustments due to cost report or audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price related to settlements of prior fiscal years' cost reports, Medicaid settlements, and the disposition of other payer audits were not significant in 2018 or 2017.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care service revenue in the period of the change. For the years ended December 31, 2018 and 2017, additional revenue recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years was not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2018 and 2017

From time to time, the Hospital will receive overpayments of patient balances from third-party payers or patients resulting in amounts owed back to either the patients or third-party payers. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of December 31, 2018 and 2017, the Hospital has a liability for refunds to third-party payers and patients recorded of approximately \$2,875,000 and \$7,140,000, respectively.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients. For the year ended December 31, 2018, implicit price concessions were approximately \$29.5 million.

Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The Hospital has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by payers and service lines. Tables providing details of these factors are presented below.

The composition of patient care service revenue by primary payer for the years ended December 31 is as follows:

	2018	2017
Medicare	\$ 167,314,874	\$ 166,785,607
Medicaid	51,936,385	49,117,718
Commercial insurers	188,349,142	180,691,237
Uninsured	13,672,703	12,482,560
Other	10,882,757	6,230,056
	<u>\$ 432,155,861</u>	<u>\$ 415,307,178</u>

Revenue from patients' deductibles and coinsurance are included in the categories presented above based on the primary payer.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
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The composition of patient care service revenue based on service lines for the years ended December 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Hospital - inpatient	\$ 117,410,199	\$ 94,461,283
Hospital - outpatient	251,751,197	260,797,768
Physician services	<u>62,994,465</u>	<u>60,048,127</u>
	<u>\$ 432,155,861</u>	<u>\$ 415,307,178</u>

Financing Component

The Hospital has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the Hospital's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. However, the Hospital does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Note 4: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of which are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at December 31, 2018 and 2017 is:

	<u>2018</u>	<u>2017</u>
Medicare	29%	29%
Medicaid	13%	16%
Other third-party payers	55%	49%
Uninsured patients, including coinsurance and deductibles	<u>3%</u>	<u>6%</u>
	<u>100%</u>	<u>100%</u>

Reid Hospital and Health Care Services, Inc.
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Note 5: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use at December 31 are as follows:

	2018	2017
Internally designated by Board		
Trading		
Money market funds	\$ 16,401,969	\$ 32,497,003
Certificates of deposit	10,000,000	-
Domestic equity securities	23,383,366	11,534,258
Non-U.S. equity securities	-	202,944
Domestic equity mutual funds	119,050,030	151,478,780
Domestic fixed income mutual funds	14,719,523	53,754,841
Non-U.S. equity mutual funds	5,030,267	7,107,648
Domestic fixed income	53,645,897	9,073,427
Non-U.S. fixed income	-	834,070
Other	684,447	360,544
Other than trading		
Alternative investments - private equity	4,562,451	4,101,653
Alternative investments - corporate hedge funds	22,741,943	19,438,035
Alternative investments - real estate hedge funds	34,694,514	28,922,132
	<u>\$ 304,914,407</u>	<u>\$ 319,305,335</u>

Total investment return is comprised of the following:

	2018	2017
Interest and dividend income (net of interest paid on derivative investment instrument)	\$ 5,662,058	\$ 4,624,569
Realized gains on trading securities	44,187,340	1,409,388
Unrealized gains on trading securities	(61,396,620)	26,011,960
Realized and unrealized losses on other investments carried at fair value	2,445,330	2,358,014
Investment gains on investments carried under equity method	77,334	262,112
	<u>\$ (9,024,558)</u>	<u>\$ 34,666,043</u>

The Hospital classifies substantially all of its investments in debt and equity securities as trading. This classification requires the Hospital to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as nonoperating gains (losses) in the consolidated statements of operations.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
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Alternative Investments Carried at Fair Value

The fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at December 31 consist of the following:

	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity	\$ 4,562,451	\$ 647,933	N/A	N/A
Corporate hedge funds	21,721,470	566,323	Quarterly - Yearly	95 days
Real estate hedge funds	34,460,788	-	Quarterly - Yearly	45-90 days
	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity	\$ 4,101,653	\$ 5,000,000	N/A	N/A
Corporate hedge funds	19,438,035	905,234	Quarterly - Yearly	95 days
Real estate hedge funds	27,191,453	-	Quarterly - Yearly	45-90 days

Alternative Investments Carried Under Equity Method

The five alternative investments reported on the equity method consist of various real estate funds. These funds invest in other limited partnerships in equity and real estate sectors. All funds are locked-up for the life of the investment, with no option for redemption. Outstanding commitments for these funds approximate \$926,000. The financial position and results of operations of the more significant investment positions of which the Hospital owns a portion, are summarized below on a combined basis for the most recent period in which audited consolidated financial statements are available.

Current assets	\$ 1,887,368
Noncurrent assets	22,442,382
	\$ 24,329,750
Liabilities	\$ 51,511
Equity	\$ 24,278,239
Investment return	\$ 3,782,234
Net income	\$ 3,685,619

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Note 6: Interest in Net Assets of Reid Hospital and Health Services Foundation, Inc.

The Foundation was organized to support the activities of the Hospital in Richmond, Indiana. Funds are distributed to the Hospital as determined by the Foundation's Board of Directors. The Hospital's interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the interest in the net assets of the Foundation, with corresponding decreases or increases in the assets transferred, and have no effect on change in net assets. The Hospital's interest in the net assets of the Foundation is reported in the consolidated balance sheets and was \$19,089,218 and \$20,978,752 at December 31, 2018 and 2017, respectively. During 2018, the Foundation made \$2,760,000 in unrestricted donations to the Hospital, which is included in unrestricted revenues, gains and other support in the consolidated statements of operations. During 2017, the Foundation made a \$7,200,000 donation to the Hospital, \$4.3 million of which was unrestricted and is included in unrestricted revenues, gains and other support in the consolidated statements of operations. The remaining \$2.9 million was restricted to the purchase of property and equipment and is included in other changes in net assets without donor restrictions, which is excluded from the performance indicator in the consolidated statements of operations.

Certain Hospital officers and board members also serve on the Foundation's board of directors.

Note 7: Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. The Hospital is a subscriber in a Vermont captive insurance company, Tecumseh Health Reciprocal Risk Retention Group (previously named Indiana Healthcare Reciprocal Retention Group), a reciprocal risk retention group. The Hospital's capital contribution is reported in other assets.

Reserves for professional liability claims were \$852,500 and \$918,288 at December 31, 2018 and 2017, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. Although considerable variability is inherent in professional liability reserve estimates, management believes the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible that this estimate could change materially in the near term.

The Hospital's professional liability risks, in excess of certain per claim amounts, are insured through the policies described above. The amount receivable under these insurance contracts was \$852,500 and \$918,288 at December 31, 2018 and 2017, respectively, and is included within prepaid expenses and other on the consolidated balance sheets.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
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Note 8: Long-Term Debt

	<u>2018</u>	<u>2017</u>
Hospital Revenue Bonds, Series 2015A	\$ 86,325,000	\$ 88,310,000
Hospital Revenue Bonds, Series 2016A	32,676,000	34,583,000
Hospital Revenue Bonds, Series 2016B	33,040,000	33,040,000
Hospital Revenue Bonds, Series 2018A	10,000,000	-
Series 2016 Term Loan, Bank	45,750,000	47,925,000
Other Promissory Notes, Bank	2,177,820	873,805
Capital Lease Obligations	1,524,265	1,743,485
	<u>211,493,085</u>	<u>206,475,290</u>
Plus unamortized premium	12,466,814	13,104,505
Less unamortized deferred financing costs	(1,204,840)	(1,183,809)
Less current maturities	(7,818,388)	(6,913,765)
	<u>\$ 214,936,671</u>	<u>\$ 211,482,221</u>

The Hospital Authority of Richmond (Authority) obligated itself in a Trust Indenture with U.S. Bank National Association. The Authority loaned the proceeds of the bond issues in various loan agreements, which are more fully described below. The revenue bonds and term loan are secured by the Hospital's revenues and substantially all of the Hospital's assets.

In connection with the bond issues, the Hospital entered into various agreements benefiting the respective bond stakeholders. These agreements require the Hospital to meet certain financial performance ratios, among other covenants. Management believes they are in compliance with all covenants.

Hospital Revenue Bonds, Series 2015A

The Authority issued Revenue Bonds Series 2015A pursuant to a Trust Indenture dated as of February 24, 2015 between the Authority and U.S. Bank National Association, as Trustee. The bonds are special and limited obligations of the Authority and are payable solely from, and secured exclusively by, payments, revenues and other amounts pledged under the Trust Indenture, including payments to be made by the Hospital under a loan agreement dated February 1, 2015, between the Authority and the Hospital.

Proceeds from the bond issue were used primarily to refund the Series 2009A bonds.

The fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2016 in amounts ranging from \$1,790,000 to \$6,895,000 and are due in full in January 2039. Interest payments are due on January 1 and July 1, and rates vary at fixed amounts from 2.0% to 5.0%.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Hospital Revenue Bonds, Series 2016A and 2016B

The Authority issued Revenue Bonds Series 2016A and 2016B pursuant to a Trust Indenture dated as of November 1, 2016 between the Authority and U.S. Bank National Association, as Trustee. The bonds are special and limited obligations of the Authority and are payable solely from, and secured exclusively by, payments, revenues and other amounts pledged under the Trust Indenture, including payments to be made by the Hospital under a loan agreement dated November 1, 2016, between the Authority and the Hospital.

Proceeds from the bond issue were used primarily to refund the Series 2012 bonds.

The 2016A fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2017 in amounts ranging from \$1,445,000 to \$2,224,000 and are due in full in January 2036. The bonds may be subject to mandatory tender for purchase by the Hospital at the end of the direct purchase conversion period which is January 1, 2027. Interest payments are due on January 1 and July 1 at a fixed rate of 2.94% through January 1, 2027 at which time the interest rate is subject to adjustment.

The 2016B fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2028 in amounts ranging from \$40,000 to \$7,390,000 and are due in full in January 2036. Interest payments are due on January 1 and July 1 at a fixed rate of 5.00%.

Hospital Revenue Bonds, Series 2018A

The Authority issued Revenue Bonds Series 2018A pursuant to a Trust Indenture dated as of November 1, 2018 between the Authority and U.S. Bank National Association, as Trustee. The bonds are special and limited obligations of the Authority and are payable solely from, and secured exclusively by, payments, revenues and other amounts pledged under the Trust Indenture, including payments to be made by the Hospital under a loan agreement dated November 1, 2018, between the Authority and the Hospital.

Proceeds from the bond issue were used primarily for the acquisition of certain property and equipment.

The 2018A fixed rate serial bonds bear interest at 3.29% and require monthly interest-only payments through November 2019. The Hospital must pay monthly principal and interest payments of \$181,000 beginning December 2019 through maturity in November 2024.

Series 2016 Term Loan, Bank

The Hospital entered into a bank term loan dated October 24, 2016 requiring annual principal payments on January 1 of each year beginning in 2017 in amounts ranging from \$2,075,000 to \$5,700,000 and are due in full in January 2031. Interest payments are due monthly at a LIBOR-based variable rate plus an applicable margin (ranging from 1.767% to 2.167%). The interest rate at December 31, 2018 was 2.94%. The loan is secured exclusively by payments, revenues and other amounts pledged under the Trust Indenture.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Other Promissory Notes, Bank

The Hospital has entered into multiple promissory notes, which require monthly payments, including principal and interest ranging from \$8,000 to \$19,000 from August 2017 through various maturity dates in September 2023. The fixed interest rate on the notes range from 1.99% to 4.25%. The notes are secured by certain equipment of the Hospital.

Capital Lease Obligations

The Hospital entered into capital lease obligations for equipment. The leases, which mature in 2020, have varying rates of imputed interest approximating 2.5% and are collateralized by the equipment being leased.

Annual Maturities

The bonds listed above are subject to mandatory sinking fund requirements. Aggregate annual maturities and sinking fund requirements of bonds payable at December 31, 2018 are:

	Long-Term Debt (Excluding Capital Lease Obligations)
2019	\$ 7,058,853
2020	9,022,783
2021	9,228,795
2022	9,133,082
2023	9,315,824
Thereafter	<u>166,209,483</u>
	<u><u>\$ 209,968,820</u></u>

Interest expense for the years ended December 31, 2018 and 2017 was \$8,109,706 and \$7,558,166, respectively.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
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Note 9: Interest Rate Swap Agreements

Cash Flow Hedge

In March 2005, the Hospital entered into two interest rate swap agreements (the 2005 Swaps) for notional amounts totaling \$87,500,000. The 2005 Swaps are fixed rate payer swaps that terminate in January 2045 and prior to April 1, 2008, amortized in coordination with the 2005 B and C Series Bonds. Under these agreements, the Hospital pays a fixed rate of 3.702% and receives a floating rate equal to 63.10% of USD-LIBOR + .25% (1.84% and 1.24% at December 31, 2018 and 2017, respectively). The fair value of the 2005 Swaps represents a payable to the counterparty and is recorded as a liability of \$14,942,698 and \$17,524,498 at December 31, 2018 and 2017, respectively. Changes in fair value of the 2005 Swaps are recorded in other income (expense).

The table below presents certain information regarding the Hospital's interest rate swap agreements at December 31:

	2018	2017
Fair value of interest rate swap agreements	\$ (14,942,698)	\$ (17,524,498)
Balance sheet location of fair value amount	Interest Rate Swap Agreement Liability	Interest Rate Swap Agreement Liability
Change in fair value recognized in excess (deficiency) of revenues over expenses	\$ 2,581,800	\$ 1,254,073
Location of change in fair value recognized in excess of revenues over expenses	Other Income (Expense) - Change in fair value of interest rate swap agreements	Other Income (Expense) - Change in fair value of interest rate swap agreements

Note 10: Property and Equipment

Property and equipment and related accumulated depreciation as of December 31 are as follows:

	2018	2017
Land and land improvements	\$ 53,567,665	\$ 52,701,709
Buildings and improvements	141,040,382	141,062,205
Building equipment	192,439,215	187,679,272
Moveable equipment	189,166,052	180,415,882
Construction in progress	4,292,476	4,464,645
	<u>580,505,790</u>	<u>566,323,713</u>
Accumulated depreciation	<u>(343,624,983)</u>	<u>(315,928,519)</u>
	<u>\$ 236,880,807</u>	<u>\$ 250,395,194</u>

Reid Hospital and Health Care Services, Inc.
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Note 11: Acquired Intangible Assets

In July 2016, the Hospital entered into a license agreement for the implementation of a new information system and electronic medical record platform. Under the agreement, total contracted implementation fees approximate \$17.5 million which were paid or accrued as of the implementation date in March 2018. In association with the system implementation, the Hospital has also incurred \$6.9 million of other costs related to consulting, labor and capitalized interest. These amounts are recorded as intangible assets and are amortized straight-line over the ten year term of the agreement beginning March 2018.

The carrying basis and accumulated amortization of the recognized intangible asset at December 31, 2018 and 2017 were:

	Gross Carrying Amount	2018 Accumulated Amortization	Net Carrying Value
<hr/>			
Amortized intangible assets			
Licensing agreements	\$ 24,350,184	\$ (2,213,369)	\$ 22,136,815
	<u>\$ 24,350,184</u>	<u>\$ (2,213,369)</u>	<u>\$ 22,136,815</u>
	<u><u>\$ 24,350,184</u></u>	<u><u>\$ (2,213,369)</u></u>	<u><u>\$ 22,136,815</u></u>
	Gross Carrying Amount	2017 Accumulated Amortization	Net Carrying Value
<hr/>			
Amortized intangible assets			
Licensing agreements	\$ 17,987,590	\$ -	\$ 17,987,590
	<u>\$ 17,987,590</u>	<u>\$ -</u>	<u>\$ 17,987,590</u>
	<u><u>\$ 17,987,590</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 17,987,590</u></u>

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
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Note 12: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Not subject to appropriation or expenditure		
Interests in net assets held by Reid Hospital and Health Care Services Foundation, Inc.	\$ 19,089,218	\$ 20,978,752
	<u>\$ 19,089,218</u>	<u>\$ 20,978,752</u>

Net assets of \$2,760,000 and \$4,274,025 were released from donor restrictions for use in operations for 2018 and 2017, respectively. Net assets of \$2,925,975 were released from donor restrictions for purchase of property and equipment in 2017.

Note 13: Liquidity and Availability

The Hospital's financial assets available within one year of the balance sheet date for general expenditure are:

	<u>2018</u>	<u>2017</u>
Financial assets at year end		
Cash and cash equivalents	\$ 23,462,111	\$ 29,902,985
Patient accounts receivable, net of 2017 allowance of \$31,000,000	51,446,176	44,974,147
Estimated amounts due from third-party payers	5,274,328	5,801,577
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	19,089,218	20,978,752
Assets limited as to use	304,914,407	319,305,335
Total financial assets	<u>404,186,240</u>	<u>420,962,796</u>
Less amounts not available to be used within one year		
Board designated with liquidity horizons greater than one year	304,914,407	319,305,335
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	19,089,218	20,978,752
Financial assets not available to be used within one year	<u>324,003,625</u>	<u>340,284,087</u>
Financial assets available to meet general expenditures within one year	<u>\$ 80,182,615</u>	<u>\$ 80,678,709</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2018 and 2017

The Hospital has certain board-designated assets limited to use which are designated for future capital expenditures. These assets limited to use, which are more fully described in Notes 1, are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

As part of the Hospital's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Note 14: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. The following schedule presents the natural classification of expenses by function as follows:

	2018			
	Health Care Services	Support Services		Total
		General and Administrative	Fundraising	
Salaries, wages and benefits	\$ 218,771,807	\$ 45,679,621	\$ 338,500	\$ 264,789,928
Purchased services and professional fees	12,381,717	2,628,104	32,539	15,042,360
Supplies and other	125,890,651	9,501,169	212,494	135,604,314
Depreciation and amortization	32,344,892	254,773	1,432	32,601,097
Interest and amortization of financing costs	8,109,706	-	-	8,109,706
Loss on disposal of property and equipment	41,385	-	-	41,385
Provider hospital assessment fee	11,421,955	-	-	11,421,955
Total expense	\$ 408,962,113	\$ 58,063,667	\$ 584,965	\$ 467,610,745

	2017			
	Health Care Services	Support Services		Total
		General and Administrative	Fundraising	
Salaries, wages and benefits	\$ 190,748,227	\$ 41,192,851	\$ 404,448	\$ 232,345,526
Purchased services and professional fees	11,618,071	3,637,236	28,891	15,284,198
Supplies and other	117,214,707	7,073,708	168,968	124,457,383
Depreciation and amortization	31,122,497	281,280	1,558	31,405,335
Interest and amortization of financing costs	7,558,166	-	-	7,558,166
Loss on disposal of property and equipment	454,741	-	-	454,741
Provider hospital assessment fee	9,340,057	-	-	9,340,057
Total expense	\$ 368,056,466	\$ 52,185,075	\$ 603,865	\$ 420,845,406

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Note 15: Pension Plans

Defined-Contribution Plan

Effective April 1, 2008, the Hospital implemented a defined-contribution pension plan covering substantially all employees hired after April 1, 2008 (the 403b plan). Employees hired prior to April 1, 2008 who met the eligibility requirements participate in a defined-benefit plan that was subsequently terminated. Substantially all employees are eligible to participate in the Hospital's 403b plan. The Board of Directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$4,896,929 and \$4,265,290 for 2018 and 2017, respectively.

Note 16: Disclosures About Fair Value of Assets and Liabilities

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

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities 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 December 31, 2018 and 2017:

		2018							
		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)	Investments Measured at NAV ^(A)	Total Fair Value	Equity Method	Cost Method	Total Carrying Value	
Assets									
Cash and cash equivalents	\$ 23,462,111	\$ -	\$ -	\$ -	\$ 23,462,111	\$ -	\$ -	\$ 23,462,111	
Investments									
Money market funds	16,401,969	-	-	-	16,401,969	-	-	16,401,969	
Certificates of deposit	-	-	-	-	-	-	10,000,000	10,000,000	
Domestic equity securities	23,383,366	-	-	-	23,383,366	-	-	23,383,366	
Domestic equity mutual funds	119,050,030	-	-	-	119,050,030	-	-	119,050,030	
Domestic fixed income mutual funds	14,719,523	-	-	-	14,719,523	-	-	14,719,523	
Non-U.S. equity mutual funds	5,030,267	-	-	-	5,030,267	-	-	5,030,267	
Domestic fixed income	-	53,645,897	-	-	53,645,897	-	-	53,645,897	
Other	684,447	-	-	-	684,447	-	-	684,447	
Alternative investments									
Private equity	-	-	-	4,562,451	4,562,451	-	-	4,562,451	
Corporate hedge funds	-	-	-	21,721,470	21,721,470	1,020,473	-	22,741,943	
Real estate hedge funds	-	-	-	34,460,788	34,460,788	233,726	-	34,694,514	
Interest in net assets of the Foundation	-	19,089,218	-	-	19,089,218	-	-	19,089,218	
	<u>\$ 202,731,713</u>	<u>\$ 72,735,115</u>	<u>\$ -</u>	<u>\$ 60,744,709</u>	<u>\$ 336,211,537</u>	<u>\$ 1,254,199</u>	<u>\$ 10,000,000</u>	<u>\$ 347,465,736</u>	
Liabilities									
Interest rate swap agreements liability	\$ -	\$ 14,942,698	\$ -	\$ -	\$ 14,942,698	\$ -	\$ -	\$ 14,942,698	
		2017							
		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)	Investments Measured at NAV ^(A)	Total Fair Value	Equity Method	Cost Method	Total Carrying Value	
Assets									
Cash and cash equivalents	\$ 29,902,985	\$ -	\$ -	\$ -	\$ 29,902,985	\$ -	\$ -	\$ 29,902,985	
Investments									
Money market funds	32,497,003	-	-	-	32,497,003	-	-	32,497,003	
Domestic equity securities	11,534,258	-	-	-	11,534,258	-	-	11,534,258	
Non-U.S. equity securities	202,944	-	-	-	202,944	-	-	202,944	
Domestic equity mutual funds	151,478,780	-	-	-	151,478,780	-	-	151,478,780	
Domestic fixed income mutual funds	53,754,841	-	-	-	53,754,841	-	-	53,754,841	
Non-U.S. equity mutual funds	7,107,648	-	-	-	7,107,648	-	-	7,107,648	
Domestic fixed income	-	9,073,427	-	-	9,073,427	-	-	9,073,427	
Non-U.S. fixed income	-	834,070	-	-	834,070	-	-	834,070	
Other	360,544	-	-	-	360,544	-	-	360,544	
Alternative investments									
Private equity	-	-	-	4,101,653	4,101,653	-	-	4,101,653	
Corporate hedge funds	-	-	-	19,438,035	19,438,035	-	-	19,438,035	
Real estate hedge funds	-	-	-	27,191,453	27,191,453	1,730,679	-	28,922,132	
Interest in net assets of the Foundation	-	20,978,752	-	-	20,978,752	-	-	20,978,752	
	<u>\$ 286,839,003</u>	<u>\$ 30,886,249</u>	<u>\$ -</u>	<u>\$ 50,731,141</u>	<u>\$ 368,456,393</u>	<u>\$ 1,730,679</u>	<u>\$ -</u>	<u>\$ 370,187,072</u>	
Liabilities									
Interest rate swap agreements liability	\$ -	\$ 17,524,498	\$ -	\$ -	\$ 17,524,498	\$ -	\$ -	\$ 17,524,498	

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Following is a description of the valuation methodologies and inputs used for assets and liabilities 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 and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2018.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Money Market Funds

Where quoted market prices are available in an active market, money market mutual funds are classified within Level 1 of the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. Level 1 securities include equity securities, equity mutual funds and fixed income mutual funds. Level 2 securities include fixed income securities.

Interest in Net Assets of Reid Hospital and Health Care Services Foundation, Inc.

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 17: The Fair Value Option

The Hospital has elected to measure certain alternative investments at fair value because it more accurately reflects its financial position. Included in the accompanying consolidated balance sheets are twelve alternative investments of which seven are reported at fair values of \$60,744,709 and \$50,731,141, at December 31, 2018 and 2017, respectively. The other funds are reported on the equity method at \$1,254,199 and \$1,730,679 at December 31, 2018 and 2017, respectively. Unrealized and realized gains on investments elected to be measured at fair value were \$2,445,330 and \$2,358,014 at December 31, 2018 and 2017, respectively. These gains and losses are reported as a component of investment return on the consolidated statements of operations and changes in net assets. The fair value option was not elected for all of the alternative investments due to a portion being reported on the equity method and not having readily determinable fair value.

Note 18: Related Party Transactions

Effective December 2017, the Hospital entered into an Affiliation Agreement with Neighborhood Health Center, Inc. (NHC) to provide financial and operating support to NHC, which is an independent nonprofit corporation organized to provide primary care in the combined service area and pursue Federally Qualified Health Center Lookalike (FQHC LAL) status. As part of this affiliation, the Hospital has entered into other agreements with NHC including:

Physician and Staff Services Agreement - Allows for the Hospital to provide clinical staffing to NHC and be reimbursed cost plus an administrative fee. Effective for an original term of two years with automatic annual renewals. The Hospital has incurred and billed approximately \$1,855,000 related to this agreement in 2018.

Lease Agreement - Provides facility operating space to NHC for a period of twelve years with automatic two year renewals. Annual rents approximate \$54,000 and are to be paid in equal monthly installments. Total rentals for 2018 approximated \$40,000.

Loan and Security Agreement - Allows for the Hospital to advance working capital needs of NHC up to \$560,000 at an interest rate of 6.5%. Repayment is to be made over sixty months beginning six months after NHC receives FQHC LAL status or one year after the initial advance, whichever is later. The loan is secured by substantially all assets of NHC. Amounts funded under this agreement approximate \$145,000 in 2018.

Amounts outstanding from NHC under the agreements outlined above approximated \$2,040,000 at December 31, 2018. The Hospital has evaluated collectability based on expected future collections and recorded a valuation reserve of \$1,441,000 at December 31, 2018.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Note 19: 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:

Variable Consideration

Estimates of variable consideration in determining the transaction price for patient care service revenue are described in Notes 1 and 3.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 7.

Litigation

In the normal course of business, the Hospital 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 Hospital's captive insurance program (discussed elsewhere in these notes); for example, allegations regarding performance of contracts. The Hospital 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 Insurance

The Hospital has elected to self-insure certain costs related to employee health insurance programs. In connection with the self-insurance program, the Hospital purchases reinsurance to protect it from catastrophic losses per occurrence. Costs resulting from noninsured losses are charged to expense when incurred.

Investments

The Hospital 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.

Environmental Matter

In 2015, the Hospital received notice from the Indiana Department of Environmental Management (IDEM) that IDEM determined the Hospital met the criteria of a Potentially Responsible Person, as defined by Indiana statute, related to potential release of hazardous substances at the former Hospital site. The Hospital has responded to all inquiries and assisted with testing at the site since this time. A liability has not been recognized in the accompanying consolidated financial statements at December 31, 2018 and 2017, as it cannot be reasonably determined whether a liability is both probable and estimable within the guidance in FASB ASC Topic 410, *Asset Retirement and Environmental Obligations*.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Note 20: Future Change in Accounting Principle

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, 2019 (2018 for not-for-profits that are conduit debt obligors). The Hospital is evaluating the impact the standard will have on the consolidated financial statements.

Note 21: Subsequent Events

Subsequent events have been evaluated through April 24, 2019, which is the date the consolidated financial statements were issued.

Supplementary Information

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Balance Sheet Information
December 31, 2018

Assets	Hospital and RHP	ROSE	RHPA	RA	CPH	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ 22,934,493	\$ 443,098	\$ (191,657)	\$ 181,613	\$ 94,564	\$ -	\$ 23,462,111
Patient accounts receivable	45,514,784	-	5,931,392	-	-	-	51,446,176
Estimated amounts due from third-party payers	5,274,328	-	-	-	-	-	5,274,328
Supplies	6,570,398	-	-	-	46,873	-	6,617,271
Prepaid expenses and other	400,985,679	1,180,856	4,621,466	1,153,753	119,699	(394,453,053)	13,608,400
Total current assets	<u>481,279,682</u>	<u>1,623,954</u>	<u>10,361,201</u>	<u>1,335,366</u>	<u>261,136</u>	<u>(394,453,053)</u>	<u>100,408,286</u>
Assets Limited As To Use							
Internally designated	244,169,698	-	-	-	-	-	244,169,698
Internally designated - fair value option	60,744,709	-	-	-	-	-	60,744,709
	<u>304,914,407</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>304,914,407</u>
Property and Equipment, at cost							
Property and Equipment, at cost	551,841,586	8,616,695	20,004,322	-	43,186	-	580,505,789
Less accumulated depreciation	324,994,064	6,674,468	11,931,781	-	24,669	-	343,624,982
	<u>226,847,522</u>	<u>1,942,227</u>	<u>8,072,541</u>	<u>-</u>	<u>18,517</u>	<u>-</u>	<u>236,880,807</u>
Other Assets							
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	19,089,218	-	-	-	-	-	19,089,218
Intangible assets, net	22,136,815	-	-	-	-	-	22,136,815
Other	9,223,783	-	-	-	-	(3,472,841)	5,750,942
	<u>50,449,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,472,841)</u>	<u>46,976,975</u>
Total assets	<u>\$ 1,063,491,427</u>	<u>\$ 3,566,181</u>	<u>\$ 18,433,742</u>	<u>\$ 1,335,366</u>	<u>\$ 279,653</u>	<u>\$ (397,925,894)</u>	<u>\$ 689,180,475</u>
Liabilities and Net Assets							
Current Liabilities							
Accounts payable and accrued expenses	\$ 18,120,292	\$ 775,239	\$ 393,952,484	\$ 962,552	\$ 163,039	\$ (394,453,053)	\$ 19,520,553
Salaries, wages and related liabilities	14,712,581	-	9,678,944	-	-	-	24,391,525
Estimated amounts due to third-party payers	2,526,858	-	-	-	-	-	2,526,858
Current maturities of long-term debt	7,818,388	-	-	-	-	-	7,818,388
Total current liabilities	<u>43,178,119</u>	<u>775,239</u>	<u>403,631,428</u>	<u>962,552</u>	<u>163,039</u>	<u>(394,453,053)</u>	<u>54,257,324</u>
Long-Term Debt	214,936,671	-	-	-	-	-	214,936,671
Interest Rate Swap Agreement Liability	14,942,698	-	-	-	-	-	14,942,698
Total liabilities	<u>273,057,488</u>	<u>775,239</u>	<u>403,631,428</u>	<u>962,552</u>	<u>163,039</u>	<u>(394,453,053)</u>	<u>284,136,693</u>
Net Assets							
Without Donor restriction							
Reid Hospital and Health Care Services, Inc.	771,344,721	2,790,942	(385,197,686)	372,814	116,614	(4,728,765)	384,698,640
Noncontrolling interest	-	-	-	-	-	1,255,924	1,255,924
Total net assets without donor restrictions	<u>771,344,721</u>	<u>2,790,942</u>	<u>(385,197,686)</u>	<u>372,814</u>	<u>116,614</u>	<u>(3,472,841)</u>	<u>385,954,564</u>
With donor restriction	19,089,218	-	-	-	-	-	19,089,218
Total net assets	<u>790,433,939</u>	<u>2,790,942</u>	<u>(385,197,686)</u>	<u>372,814</u>	<u>116,614</u>	<u>(3,472,841)</u>	<u>405,043,782</u>
Total liabilities and net assets	<u>\$ 1,063,491,427</u>	<u>\$ 3,566,181</u>	<u>\$ 18,433,742</u>	<u>\$ 1,335,366</u>	<u>\$ 279,653</u>	<u>\$ (397,925,894)</u>	<u>\$ 689,180,475</u>

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Statement of Operations and Changes in Net Assets Information
Year Ended December 31, 2018

	Hospital and RHP	ROSE	RHPA	RA	CPH	Eliminations	Total
Revenues, Gains and Other Support Without Donor Restriction							
Patient service revenue	\$ 369,198,237	\$ -	\$ 62,957,624	\$ -	\$ -	\$ -	\$ 432,155,861
Other	14,697,799	23,174,465	854,685	6,304,498	1,733,563	(35,040,246)	11,724,764
Net assets released from restrictions used for operations	2,760,000	-	-	-	-	-	2,760,000
Total revenues, gains and other support without donor restriction	<u>386,656,036</u>	<u>23,174,465</u>	<u>63,812,309</u>	<u>6,304,498</u>	<u>1,733,563</u>	<u>(35,040,246)</u>	<u>446,640,625</u>
Expenses and Losses							
Salaries, wages and benefits	155,643,293	11,077,883	102,796,760	73,532	278,379	(5,079,919)	264,789,928
Purchased services and professional fees	17,341,750	313,664	(2,143,769)	6,547,123	53,294	(7,069,702)	15,042,360
Supplies and other	134,158,336	7,117,817	15,712,307	-	1,506,479	(22,890,625)	135,604,314
Depreciation and amortization	30,501,511	386,215	1,705,648	-	7,723	-	32,601,097
Interest and amortization of financing costs	8,109,706	-	-	-	-	-	8,109,706
Loss on disposal of property and equipment	28,976	-	12,409	-	-	-	41,385
Provider hospital assessment fee	11,421,955	-	-	-	-	-	11,421,955
Total expenses and losses	<u>357,205,527</u>	<u>18,895,579</u>	<u>118,083,355</u>	<u>6,620,655</u>	<u>1,845,875</u>	<u>(35,040,246)</u>	<u>467,610,745</u>
Operating Income (Loss)	<u>29,450,509</u>	<u>4,278,886</u>	<u>(54,271,046)</u>	<u>(316,157)</u>	<u>(112,312)</u>	<u>-</u>	<u>(20,970,120)</u>
Other Income (Expense)							
Investment return, net	(6,255,551)	(330)	-	-	(4,422)	(2,764,255)	(9,024,558)
Change in fair value of interest rate swap agreements	2,581,800	-	-	-	-	-	2,581,800
Total other expense	<u>(3,673,751)</u>	<u>(330)</u>	<u>-</u>	<u>-</u>	<u>(4,422)</u>	<u>(2,764,255)</u>	<u>(6,442,758)</u>
Excess (Deficiency) of Revenues Over Expenses	25,776,758	4,278,556	(54,271,046)	(316,157)	(116,734)	(2,764,255)	(27,412,878)
Other Changes in Net Assets Without Donor Restrictions							
Contributions	-	-	-	-	100,000	(100,000)	-
Distributions	-	(5,813,000)	-	-	-	3,197,150	(2,615,850)
Other	-	-	-	(50,000)	-	50,000	-
Increase (decrease) in net assets without donor restrictions	<u>25,776,758</u>	<u>(1,534,444)</u>	<u>(54,271,046)</u>	<u>(366,157)</u>	<u>(16,734)</u>	<u>382,895</u>	<u>(30,028,728)</u>
Net Assets With Donor Restrictions							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	870,466	-	-	-	-	-	870,466
Net assets released from restriction	(2,760,000)	-	-	-	-	-	(2,760,000)
Decrease in net assets with donor restrictions	<u>(1,889,534)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,889,534)</u>
Change in Net Assets	23,887,224	(1,534,444)	(54,271,046)	(366,157)	(16,734)	382,895	(31,918,262)
Net Assets, Beginning of Year	<u>766,546,715</u>	<u>4,325,386</u>	<u>(330,926,640)</u>	<u>738,971</u>	<u>133,348</u>	<u>(3,855,736)</u>	<u>436,962,044</u>
Net Assets, End of Year	<u>\$ 790,433,939</u>	<u>\$ 2,790,942</u>	<u>\$ (385,197,686)</u>	<u>\$ 372,814</u>	<u>\$ 116,614</u>	<u>\$ (3,472,841)</u>	<u>\$ 405,043,782</u>

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Balance Sheet Information
December 31, 2017

Assets

	Hospital	ROSE	RHPA	RA	CPH	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ 28,018,893	\$ 1,638,110	\$ (337,432)	\$ 529,431	\$ 53,983	\$ -	\$ 29,902,985
Patient accounts receivable, net of 2017 allowance of \$31,000,000	40,037,688	-	4,936,459	-	-	-	44,974,147
Estimated amounts due from third-party payers	5,801,577	-	-	-	-	-	5,801,577
Supplies	6,778,888	-	-	-	47,978	-	6,826,866
Prepaid expenses and other	347,825,896	1,290,047	5,409,197	830,065	66,264	(339,542,266)	15,879,203
Total current assets	<u>428,462,942</u>	<u>2,928,157</u>	<u>10,008,224</u>	<u>1,359,496</u>	<u>168,225</u>	<u>(339,542,266)</u>	<u>103,384,778</u>
Assets Limited As To Use							
Internally designated	268,557,811	-	-	-	-	-	268,557,811
Internally designated - fair value option	50,747,524	-	-	-	-	-	50,747,524
	<u>319,305,335</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>319,305,335</u>
Property and Equipment, at cost							
Less accumulated depreciation	537,081,724	8,717,098	20,481,704	-	43,186	-	566,323,712
	297,363,306	6,615,297	11,932,968	-	16,947	-	315,928,518
	<u>239,718,418</u>	<u>2,101,801</u>	<u>8,548,736</u>	<u>-</u>	<u>26,239</u>	<u>-</u>	<u>250,395,194</u>
Other Assets							
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	20,978,752	-	-	-	-	-	20,978,752
Intangible assets, net	17,987,590	-	-	-	-	-	17,987,590
Other	9,101,577	-	-	-	-	(3,855,736)	5,245,841
	<u>48,067,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,855,736)</u>	<u>44,212,183</u>
Total assets	<u>\$ 1,035,554,614</u>	<u>\$ 5,029,958</u>	<u>\$ 18,556,960</u>	<u>\$ 1,359,496</u>	<u>\$ 194,464</u>	<u>\$ (343,398,002)</u>	<u>\$ 717,297,490</u>
Liabilities and Net Assets							
Current Liabilities							
Accounts payable and accrued expenses	\$ 15,741,407	\$ 704,572	\$ 339,263,349	\$ 620,525	\$ 61,116	\$ (339,542,266)	\$ 16,848,703
Salaries, wages and related liabilities	14,516,008	-	10,220,251	-	-	-	24,736,259
Estimated amounts due to third-party payers	2,830,000	-	-	-	-	-	2,830,000
Current maturities of long-term debt	6,913,765	-	-	-	-	-	6,913,765
Total current liabilities	<u>40,001,180</u>	<u>704,572</u>	<u>349,483,600</u>	<u>620,525</u>	<u>61,116</u>	<u>(339,542,266)</u>	<u>51,328,727</u>
Long-Term Debt							
	211,482,221	-	-	-	-	-	211,482,221
Interest Rate Swap Agreement Liability							
	17,524,498	-	-	-	-	-	17,524,498
Total liabilities	<u>269,007,899</u>	<u>704,572</u>	<u>349,483,600</u>	<u>620,525</u>	<u>61,116</u>	<u>(339,542,266)</u>	<u>280,335,446</u>
Net Assets							
Without Donor restriction							
Reid Hospital and Health Care Services, Inc.	745,567,963	4,325,386	(330,926,640)	738,971	133,348	(5,802,160)	414,036,868
Noncontrolling interest	-	-	-	-	-	1,946,424	1,946,424
Total net assets without donor restrictions	<u>745,567,963</u>	<u>4,325,386</u>	<u>(330,926,640)</u>	<u>738,971</u>	<u>133,348</u>	<u>(3,855,736)</u>	<u>415,983,292</u>
With donor restriction	20,978,752	-	-	-	-	-	20,978,752
Total net assets	<u>766,546,715</u>	<u>4,325,386</u>	<u>(330,926,640)</u>	<u>738,971</u>	<u>133,348</u>	<u>(3,855,736)</u>	<u>436,962,044</u>
Total liabilities and net assets	<u>\$ 1,035,554,614</u>	<u>\$ 5,029,958</u>	<u>\$ 18,556,960</u>	<u>\$ 1,359,496</u>	<u>\$ 194,464</u>	<u>\$ (343,398,002)</u>	<u>\$ 717,297,490</u>

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Statement of Operations and Changes in Net Assets Information
Year Ended December 31, 2017

	Hospital	ROSE	RHPA	RA	CPH	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Net patient service revenue	\$ 377,191,586	\$ -	\$ 65,133,557	\$ -	\$ -	\$ -	\$ 442,325,143
Provision for uncollectible accounts	(21,932,535)	-	(5,085,430)	-	-	-	(27,017,965)
Net patient service revenue, less provision for uncollectible accounts	355,259,051	-	60,048,127	-	-	-	415,307,178
Other	14,379,772	24,110,369	764,083	6,370,205	1,179,694	(35,992,490)	10,811,633
Net assets released from restrictions used for operations	4,274,025	-	-	-	-	-	4,274,025
Total unrestricted revenues, gains and other support	373,912,848	24,110,369	60,812,210	6,370,205	1,179,694	(35,992,490)	430,392,836
Expenses and Losses							
Salaries, wages and benefits	134,458,748	10,891,663	91,838,451	56,755	241,915	(5,142,006)	232,345,526
Purchased services and professional fees	15,394,584	398,715	222,209	6,344,842	39,906	(7,116,058)	15,284,198
Supplies and other	123,211,890	6,975,303	16,982,041	-	1,022,575	(23,734,426)	124,457,383
Depreciation and amortization	29,095,479	430,315	1,871,406	-	8,135	-	31,405,335
Interest and amortization of financing costs	7,558,166	-	-	-	-	-	7,558,166
Loss on disposal of property and equipment	445,664	-	9,077	-	-	-	454,741
Provider hospital assessment fee	9,340,057	-	-	-	-	-	9,340,057
Total expenses and losses	319,504,588	18,695,996	110,923,184	6,401,597	1,312,531	(35,992,490)	420,845,406
Operating Income (Loss)	54,408,260	5,414,373	(50,110,974)	(31,392)	(132,837)	-	9,547,430
Other Income (Expense)							
Investment return, net	38,311,942	(519)	-	-	(4,060)	(3,641,320)	34,666,043
Change in fair value of interest rate swap agreements	1,254,073	-	-	-	-	-	1,254,073
Total other income (expense)	39,566,015	(519)	-	-	(4,060)	(3,641,320)	35,920,116
Excess (Deficiency) of Revenues Over Expenses	93,974,275	5,413,854	(50,110,974)	(31,392)	(136,897)	(3,641,320)	45,467,546
Other Changes in Net Assets Without Donor Restrictions							
Contributions	-	-	-	-	95,000	(95,000)	-
Distributions	-	(6,035,000)	-	-	-	3,319,250	(2,715,750)
Net assets released from restriction for purchase of property and equipment	2,925,975	-	-	-	-	-	2,925,975
Other	(24,923)	-	19,046	-	-	-	(5,877)
Increase (decrease) in net assets without donor restrictions	96,875,327	(621,146)	(50,091,928)	(31,392)	(41,897)	(417,070)	45,671,894
Net Assets With Donor Restrictions							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	4,798,191	-	-	-	-	-	4,798,191
Net assets released from restriction	(7,200,000)	-	-	-	-	-	(7,200,000)
Decrease in net assets with donor restrictions	(2,401,809)	-	-	-	-	-	(2,401,809)
Change in Net Assets	94,473,518	(621,146)	(50,091,928)	(31,392)	(41,897)	(417,070)	43,270,085
Net Assets, Beginning of Year	672,073,197	4,946,532	(280,834,712)	770,363	175,245	(3,438,666)	393,691,959
Net Assets, End of Year	\$ 766,546,715	\$ 4,325,386	\$ (330,926,640)	\$ 738,971	\$ 133,348	\$ (3,855,736)	\$ 436,962,044