

Management's Discussion and Analysis of Historical Operations and Results

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the Renown Health and Renown Health Obligated Group's consolidated financial results of operations. This discussion should be read in conjunction with the financial statements.

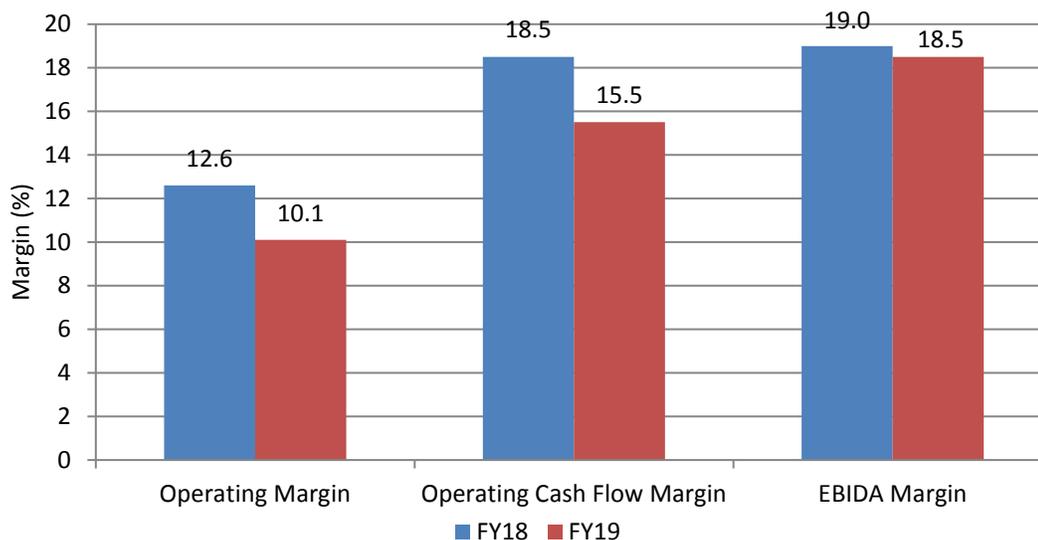
Renown Health - Fiscal Year to Date June 30, 2019 compared to Fiscal Year to Date June 30, 2018

Renown Health's net revenue grew by 3.0% due to continued volume growth and revenue cycle performance. The organization recorded operating income of \$52.2 million with an operating margin of 3.7%. Total capital equipment and construction spend by the organization totaled \$47.3 million. Investments included Tahoe OR renovations, phone system replacement, parking lot additions, and an Electronic Medical Record (EMR) system upgrade.

Renown Health continued to progress in serving our community's needs, which included a focus on addressing governmental healthcare challenges, growing our primary care and ensuring the health system is ready for expansion and growth. With nearly 40,000 study participants enrolled in just over two years, the Healthy Nevada Project became the fastest enrolling genetic study in the country, and expanded statewide to offer 25,000 testing slots to southern Nevadans. As part of a continuing focus on offering comprehensive care for patients experiencing cardiac and vascular disease across northern Nevada, Renown Health Department of Surgery and Renown Institute for Heart & Vascular Health developed Renown's first division of cardiothoracic surgery dedicated to heart surgery patients. Renown also launched a new Senior Loyalty Program for the Institute for Healthy Aging, the Sterling Silver Program, to create affinity with those who are 55 and older in our community.

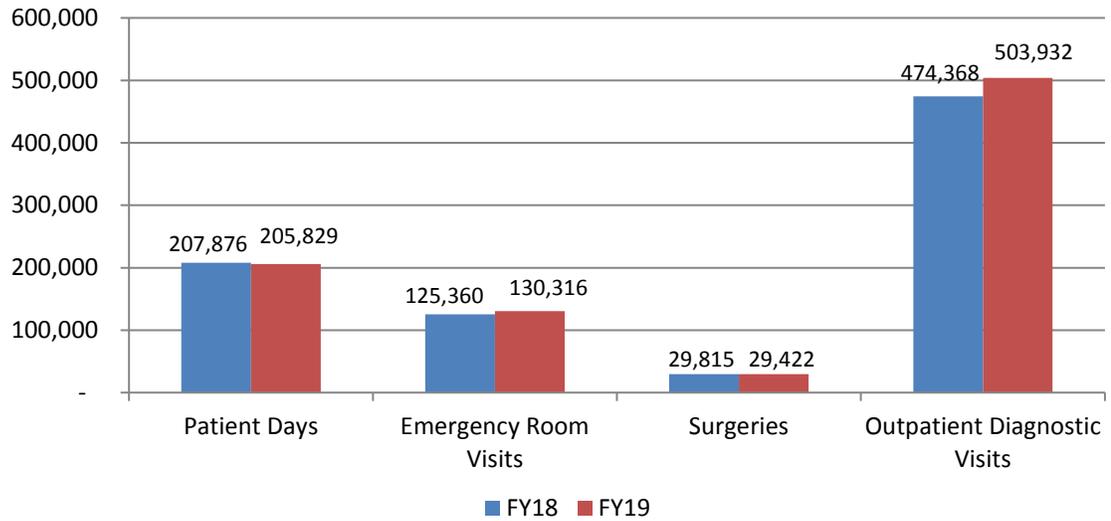
Obligated Group - Fiscal Year to Date June 30, 2019 compared to Fiscal Year to Date June 30, 2018

Profitability



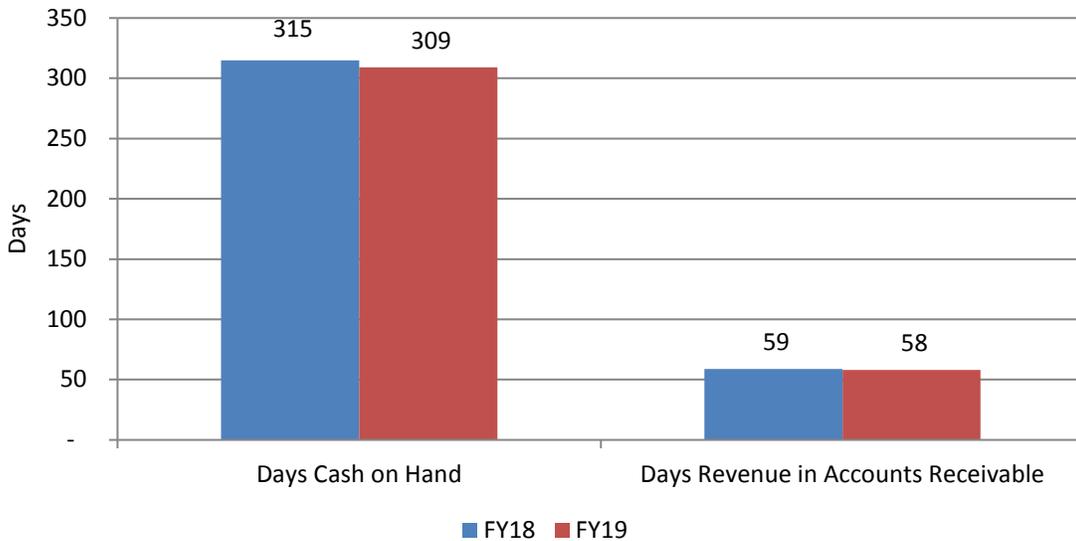
- Operating margin of 10.1% decreased by 2.5% from prior year driven primarily by increased operating expenses outpacing the increase in revenues.
- Operating expense increased by 8.0%, outpacing overall operating revenue growth of 5.1%.
- Operating revenue was \$968 million which was an improvement of \$47 million. The improvement was primarily driven by hospital outpatient volume, however, inpatient volume increased year-over-year as well.
- Operating expenses increased by \$64 million, reflecting increased volume coupled with increases in salaries and benefits, purchased services and administrative expenses. The increase in these expenses were partially offset by continued cost management efforts.

Growth



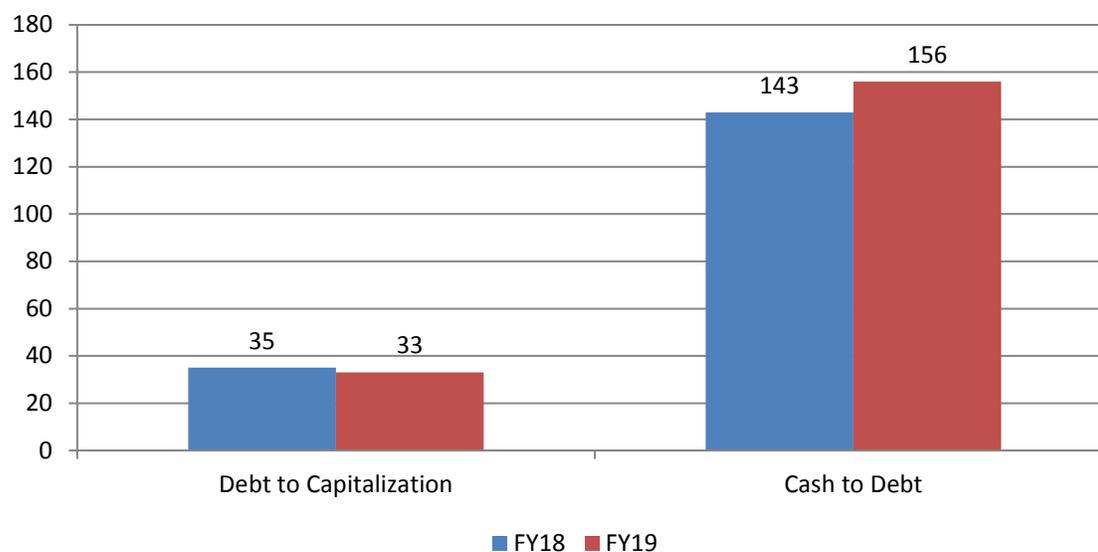
- Admissions and patient days decreased by 3.3% and 1.0%, respectively. Length of stay increased slightly to 5.5 days, an increase of 2.4%.
- Outpatient diagnostic visits increased by 6.2% along with a 4.0% increase in emergency room visits.

Liquidity



- Days Cash on Hand, decreased by 6 days from prior year and continues to exceed rating agency and covenant requirements.
- Total collateral posted on interest rate swaps was \$10.1 million compared to \$4.6 million and represents 4.4 days not included in the Days Cash on Hand calculation.

Capital Structure



- Improvement in marketable securities (market conditions) and regular principal payments on long-term debt contributed to a 9.3% improvement in Cash to Debt, while Debt to Capitalization decreased from 35 to 33.
- Maximum Annual Debt Service Coverage increased to 5.9x from 5.6x.
- The obligated group completed \$73 million in interaffiliate transfers that reduced the amount owed from affiliates on the balance sheet and had zero impact on profitability or cash balances.



Combined Financial Statements
June 30, 2019 and 2018

Renown Health

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Independent Auditor's Report

The Board of Directors
Renown Health
Reno, Nevada

Report on the Financial Statements

We have audited the accompanying combined financial statements of Renown Health, which comprise the combined balance sheets as of June 30, 2019 and 2018, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Renown Health as of June 30, 2019 and 2018, and the results of its combined operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Reno, Nevada
September 3, 2019

Renown Health
 Combined Balance Sheets
 June 30, 2019 and 2018

	2019	2018
	(In Thousands)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 160,962	\$ 174,624
Marketable securities	720,622	663,014
Receivables		
Patient	139,981	134,347
Other	26,343	30,448
Inventory	35,092	33,820
Prepaid expenses and other	15,274	15,452
Total current assets	1,098,274	1,051,705
Funds Held in Trust	13,221	7,746
Property and Equipment, Net	592,658	604,544
Other Assets		
Goodwill and intangible assets	7,323	7,986
Investments in affiliated companies	61,277	31,148
Other	17,899	14,001
Total other assets	86,499	53,135
Total assets	\$ 1,790,652	\$ 1,717,130

Renown Health
 Combined Balance Sheets
 June 30, 2019 and 2018

	2019	2018
	(In Thousands)	
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 13,837	\$ 27,637
Accounts payable		
Trade	45,247	50,852
Estimated third-party payor settlements and other	32,712	50,489
Accrued compensation, benefits and other	69,145	79,760
Total current liabilities	160,941	208,738
Other	29,446	18,021
Interest Rate Swaps	45,770	33,991
Long-Term Debt, Less Current Maturities, Unamortized Discounts and Premiums, and Unamortized Bond Costs	456,924	456,790
Total liabilities	693,081	717,540
Net Assets		
Without donor restrictions	1,076,681	971,037
Noncontrolling interest in combined subsidiary	-	4,329
Total net assets without donor restrictions	1,076,681	975,366
With donor restrictions	20,890	24,224
Total net assets	1,097,571	999,590
Total liabilities and net assets	\$ 1,790,652	\$ 1,717,130

Renown Health
Combined Statements of Operations
Years Ended June 30, 2019 and 2018

	2019	2018
	(In Thousands)	
Revenues, Gains, and Other Support Without Donor Restrictions		
Patient service revenues	\$ 935,789	\$ 884,432
Premium revenues	426,582	442,587
Other revenues	52,939	47,127
Total revenues, gains, and other support without donor restrictions	1,415,310	1,374,146
Expenses		
Salaries and wages	560,441	517,904
Employee benefits	74,696	65,381
Supplies	206,651	196,403
Professional fees	35,056	36,445
Health care expenses	220,567	248,481
Purchased services	109,670	101,212
Repairs and maintenance	7,311	7,238
Utilities and telephone	10,309	9,742
Insurance	6,099	2,710
Provision for depreciation/amortization	57,665	56,498
Interest	20,791	22,180
Rental and lease	9,656	10,540
Other	44,219	46,528
Total expenses	1,363,131	1,321,262
Operating Income	52,179	52,884
Other Income (Loss)		
Net investment return, excluding change in unrealized gains and losses on other than trading investments	39,235	6,861
Gain on sale of investment in Routt Dialysis LLC	35,346	-
Income tax provision	(9,951)	(2,084)
Gain (loss) on interest rate swaps	(13,627)	8,027
Other income, net	51,003	12,804
Revenues in Excess of Expenses	103,182	65,688

Renown Health
 Combined Statements of Operations – Page 2
 Years Ended June 30, 2019 and 2018

	2019	2018
	(In Thousands)	
Revenues in Excess of Expenses	\$ 103,182	\$ 65,688
Change in Unrealized Gains and Losses on Other Than Trading Investments	(2,763)	16,484
Change in Unrealized Gains and Losses on Interest Rate Swaps	1,848	1,865
Other Changes	(5,969)	(7,861)
Transfers from Net Assets With Donor Restrictions	1,956	-
Contributions and Grants for Property Acquisitions	3,061	2,806
Increase in Net Assets Without Donor Restrictions	\$ 101,315	\$ 78,982

Renown Health
 Combined Statements of Changes in Net Assets
 Years Ended June 30, 2019 and 2018

	2019	2018
	(In Thousands)	
Net Assets Without Donor Restrictions		
Revenues in excess of expenses	\$ 103,182	\$ 65,688
Change in unrealized gains and losses on other than trading investments	(2,763)	16,484
Change in unrealized gains and losses on interest rate swaps	1,848	1,865
Other changes	(5,969)	(7,861)
Transfers from net assets with donor restrictions	1,956	-
Contributions and grants for property acquisitions	3,061	2,806
	<u>101,315</u>	<u>78,982</u>
Net Assets With Donor Restrictions		
Contributions and related net investment return	5,383	10,942
Transfers to assets without donor restrictions	(1,956)	-
Net assets released from restrictions	(6,761)	(5,429)
	<u>(3,334)</u>	<u>5,513</u>
Increase in Net Assets	97,981	84,495
Net Assets, Beginning of Year	<u>999,590</u>	<u>915,095</u>
Net Assets, End of Year	<u>\$ 1,097,571</u>	<u>\$ 999,590</u>

Renown Health
 Combined Statements of Cash Flows
 Years Ended June 30, 2019 and 2018

	2019	2018
	(In Thousands)	
Operating Activities		
Change in net assets	\$ 97,981	\$ 84,495
Adjustments to reconcile change in net assets to net cash from operating activities		
Provision for depreciation/amortization	57,665	56,498
Contributions and grants for property acquisition	(3,061)	(2,806)
Realized loss on sale of property and equipment	392	418
Net gain on marketable securities	(10,680)	(9,259)
Change in fair value on interest rate swaps	11,779	(9,892)
Contributions and interest income restricted to endowment	(75)	(49)
Amortization of debt issuance costs and bond discounts/premiums	(228)	35
Gain on sale of investment in Routt Dialysis, LLC	(35,346)	-
Gain on equity investment in affiliated companies	(3,472)	(2,696)
Acquisition of entity	(45)	(45)
Decrease in noncontrolling interest in combined subsidiary	3,430	-
Changes in assets and liabilities		
Receivables	(5,180)	(11,102)
Inventory	(1,337)	(5,308)
Prepaid expenses and other	(4,126)	(6,448)
Accounts payable and accrued expenses	(30,227)	11,933
Other liabilities	11,552	17,293
Net Cash from Operating Activities	89,022	123,067
Investing Activities		
Purchase of property and equipment	(47,798)	(40,804)
Proceeds from sales of property and equipment	168	87
Purchase of marketable securities	(504,683)	(497,112)
Sales of marketable securities	457,702	451,485
Proceeds from sale of investment in Routt Dialysis, LLC, net of cash relieved upon deconsolidation	7,704	-
Increase in funds held in trust	(5)	(37)
Net Cash used for Investing Activities	(86,912)	(86,381)
Financing Activities		
Principal payments on long-term debt	(13,438)	(13,006)
Decrease (increase) in swap collateral	(5,470)	5,941
Contributions and interest income restricted to endowment or long-lived assets	3,136	2,855
Net Cash used for Financing Activities	(15,772)	(4,210)

	2019	2018
	(In Thousands)	
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (13,662)	\$ 32,476
Cash and Cash Equivalents, Beginning of Year	174,624	142,148
Cash and Cash Equivalents, End of Year	\$ 160,962	\$ 174,624
 Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest, net of interest capitalized of (\$163) in 2019 and (\$151) in 2018	\$ 20,810	\$ 21,588
Cash paid during the year for income taxes	\$ 3,722	\$ 960
 Sale of interest in Routt Dialysis LLC on October 1, 2018 (Note 6) and deconsolidation of assets and liabilities:		
Cash and cash equivalents	\$ (4,700)	
Patient receivables	(3,704)	
Inventory	(65)	
Prepaid expenses and other	(406)	
Property and equipment, net	(1,459)	
Goodwill and intangible assets	(708)	
Estimated third-party payor settlements and other	784	
Accrued compensation, benefits and other	2,986	
Other liabilities - long-term	127	
Net assets - without donor restrictions	3,715	
Net assets - noncontrolling interest in combined subsidiary	3,430	
Investment in affiliated companies	(1,143)	
Gain on sale of Routt Dialysis LLC	(11,261)	
Proceeds from sale of Routt Dialysis LLC	\$ 12,404	

Note 1 - Organization and Significant Accounting Policies

Organization

Renown Health is a tax-exempt comprehensive integrated health care delivery network located in Reno, Nevada, and includes the operations of the following subordinate corporations:

Renown Regional Medical Center (Regional) is a tax-exempt 501(c)(3) Nevada nonprofit corporation that operates an 808 licensed bed general acute care facility. Regional provides a full range of medical services to both inpatients and outpatients.

Renown South Meadows Medical Center (South Meadows) is a tax-exempt 501(c)(3) Nevada nonprofit corporation that owns and operates a 76-bed acute-care community hospital. South Meadows also has a 40-bed assisted living facility and operates a 62-bed rehabilitation hospital under the name Renown Rehabilitation Hospital (Rehab Hospital).

Renown Businesses is a taxable Nevada for profit corporation that operates professional office buildings. It also owns Northern Sierra Dialysis Center, a taxable dialysis company. In addition, Renown Businesses operates various commercial businesses to provide services to patients, physicians, and employees under the following d/b/a's: Artisans Market and Bistro, The Inn at Renown, The Shops at Renown, Materiel Solutions, Starbucks and Subway.

Hometown Health Plan, Inc. (Hometown Plan) is a tax-exempt 501(c)(4) Nevada nonprofit corporation that operates a health maintenance organization (HMO).

Hometown Health Management Company (Hometown Management) is a taxable Nevada nonprofit corporation that provides management services to Hometown Plan and a fully owned subsidiary, Hometown Health Providers Insurance Company (Hometown Providers), a taxable Nevada nonprofit corporation that operates a preferred provider organization (PPO). In addition, Hometown Management has interests in other health care related businesses in the form of medical groups (d/b/a Renown Health Medical Group), urgent care and specialty clinics.

Renown Transitional Care Services is a tax-exempt 501(c)(3) Nevada nonprofit corporation that acts as the cash repository for Renown Health. In addition, Renown Transitional Care Services operates an obstetrics clinic to improve access to care.

Renown Skilled Nursing is a tax-exempt 501(c)(3) Nevada nonprofit corporation that owns a 160-bed skilled nursing facility. On June 4, 2019, the Board of Directors of Renown Health approved the liquidation and dissolution of Renown Skilled Nursing effective immediately.

Renown Health Foundation is a tax-exempt 501(c)(3) Nevada nonprofit corporation that was organized for the purpose of raising funds for Renown Health and its related entities to benefit the community.

Nevada Health Care Cooperative (Nevada Cooperative) is a taxable Nevada nonprofit purchasing cooperative established to enhance the contract terms and conditions for its members, which include certain corporations within Renown Health.

Routt Dialysis, LLC is a joint venture between Northern Sierra Dialysis Center (36%) and other partners (64%) for the purposes of providing dialysis services. On October 1, 2018, Renown Businesses sold their 16% ownership investment in Routt Dialysis, LLC (Note 6).

Principles of Combination

The combined financial statements include the accounts of Renown Health and its subordinate corporations and subsidiaries. All significant intercompany accounts and transactions have been eliminated in combination.

Tax-exempt Status

Renown Health and its members are organized as Nevada nonprofit entities and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) or 501(c)(4), except for Renown Businesses and its subsidiaries, Nevada Health Care Cooperative and Hometown Management and its subsidiaries. Those entities recognized by the IRS as tax exempt must annually file Returns of Organizations Exempt from Income Tax (Form 990) with the IRS. In addition, the tax exempt entities are subject to income tax on net income derived from business activities that are unrelated to their tax exempt purposes. In those cases, those entities would file an Exempt Organization Business Income Tax Return (Form 990T) with the IRS to report any unrelated business taxable income.

Renown Health believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the combined financial statements. Renown Health would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Income Taxes

Renown Health records income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws that are scheduled to be in effect when the differences are expected to reverse.

Use of Estimates

The preparation of the combined financial statements in conformity with generally accepted accounting principles 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 combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less, excluding funds held in trust.

Marketable Securities and Net Investment Return

Marketable securities include equity and debt securities which are measured at fair value in the combined balance sheets. Net investment return (including realized and unrealized gains and losses on investments, interest, dividends and investment management fees) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from net investment return and revenues in excess of expenses if the investments are not considered trading securities. Renown Health uses the average cost method to compute realized gains and losses on securities sold.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Renown Health does not charge interest on past due accounts. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, Renown Health analyzes accounts for adverse changes in a patient's or third-party payor's ability to pay that may have occurred subsequent to recognition. Management regularly reviews specific data about receivable balances and its past history with similar cases to estimate the appropriate allowance for doubtful accounts and provision for bad debts. As of June 30, 2019 and 2018, the allowance for doubtful accounts is not considered material.

Renown Health has elected to not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financial component due to Renown Health's expectation that the period between the time the service is provided to a patient and the time that the patient or third-party payor pays for that service will be one year or less. However, Renown Health does, in certain instances, enter into payment arrangements 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.

Inventory

Inventory is stated at the lower of average cost or net realizable value.

Funds Held in Trust

Funds held in trust include cash and cash equivalents and money market mutual funds which are measured at amortized cost which approximates fair value. Funds held in trust include amounts held by trustees under indenture agreements for debt service and amounts held by the counterparty to Renown Health's interest rate swap contracts in accordance with the related collateral agreement. Funds held in trust that are available for obligations classified as current liabilities are reported as current assets.

Property and Equipment

Property and equipment acquisitions in excess of \$5,000 (not in thousands) are capitalized and recorded at cost. Prior to 2019, property and equipment acquisitions in excess of \$2,500 (not in thousands) were capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the combined financial statements. Interest on amounts borrowed to finance the construction of assets is capitalized. The estimated useful lives of property and equipment are as follows:

Buildings and improvements	15-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to net assets without donor restrictions and are excluded from revenues in excess of expenses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Property and equipment is tested for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable. There were no impairment losses recorded on the accompanying combined statements of operations as a result of this review for the years ended June 30, 2019 and 2018.

Unamortized Debt Issuance Costs and Bond Premiums and Discounts

Debt issuance costs and bond premiums and discounts are amortized to interest expense over the period the related obligation is outstanding using the straight-line method, which is a reasonable estimate of the effective interest method. Debt issuance costs and bond premiums and discounts are included within long-term debt on the combined balance sheet.

Goodwill and Intangible Assets

Goodwill represents the excess of cost over fair value of assets acquired from business combinations. On an annual basis and at interim periods when circumstances require, Renown Health tests the recovery of its goodwill. Renown Health recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value. There were no impairment losses recognized for the years ended June 30, 2019 and 2018.

Intangible assets consist of patient records and non-compete agreements associated with business combinations. Intangible assets are amortized over their economic life which range from 2 to 15 years. Intangible assets are considered annually for indicators of impairment. There were no impairment losses recognized for the years ended June 30, 2019 and 2018.

Investments in Affiliated Organizations

Investments in affiliated organizations in which Renown Health has the ability to exercise significant influence over operating and financial policies but does not have control are recorded under the equity method of accounting. Under the equity method, the initial investment is recorded at cost and adjusted annually to recognize Renown Health's share of earnings and losses of those entities, net of any additional investments or distributions. Renown Health's share of net earnings or losses of the entities is included in other revenues.

Premium Deficiency Reserve

When the expected claim payments and administrative expenses exceed the premiums to be collected for the remainder of the contract period, a premium deficiency reserve is recorded for the deficiency, with a corresponding charge to operations. Renown Health does not utilize anticipated investment income as a factor in the premium deficiency calculation. The premium deficiency reserve is included in estimated third-party payor settlements and other in the combined balance sheets. The premium deficiency reserves for the Hometown Health insurance business at June 30, 2019 and 2018 was \$0 and \$7,110.

Other Noncurrent Liabilities

Other noncurrent liabilities consist of an estimated liability for professional and general liability losses, deferred revenues, and estimated liabilities for postretirement health care benefits and contributory defined benefit plan.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Renown Health reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets.

Revenues in Excess of Expenses

Revenues in excess of expenses excludes unrealized gains and losses on investments other than trading securities, transfers of assets to and from related parties for other than goods and services, change in net unrealized gains and losses on the effective portion of interest rate swaps, change in net unrealized gains and losses from pension and other postretirement benefit obligations, and contributions of long-lived assets, including assets acquired using contributions which were restricted by donors. Revenues in excess of expenses as reflected in the combined statements of operations is considered the performance indicator.

Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which Renown Health expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (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, Renown Health bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facilities. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by Renown Health. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Renown Health 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 our hospitals receiving inpatient acute services. Renown Health measures the performance obligation (associated with inpatient acute services) from admission into the hospitals to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and Renown Health does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, Renown Health has elected to not 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.

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

Settlements with third-party payors for retroactive adjustments due to 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 payor, correspondence from the payor and Renown Health'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 (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations.

To fulfill its mission of community service, Renown Health provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Renown Health does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue.

Premium Revenue

Premium revenues are recognized as income during the period in which health care coverage is provided. Premium revenue billed and/or collected in advance is deferred as unearned premium revenue, which is included in third-party settlements and other in the combined balance sheets.

Donor-Restricted Gifts

Renown Health reports contributions restricted by donors as increases in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statements of operations and changes in net assets as net assets released from restrictions. Donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contract Costs

Renown Health expenses all incremental customer contract acquisition costs as they are incurred as the amortization period of the asset that Renown Health otherwise would have recognized is one year or less in duration.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in Note 12, which presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The combined financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Cost not directly attributable to specific function are allocated based on a revenue.

Health Care Expenses and Incurred but Not Paid Liability

Renown Health maintains provider contracts with health care service providers, including hospitals, physician groups and pharmacies. These providers are paid primarily on a capitation or fee-for-service basis. These costs are recognized in the month in which services are provided and are included as part of health care expenses. Coordination of benefits recoveries are netted against these amounts.

Estimated claims payable includes claims reported as of the combined balance sheet date and estimates (based on projections from historical data) of health care expenses incurred but not paid. These amounts are included as part of third-party settlements and other in the combined balance sheets. Estimates are continually monitored and reviewed, and as settlements are made or estimates adjusted, differences are reflected in current operations. Losses are also recognized when it is probable that expected future health care expenses and maintenance costs related to the contract term of certain existing contracts will exceed anticipated future premiums from the related contracts. Due to the subjective nature of these reserves, there is a reasonable possibility that recorded estimates could differ from actual results in the future.

Derivative Financial Instruments

Renown Health records derivatives on the combined balance sheets at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in net assets or income. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. Amounts previously recognized as a change in net assets are recognized into earnings/income consistent with the underlying derivative instrument.

Adoption of New Accounting Pronouncements

Renown Health adopted ASU No. 2014-09, *Revenues from Contracts with Customers (Topic 606)*, as amended, using a full retrospective approach. The guidance provides a principles-based approach for determining revenue recognition and supersedes all existing guidance, such as current transaction and industry-specific revenue recognition guidance. The core principle of ASU No. 2014-09 is that an entity will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (payment) to which the entity expects to be entitled in exchange for those goods or services. An entity is also required to disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Renown Health has elected to apply certain allowable practical expedients when applying the guidance. For completed contracts, Renown Health did not restate contracts that began and ended within the same annual reporting period. For completed contracts that have variable consideration, Renown Health used the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting period. For the prior year presented, Renown Health will not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when Renown Health expects to recognize that amount as revenue. Renown Health has applied the above practical expedients consistently to all contracts within all reporting periods presented. Renown Health does not believe the effect of applying these expedients has a material impact on the amounts presented or disclosed.

The adoption of the new standard resulted in changes to the presentation and disclosure of revenue related to uninsured and underinsured patients. Prior to adoption of ASU 2014-09, Renown Health presented a separate provision for bad debts related to self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill). Under ASU No. 2014-09, the estimated uncollectible amounts due from these patients are generally considered a direct reduction to patient service revenue and resulted in a material reduction in the amounts previously presented separately as provision for bad debts. As such, the 2018 provision for bad debts of \$78,787 has been reclassified and presented as a reduction to patient service revenue in current presentation. The adoption of the new standard did not have an impact on recognition of total operating revenues for any period and there was no cumulative effect of a change in accounting principle recorded, but did result in expanded footnote disclosures.

Renown Health adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, retrospectively to all periods presented. ASU No. 2016-14 changed the manner in which a not-for-profit entity (NFP) classifies and presents net assets on the face of the financial statements, as well as the classification of net investment return. Additionally, ASU No. 2016-14 presents information in the financial statements and notes about the NFP's liquidity, financial performance and cash flows. The adoption required Renown Health's presentation of net assets from the previously required three classes to two. As a result, 2018 temporarily restricted net assets of \$20,750 and permanently restricted net assets of \$3,474 have been combined for presentation as net assets with donor restrictions. Previously reported investment income of \$14,097 and change in unrealized gains and losses on trading investments of (\$7,236) for the year ended June 30, 2018, has been reclassified as net investment return. The adoption of the standard is not considered to have a material effect on the combined financial statements of Renown Health.

ASU No. 2016-14 also required additional disclosures related to liquidity and availability of financial assets (Note 4) and functional allocation of expenses (Note 12). Renown Health elected to not present this information for 2018, as allowable under the guidance.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies and improves the scope and the accounting guidance for contributions received and made with the objective of reducing the existing diversity in practice. Renown Health adopted the provisions related to contributions received during 2019 and it is not considered to have a material effect on the combined financial statements.

Reclassifications

Reclassifications have been made to the prior year financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

Note 2 - Charity Care

Renown Health provides health care services to patients who meet certain criteria under its charity care policy at amounts less than established rates. Since Renown Health does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$12,020 and \$16,780 for the years ended June 30, 2019 and 2018, calculated by multiplying the ratio of cost to gross charges for Renown Health by the gross uncompensated charges associated with providing charity care to its patients. Renown Health does not receive funds to offset or subsidize charity care services.

Note 3 - Patient Service and Other Operating Revenue

Patient Service Revenue

Renown Health has agreements with third-party payors that provide for payments to Renown Health at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare: Inpatient and outpatient services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates per encounter. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Renown Health is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits thereof by the Medicare fiscal intermediary. Renown Health's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2016.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per length of stay and/or a fee schedule.

Other Insurers: Renown Health also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations for commercial, Medicaid and Medicare Advantage programs. The basis for payment to Renown Health under these agreements includes capitation, prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Net revenues from the Medicare, Medicaid, and other insurers accounted for the following of Renown Health's patient service revenues for the years ended June 30, 2019 and 2018:

	2019	2018
Medicare	\$ 401,219	\$ 336,085
Medicaid	137,704	123,820
PPO/HMO	359,842	362,617
Other	37,024	61,910
	\$ 935,789	\$ 884,432

The composition of revenues based on Renown Health’s lines of business for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Acute Care Services	\$ 830,469	\$ 786,435
Network Services	105,167	97,858
Other	153	139
	<u>\$ 935,789</u>	<u>\$ 884,432</u>

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. Renown Health has potential settlements with third-party payors for retroactive adjustments that are considered variable consideration and included in the determination of the estimated transaction price for providing patient care. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Patient service revenue increased approximately \$8,936 and \$6,977 for the years ended June 30, 2019 and 2018 due to differences in estimated and actual cost report settlements and due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

Generally, patients who are covered by third-party payors 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 service revenue in the period of the change. The ability to estimate the collectability of uninsured and other self-pay patients is contingent on the patient’s ability or willingness to pay for the services provided. 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. Bad debt expense for the years ended June 30, 2019 and 2018 was not significant.

Other Operating Revenue

For the years ended June 30, 2019 and 2018, other operating revenue consisted of the following:

	<u>2019</u>	<u>2018</u>
Food and retail	\$ 7,495	\$ 6,995
Gain on investment in affiliated companies	6,412	3,442
Third party administrative fees	13,715	11,102
Third party rental income	4,697	4,667
Other medical services	13,868	14,074
Other	6,752	6,847
	<u>\$ 52,939</u>	<u>\$ 47,127</u>

Note 4 - Marketable Securities, Funds Held in Trust and Other Financial Assets

Marketable Securities and Fair Value

Renown Health has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of Renown Health's investments are classified within Level 1 because they are comprised of securities with readily determinable fair values based on daily redemption values. Certain other securities, primarily consisting of debt securities, are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

Net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, is used to estimate the fair values of certain commingled funds, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

The fair value of Renown Health's marketable securities measured on a recurring basis at June 30, 2019, consists of the following:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Balance
U.S. federal agency securities	\$ -	\$ 94,353	\$ -	\$ 94,353
U.S. equity mutual funds	143,029	-	-	143,029
U.S. federal agency mortgage-backed securities	-	64,328	-	64,328
U.S. government securities	84,809	-	-	84,809
U.S. corporate fixed income securities	-	67,894	-	67,894
U.S. fixed income mutual funds	5,369	-	-	5,369
U.S. corporate fixed income asset-backed securities	-	13,635	-	13,635
U.S. municipal bonds	-	1,121	-	1,121
Foreign equity mutual funds	44,749	-	-	44,749
U.S. equity securities	471	-	-	471
	<u>278,427</u>	<u>241,331</u>	<u>-</u>	<u>519,758</u>
U.S. fixed income comingled funds (A)	-	-	-	89,407
Foreign fixed income comingled funds (A)	-	-	-	75,368
Foreign equity commingled funds (A)	-	-	-	36,089
	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,864</u>
Total marketable securities	<u>\$ 278,427</u>	<u>\$ 241,331</u>	<u>\$ -</u>	<u>\$ 720,622</u>

The fair value of Renown Health's marketable securities measured on a recurring basis at June 30, 2018, consists of the following:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Balance
U.S. federal agency securities	\$ -	\$ 81,662	\$ -	\$ 81,662
U.S. equity mutual funds	139,361	-	-	139,361
U.S. federal agency mortgage-backed securities	-	58,013	-	58,013
U.S. government securities	73,718	-	-	73,718
U.S. corporate fixed income securities	-	82,015	-	82,015
U.S. fixed income mutual funds	4,960	-	-	4,960
U.S. corporate fixed income asset-backed securities	-	12,224	-	12,224
U.S. municipal bonds	-	1,452	-	1,452
Foreign equity mutual funds	38,771	-	-	38,771
U.S. equity securities	407	-	-	407
	<u>257,217</u>	<u>235,366</u>	<u>-</u>	<u>492,583</u>
U.S. fixed income comingled funds (A)	-	-	-	70,733
Foreign fixed income comingled funds (A)	-	-	-	69,153
Foreign equity commingled funds (A)	-	-	-	30,545
	<u>-</u>	<u>-</u>	<u>-</u>	<u>170,431</u>
Total marketable securities	<u>\$ 257,217</u>	<u>\$ 235,366</u>	<u>\$ -</u>	<u>\$ 663,014</u>

(A) The amounts of investments measured at NAV presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined balance sheets.

Commingled and other funds are reported at fair value as reported by the fund managers based on discounted cash flows, estimated market values, and other unobservable inputs. Each of the commingled funds report fair value using a calculated NAV. There are no redemption limitations, except as noted below, or unfunded commitments at June 30, 2019 and 2018.

Commingled Fund	Redemption	Redemption 2 business days	Redemption Availability
U.S. fixed income commingled fund	Any business day of each month	prior to trade date	Within 2 business days after the trade date (subject to liquidity limitations).
Foreign fixed income commingled fund	First business day of each month	15th of the month	80% available within 5 business days and remaining within 10 business days
Foreign equity commingled fund	First business day of each month	15th of the month	80% available within 5 business days and remaining within 10 business days

The fair value of assets measured on a nonrecurring basis during the year ended June 30, 2019 are as follows:

	Fair Value Measurement Using			Total Gains
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Investment in Routt Dialysis LLC	\$ -	\$ -	\$ 26,657	\$ 24,085

On October 1, 2018, as a result of the sale of a portion of Renown Health's investment in Routt Dialysis LLC (Note 6), the remaining investment in Routt Dialysis LLC with a carrying value of \$2,572 was adjusted to its fair value of \$26,657, resulting in a gain of \$24,085, which is included in gain on sale of investment in Routt Dialysis LLC. The fair value was based on both the price of Renown Health's interest sold during 2019 and a valuation utilizing the income approach, which included unobservable inputs. Accordingly, this valuation is considered to be a Level 3.

Funds Held in Trust

The composition of funds held in trust at June 30, 2019 and 2018, is shown in the following table.

	2019	2018
Funds held in trust		
For debt service		
Money market mutual funds	\$ 3,161	\$ 3,156
Interest rate swap collateral		
Cash and cash equivalents	10,060	4,590
	<u>\$ 13,221</u>	<u>\$ 7,746</u>

Liquidity and Availability

As of June 30, 2019, Renown Health has a working capital of \$937,333. Working capital measures an organization's liquidity, efficiency and overall health. It is measured by taking current assets less current liabilities. Additionally, Renown Health has an average days cash on hand of 239 as of June 30, 2019. Days cash on hand represents the number of days that Renown Health can continue to pay its general operating expenses, given the amount of unrestricted cash (including cash equivalents) and marketable securities available.

Renown Health regularly monitors the availability of resources required to meet operating and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a one year period, Renown Health considers all expenditures related to its ongoing activities of patient care and insurance services as well as the conduct of those services undertaking to support those activities to be general expenditures.

Financial assets available for general expenditure, within one year of the combined balance sheet date, consist of the following as of June 30, 2019:

	Amount
Financial assets at year end:	
Cash and cash equivalents	\$ 160,962
Marketable securities	720,622
Receivables:	
Patient	139,981
Other	28,945
Funds held in trust	13,221
	1,063,731
Less amounts not available to be used within one year:	
Promises to give with liquidity horizons greater than one year	2,602
Funds held in trust not available to be used within one year	13,221
Board designated endowment	1,250
Endowment and related accumulated investment gains to be held in perpetuity	1,084
Financial assets available to meet general expenditures within one year	\$ 1,045,574

In addition to financial assets available to meet general expenditures over the next year, Renown Health anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the combined statement of cash flows which identifies sources and uses of Renown Health's cash and shows positive cash generated by operations for the fiscal years 2019 and 2018.

Renown Health has certain donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above. Renown Health has other assets limited to use for donor-restricted purposes, debt service and for interest rate swap collateral. These assets limited to use, which are more fully described in Notes 4 and 10 are not available for general expenditure within the next year and are not reflected in the amounts above.

As part of Renown Health's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds in addition to being held in checking accounts. Additionally, as of June 30, 2019, management has asserted that Renown Health was in compliance with bond covenants.

Note 5 - Property and Equipment

A summary of property and equipment at June 30, 2019 and 2018 is as follows:

	2019	2018
Land used in operations	\$ 74,826	\$ 74,627
Land held for future expansion	14,627	14,627
Land held for sale	3,230	3,230
Buildings and improvements	733,262	728,178
Equipment	497,914	478,838
Construction in progress	6,215	3,382
	<u>1,330,074</u>	<u>1,302,882</u>
Less allowance for depreciation	<u>(737,416)</u>	<u>(698,338)</u>
Net property and equipment	<u>\$ 592,658</u>	<u>\$ 604,544</u>

The gross amount recorded for assets under capital leases was \$2,327 and \$2,920 at June 30, 2019 and 2018. The accumulated depreciation recorded for assets under capital leases was \$2,288 and \$2,169 at June 30, 2019 and 2018.

Construction in progress at June 30, 2019 represents Women's Health, urgent and primary care center build-outs, Regional campus renovations and various other projects. The estimated costs to complete these projects are \$12,735, which will be financed with Renown Health's funds.

Note 6 - Investments in Affiliated Organizations

Investments of \$61,277 and \$31,148 in various related health care ventures are being recorded on the equity method, with Renown Health's 50% investment in Carson Valley Medical Center (CVMC) accounting for 49% and 88% of the total for the years ended June 30, 2019 and 2018, respectively. The net gain on these investments, totaling \$6,412 in 2019 and \$3,442 in 2018, is included in other revenue. Renown Health received distributions of \$2,940 and \$746 from these investments in 2019 and 2018.

On October 1, 2018, Renown Health sold a 16% investment in the Routt Dialysis LLC joint venture. The sale generated a total gain of \$35,346, of which \$24,085 is attributable to an increase in the fair market value of Renown Health's remaining 36% investment. Due to the sale, Renown Health no longer maintains a controlling interest in Routt Dialysis LLC, and therefore, records its investment using the equity method. As of June 30, 2019, Renown Health's 36% investment in Routt Dialysis LLC accounted for 45% of its total investment in affiliated companies. Medical services provided to Renown Health by Routt Dialysis LLC after October 1, 2018 are considered to be related-party transactions, which amounted to \$2,772 as of June 30, 2019.

The total assets, total liabilities, and revenues in excess of expenses for the affiliated organizations as of and for the years ended June 30, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Assets		
CVMC	\$ 73,820	\$ 67,538
Routt Dialysis LLC	19,104	-
All other	<u>17,426</u>	<u>17,135</u>
Total assets	<u><u>\$ 110,350</u></u>	<u><u>\$ 84,673</u></u>
Liabilities		
CVMC	\$ 13,947	\$ 12,614
Routt Dialysis LLC	9,690	-
All other	<u>20,502</u>	<u>20,962</u>
Total liabilities	<u><u>\$ 44,139</u></u>	<u><u>\$ 33,576</u></u>
Revenues in Excess of Expenses		
CVMC	\$ 5,365	\$ 4,894
Routt Dialysis LLC	8,360	-
All other	<u>994</u>	<u>1,213</u>
Revenues in excess of expenses	<u><u>\$ 14,719</u></u>	<u><u>\$ 6,107</u></u>

Note 7 - Operating Leases

Renown Health leases various buildings, office space, and equipment under noncancelable long-term agreements. The leases expire at various times and have various renewal options and lease payment escalation provisions. Total lease expense for the years ended June 30, 2019 and 2018 was \$9,656 and \$10,540.

Future minimum lease payments at June 30, 2019, by year and in the aggregate, under noncancellable operating leases with initial terms of one year or more consist of the following:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 8,600
2021	7,516
2022	6,232
2023	6,045
2024	5,106
Thereafter	<u>7,875</u>
Total minimum lease payments	<u><u>\$ 41,374</u></u>

Note 8 - Long-Term Debt

Long-term obligations consist of the following:

	2019	2018
Public Finance Authority, Nevada Hospital Revenue Refunding Bonds (Renown Regional Medical Center Project) Series 2016A, interest ranging from 3.00% to 5.00% payable monthly; annual principal installments ranging from \$3,225 in 2020 to \$15,845 in 2040	\$ 133,955	\$ 137,180
Unamortized debt issuance costs based on imputed interest rate of 4.68% and unamortized bond premium	24,094	24,306
	158,049	161,486
Public Finance Authority, Nevada Hospital Revenue Refunding Bonds (Renown Regional Medical Center Project) Series 2015A, interest ranging from 4.00% to 5.00% payable monthly; annual principal installments ranging from \$4,685 in 2020 to \$7,330 in 2041	135,915	138,560
Unamortized debt issuance costs based on imputed interest rate of 4.23% and unamortized bond premium	5,984	6,256
	141,899	144,816
City of Reno, Nevada Hospital Revenue Bonds (Renown Regional Medical Center Project): Series 2009 A&B, variable interest ranging from .93% to 2.25% payable monthly; annual principal installments ranging from \$100 in 2020 to \$7,185 in 2039	60,220	60,545
Unamortized debt issuance costs based on imputed interest rate of 3.93%	(1,378)	(1,447)
	58,842	59,098
Series 2008 A&B, variable interest ranging from .93% to 2.25% payable monthly; annual principal installments ranging from \$1,650 in 2020 to \$22,400 in 2041	74,250	75,850
Unamortized debt issuance costs based on imputed interest rate of 3.80%	(1,139)	(1,192)
	73,111	74,658

Renown Health
Notes to Combined Financial Statements
June 30, 2019 and 2018

	2019	2018
City of Reno, Nevada Hospital Revenue Bonds (Renown Health Project):		
Series 2006 remaining unamortized debt issuance costs	\$ (775)	\$ (810)
Series 2005 A&B, interest ranging from 5.00% to 6.25% payable semi-annually; annual principal installments ranging from \$200 in 2020 to \$1,785 in 2040	7,295	7,485
Unamortized debt issuance costs based on imputed interest rate of 5.47% and unamortized bond premium	(392)	(416)
	6,903	7,069
City of Reno, Nevada Hospital Revenue Bonds (Renown Regional Medical Center Project):		
Series 2004A, interest at 5.50% payable semi-annually; annual principal installments ranging from \$145 in 2020 to \$190 in 2028	1,510	1,650
Unamortized debt issuance costs based on imputed interest rate of 5.63% and unamortized bond premium	(137)	(141)
	1,373	1,509
Series 2004C (converted 2010), interest ranging from 5.00% to 5.38% payable semi-annually; annual principal installments ranging from \$745 in 2020 to \$935 in 2039	10,675	12,835
Unamortized debt issuance costs based on imputed interest rate of 5.23% and unamortized bond premium	(547)	(546)
	10,128	12,289
Series 2004C (converted 2008), interest ranging from 4.88% to 5.50% payable semi-annually; annual principal installments ranging from \$10 in 2020 to \$475 in 2039	4,215	4,235
Unamortized debt issuance costs based on imputed interest rate of 5.40% and unamortized bond premium	(279)	(301)
	3,936	3,934
Guaranteed Insured Notes, Series 1995, interest at 7.58%; payable semi-annually; annual principal installments ranging from \$2,400 in 2020 to \$3,500 in 2025	17,600	19,800
Unamortized debt issuance costs	(305)	(355)
	17,295	19,445
Equipment lease	-	877
Vendor equipment note	-	56
	470,761	484,427
Less current maturities	(13,837)	(27,637)
	\$ 456,924	\$ 456,790

The Series 2016A, 2015A, 2009A&B, 2008A&B, 2007A, 2005A&B, and 2004A&C Hospital Revenue Bonds have been issued under a Master Indenture Agreement that secures the indebtedness by a pledge of the gross revenues of the Obligated Group. Under the Master Trust, Renown Health is required to comply with certain restrictive financial and other covenants. As of June 30, 2019 and 2018, management has asserted that Renown Health was in compliance with all debt covenants.

The Series 2008A&B and 2009A&B Hospital Revenue Bonds are variable rate demand bonds that are guaranteed by liquidity facilities (principally letters of credit). Should the liquidity facilities terminate or fail to renew, the bonds are considered due on demand. Renown Health is able to leverage the payment terms provided in the liquidity facilities, including extended payment terms upon draw or termination. The maturities of these bonds are classified based on the stated maturities of the bonds or the termination provisions of the liquidity facilities, as appropriate. At June 30, 2019 and 2018, approximately \$1,750 and \$15,495 of Renown Health's variable rate demand bonds were classified as current liabilities.

Aggregate principal maturities of long-term obligations, including capital leases, at June 30, 2019, excluding unamortized bond discounts and premiums and unamortized debt issuance costs, are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2020	\$ 13,160
2021	13,865
2022	14,620
2023	15,405
2024	16,285
Thereafter	<u>372,300</u>
Total	<u>\$ 445,635</u>

Note 9 - Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30, 2019 and 2018:

	2019	2018
Subject to expenditure for specified purpose:		
Children's services	\$ 9,368	\$ 10,191
Behavioral health center	5,340	5,735
Women's services	113	901
Post-operative rehabilitations services	158	591
Hospice care	1,082	-
Healing garden/arts	459	-
Other programs	3,286	3,332
	19,806	20,750
Funds of perpetual duration, subject to spending policy and appropriations, the distribution form which are restricted by donors as follows:		
Nursing education	-	1,228
Healing garden/arts	789	588
Other programs	295	1,658
	1,084	3,474
	\$ 20,890	\$ 24,224

In 2019 and 2018, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes in the amounts of \$6,761 and \$5,429. These amounts are included in net assets released from restrictions and other revenues in the combined financial statements.

Note 10 - Retirement Plans

Contributory Defined Benefit Plan

Renown Health sponsors a contributory defined benefit plan (Retirement Plan). The Retirement Plan is not available to employees who did not elect to participate in the plan as of November 17, 1985. Those employees who did elect to participate in the Retirement Plan as of November 17, 1985 are required to contribute 2.5% of their annual earnings. Normal retirement benefits under the Retirement Plan are based on the three highest years of compensation and the employee's years of service. Benefits are reduced for specified benefits received under the Nevada Public Employees' Retirement System. Participants in this plan are fully vested. Renown Health's total retirement benefit expense was not material.

The Retirement Plan was fully funded as of June 30, 2019 and 2018. Renown Health's measurement date for plan assets, pension obligations and net periodic pension cost associated with the retirement plan is June 30. The changes in benefit obligations and plan assets for Renown Health's Retirement Plan are as follows:

	2019	2018
Projected benefit obligation at beginning of year	\$ 10,855	\$ 12,033
Interest cost	381	378
Plan participants' contributions	1	1
Actuarial loss	(250)	(653)
Benefits paid	(905)	(904)
Projected benefit obligation at measurement date	10,082	10,855
Fair value of plan assets at beginning of year	11,422	11,324
Actual gain on plan assets	857	1,001
Plan participants' contributions	1	1
Benefits paid	(905)	(904)
Fair value of plan assets at measurement date	11,375	11,422
Funded status at end of year	\$ 1,293	\$ 567

The accumulated benefit obligation for Renown Health's retirement plan was \$10,082 and \$10,855 at June 30, 2019 and 2018. The asset for the funded status of \$1,293 and \$567 at June 30, 2019 and 2018 is included in other noncurrent assets in the accompanying combined financial statements. Renown Health recognized a decrease in unrestricted net assets of \$571 and \$1,127 for the years ended June 30, 2019 and 2018 related to the Retirement Plan. This is included in other changes in unrestricted net assets in the accompanying combined financial statements.

The benefits expected to be paid from Renown Health's Retirement Plan in each of the next five years, and in the aggregate for the next five years are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2020	\$ 975
2021	940
2022	904
2023	872
2024	833
2025-2029	<u>3,555</u>
Total	<u>\$ 8,079</u>

The actuarial assumptions used by Renown Health's Retirement Plan are as follows:

	<u>2019</u>	<u>2018</u>
Weighted average discount rates for calculating pension expense	3.7%	3.3%
Weighted average discount rates for calculating projected benefit obligation	3.2%	3.7%
Weighted average rates of compensation increase for calculating pension expense	4.0%	4.0%
Weighted average rates of compensation increase for calculating projected benefit obligation	4.0%	4.0%
Expected long-term rates of return on plan assets for calculating pension expense	7.0%	7.0%

The components of Renown Health's Retirement Plan's net periodic benefit cost for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Interest cost	\$ 380	\$ 378
Expected return on plan assets	(759)	(751)
Recognized gains	<u>224</u>	<u>224</u>
Benefit cost	<u>\$ (155)</u>	<u>\$ (149)</u>

The Retirement Plan weighted average asset allocations at June 30, 2019 and 2018, by asset category are as follows:

Asset Category	Target	Percentage of Plan Assets at June 30,	
	2019	2019	2018
Interest-bearing cash	0%	1%	1%
Equity securities	60%	60%	63%
Fixed income	40%	39%	36%
Total	100%	100%	100%

Renown Health's investment strategy for the retirement plan assets is to balance the liquidity needs of the Retirement Plan with the long-term return goals necessary to satisfy future obligations. The target asset allocation seeks to reduce volatility while capturing the equity premium from the capital markets over the long-term and maintain security of principal to meet near term expenses and obligations through the fixed income allocation.

Renown Health's Retirement Plan portfolio return assumption of 7% is based on the weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for retirement plan expenses.

The fair value of the Retirement Plan's assets based on valuation inputs (see Note 4) consists of the following as of June 30, 2019, except for money market funds, which are valued at historical cost:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Balance
Mutual funds				
U.S. equities funds	\$ 1,763	\$ -	\$ -	\$ 1,763
Index funds	7,786	-	-	7,786
Foreign equity funds	1,692	-	-	1,692
Cash and cash equivalents - at cost	-	-	-	134
Total Retirement Plan	\$ 11,241	\$ -	\$ -	\$ 11,375

The fair value of the Retirement Plan's assets based on valuation inputs (see Note 4) consists of the following as of June 30, 2018, except for money market funds, which are valued at historical cost:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Balance
Mutual funds				
U.S. equities funds	\$ 1,742	\$ -	\$ -	\$ 1,742
Index funds	7,818	-	-	7,818
Foreign equity funds	1,755	-	-	1,755
Cash and cash equivalents - at cost	-	-	-	107
Total Retirement Plan	\$ 11,315	\$ -	\$ -	\$ 11,422

Defined Contribution Plan

The Renown Health sponsored defined contribution 401(k) plan is Renown Health's primary retirement plan and covers substantially all employees. The plan has a discretionary matching contribution. For fiscal year 2019 and 2018, Renown Health matched 100% of the first 3% of the employee's contribution and 50% of the next 2% of the employee's contribution. Participants vest in any employer matching contributions at the rate of 25% per year after two years of service, and are fully vested after five years. The total cost of the defined contribution 401(k) plan was \$12,627 and \$9,871 for the years ended June 30, 2019 and 2018.

Note 11 - Concentrations of Credit Risk

Renown Health grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2019 and 2018 was as follows:

	2019	2018
Medicare fee for service	30%	27%
Medicaid	12%	13%
PPO/HMO	30%	31%
Other	28%	29%
	100%	100%

Deposit concentration risk is managed by placing cash, money market accounts and investments with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, Renown Health has not experienced losses in any of these accounts. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of Renown Health.

Note 12 - Functional Expenses

Renown Health provides health care services to residents within its geographic location. Expenses related to providing these services by functional class for the year ended June 30, 2019 are as follows:

	<u>Patient Health</u>	<u>Insurance</u>	<u>Other</u>	<u>Support</u>	<u>Total</u>
Salaries, wages and benefits	\$ 535,203	\$ 20,399	\$ 2,116	\$ 77,419	\$ 635,137
Supplies	203,777	301	1,139	1,434	206,651
Professional fees	34,967	20	-	69	35,056
Health care expenses	-	220,444	-	123	220,567
Purchased services	41,371	17,926	880	49,493	109,670
Repairs and maintenance	6,020	43	406	842	7,311
Utilities and telephone	6,083	165	528	3,533	10,309
Insurance	1,362	10	-	4,727	6,099
Provision for depreciation/ amortization	37,323	1,111	2,605	16,626	57,665
Interest	18,952	35	1,518	286	20,791
Rental and lease	7,287	175	650	1,544	9,656
Other	10,619	19,541	1,514	12,545	44,219
	<u>\$ 902,964</u>	<u>\$ 280,170</u>	<u>\$ 11,356</u>	<u>\$ 168,641</u>	<u>\$ 1,363,131</u>

Expenses related to providing these services by functional class for the year ended June 30, 2018 are as follows:

	<u>Amount</u>
Patient health care services	\$ 1,017,504
General and administrative	303,758
	<u>\$ 1,321,262</u>

Note 13 - Income Taxes

Renown Health's taxable corporations file tax returns as required under current tax regulations. The tax provision for the years ended June 30, 2019 and 2018 was \$9,951 and \$2,084.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amount used for income tax purposes. The significant components of Renown Health's taxable corporation's deferred taxes as of June 30, 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets		
Net operating loss carryover	\$ 46,610	\$ 38,426
Allowance for uncollectible accounts	1,218	37
Accrued vacation and incentives	3,013	1,891
Depreciation and amortization	432	98
Other	203	(219)
	51,476	40,233
Less valuation allowance	(51,129)	(39,776)
Total net deferred tax assets	\$ 347	\$ 457
Deferred tax liabilities		
Deferred partnership gains	\$ (5,571)	\$ -
Depreciation and amortization	(334)	-
Other	10	-
	\$ (5,895)	\$ -

Net operating loss carryforwards total approximately \$221,953 and will expire through 2038.

The valuation allowance increased \$11,353 during the year ended June 30, 2019 and decreased \$11,775 during the year ended June 30, 2018.

Note 14 - Reinsurance Agreements

Renown Health purchases reinsurance for losses on certain inpatient hospital, physician and pharmacy claims from a reinsurance company. Under the terms of this agreement, the reinsurance company will reimburse Renown Health up to a maximum amount in excess of a \$500 deductible for fully-insured commercial and \$300 deductible for Medicare members, as accumulated on an incurred basis (as defined in the reinsurance agreement) subject to certain limits and coinsurance payments.

Note 15 - Interest Rate Swaps

As of June 30, 2019 and 2018, Renown Health has five interest rate swap agreements, as follows:

	Notional Amount			Interest Paid
	Original	2019	2018	
Series 2004C	\$ 15,325	\$ 5,100	\$ 5,900	3.697%
Series 2004C	44,000	42,025	42,225	3.897%
Series 2009	15,325	5,100	5,900	3.697%
Series 2009	44,000	42,025	42,225	3.897%
Series 2008	80,000	68,659	70,137	3.788%

For each of these swaps Renown Health receives a floating rate of 60% of 1-month LIBOR, plus 36 basis points, in return for the fixed rates outlined above. The swaps expire between 2031 and 2041.

Series 2004C – Renown Health executed the series 2004C swap contracts in June 2004, designated them to the Series 2004C Bonds and achieved hedge treatment. In September 2009, Renown Health determined the two Series 2004C Swaps no longer qualified for hedge treatment. Prospectively, all changes in fair value of the Series 2004C Swaps are included in the performance indicator. In March 2010, Renown Health converted the Series 2004C Bonds from auction rate mode to fixed rate mode.

Series 2009 (was Series 2004B) – Renown Health executed the Series 2009 swap contracts in June 2004, designated them to the Series 2004B Bonds and achieved hedge treatment. In January 2009, the Series 2004B Bonds were extinguished and refunded with the Series 2009 A&B bonds. The 2004B Swap with an original notional amount of \$15,325 was re-designated from the 2004B Series to the 2009 Series and qualified for hedge treatment at the date of refunding. The 2004B Swap with an original notional amount of \$44,000 qualified for hedge treatment in October 2010. At September 30, 2016, the Series 2009 swap no longer maintained hedge treatment. Prospectively, all changes in fair value of the Series 2009 swap are included in the performance indicator.

Series 2008 (was Series 2006) – Renown Health executed the series 2008 swap contract in April 2006, designated it to the Series 2006 Bonds and achieved hedge treatment. In June 2008, the Series 2006 Bonds were extinguished and refunded with the Series 2008 Bonds, which resulted in Renown Health no longer maintaining hedge treatment for the Series 2006 Swap. In August 2008, Renown Health re-designated the Series 2006 Swap to the Series 2008 Bonds and achieved hedge accounting. At June 30, 2016, the Series 2008 Swap no longer maintained hedge treatment. Prospectively, all changes in fair value of the Series 2008 swap are included in the performance indicator.

The previously recognized effective portion of the change in fair value of the swaps is included as a component of net assets below the performance indicator. The cumulative effective portion included in net assets was a net unrealized loss of \$31,039 and \$32,888 at June 30, 2019 and 2018. The ineffective portion and the amount of change in fair value not attributable to hedging instruments is included above the performance indicator in non-operating income and losses, and was a loss of \$13,627 and a gain of \$8,027 for the years ended June 30, 2019 and 2018. The amount of unrealized loss amortized from net assets to income during the years ended June 30, 2019 and 2018 totaled \$1,848 and \$1,865. The fair market value of the swaps is determined using quoted market prices based upon observable interest rates and yield curves (Level 2 inputs), and each of the swaps was a liability totaling \$45,770 and \$33,991 at June 30, 2019 and 2018, and were included in noncurrent liabilities.

Note 16 - Commitments and Contingencies

Self-Insurance Plans

Renown Health is self-insured for health insurance, workers' compensation, vision, and dental care. The claims under these plans continue to be accrued as the incidents that give rise to them occur. Unpaid claim accruals are based on the estimated ultimate cost of the claims, including claim administration expenses, in accordance with Renown Health's past experience. Renown Health has entered into a reinsurance agreement with insurance companies to limit its losses on claims for health insurance and workers' compensation, with a reinsurance receivable being recorded for \$1,410 and \$918 at June 30, 2019 and 2018. Reserves for self-insured plans were \$9,427 and \$9,009 as of June 30, 2019 and 2018 and are included in accrued salaries, wages, and benefits in the combined balance sheets.

Professional and General Liability Insurance

Effective March 1, 2019, Renown Health is self-insured for professional liability claims up to \$4,000 per occurrence and maintains professional liability insurance coverage on a claims-made basis for all claims in excess of \$4,000 per occurrence. Prior to March 1, 2019, Renown Health was self-insured for professional and general liability claims up to \$3,000 per occurrence and maintained professional and general liability insurance coverage on a claims-made basis for all claims in excess of \$3,000 per occurrence. In addition, effective March 1, 2018, Renown Health is self-insured for general liability claims up to \$1,000 per occurrence and maintains general liability insurance coverage on a claims-made basis for all claims in excess of \$1,000 per occurrence. Any claims made and accepted by the insurance provider prior to March 1, 2019 are subject to the previous retention limits.

Reserves for reported professional and general liability claims and incurred but not reported claims are based on actuarial studies. Management is aware of no potential professional and general liability claims whose settlement, if any, would be in excess of amounts provided for or would otherwise have a material adverse effect on Renown Health's combined financial position. Renown Health has not changed its process for calculating the reserve for reported and incurred but not reported claims from June 30, 2018 to 2019. Reserves for reported and incurred but not reported claims, which are discounted using a rate of 3.00% were \$14,674 and \$9,865 as of June 30, 2019 and 2018 and are included in other noncurrent liabilities in the combined balance sheets. As of June 30, 2019 and 2018, receivables of \$5,200 and \$3,000 have been recorded for expected insurance recoveries related to the professional liability claims, and are included in other noncurrent assets on the combined balance sheet.

Litigation, Claims, and Disputes

Renown Health is subject to the usual contingencies in the normal course of operations relating to the performance of its task under its various services it offers. In the opinion of management and after consultation with legal counsel, the ultimate settlement of litigation, claims, and disputes in process will not be material to the combined financial position of Renown Health. However, there can be no guarantee that such will be the case.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

2013 Stark Disclosure

Through its compliance program, Renown Health identified an arrangement which raised potential issues with respect to compliance with Stark (42 U.S.C. §1395nn) and Anti-Kickback Statutes (42 U.S.C. §1320a-7b(b)) requirements. Renown Health self-disclosed this issue to the Office of the Inspector General (OIG) on June 27, 2013 utilizing the Self-Referral Disclosure Protocol (SRDP). The OIG retained the disclosure related to a lease and service agreement and referred the physician contract agreements to the Center for Medicare and Medicaid Services (CMS), Division of Technical Payment Policy. The OIG concluded its review of the lease and service agreement disclosure and reached a settlement with Renown Health on December 21, 2015. Renown Health self-disclosed the physician contract agreement issue to CMS on August 2, 2013 and January 7, 2014. As of June 30, 2019, CMS has not concluded its respective review of the physician's contract agreement. Management believes it has adequately provided for the most likely outcome from the self-disclosure based on the information available at the time. Management intends to settle any such liability and, accordingly, an accrual of approximately \$206 has been recorded in the combined financial statements for the years ended June 30, 2019 and 2018.

2018 Stark Disclosure

On May 22, 2017, a qui tam complaint was filed in the U.S. District Court for the District of Nevada. Renown Health became aware of the complaint on or about February 21, 2018 after the complaint was unsealed and appeared on a public docket. The complaint raised potential issues with respect to the requirements of Stark Law and Anti-Kickback Statute. The allegations were related to the possible creation of inappropriate compensation arrangements with employed physicians during 2011 and 2012. However, the complaint was never served on any of the named defendants, and as a result, the court dismissed the complaint, without prejudice, on August 17, 2018, due to lack of timely service. Despite the dismissal, Renown Health nonetheless conducted its own investigation into the allegations contained in the complaint. Although there is reasonable basis to conclude no violations occurred, out of an abundance of caution, Renown Health elected to disclose the arrangement to CMS and submit it to the jurisdiction of the SRDP on October 19, 2018. CMS has not concluded its respective review of the disclosure, however, any settlement monies will be the responsibility of Renown Health and, accordingly, an accrual of approximately \$372 has been recorded in the combined financial statements for the year ended June 30, 2019.

Collective Bargaining Agreement

Approximately 18% of Renown Health's labor force is represented by a collective bargaining agreement. The most recent labor agreement expires on June 30, 2020.

Purchase Commitments

During 2018, Renown Health entered into an agreement with a vendor to purchase a minimum amount of laboratory supplies over the next eight years. In connection with the agreement, Renown Health also acquired certain equipment. As of June 30, 2019, the remaining commitment totaled \$12,517.

Note 17 - New Accounting Pronouncement

ASU 2016-02, *Leases*

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. This update provides guidance on a new lessee model that includes the recognition of assets and liabilities arising from lease transactions on the balance sheet. Additionally, the guidance provides clarity on the definition of a lease and the distinction between finance and operating leases. Furthermore, the guidance requires certain qualitative and quantitative disclosures pertaining to the amounts recorded in the financial statements. This guidance becomes effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. Management has not yet estimated the potential impact that the adoption will have on its combined financial condition or results of operations.

ASU 2016-01, *Financial Assets and Liabilities*

In January 2016, the FASB issues Accounting Standards Update No. 2016-01 (ASU 2016-01), *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. This guidance replaces guidance to classify equity securities with readily determinable fair values into different categories (trading or available-for-sale) and requires equity securities to be measured at fair value with changes in fair value recognized through net income. Additionally, this guidance eliminates the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. It requires financial instruments to be measured at fair value using the exit price notion. This update becomes effective for fiscal years beginning after December 15, 2017. Management has not yet estimated the potential impact that the adoption will have on its combined financial condition or results of operations. Management did elect to early adopt a specific provision of ASU 2016-01 as of June 30, 2016, that removed the requirements to disclose the fair value of financial instruments not measured at fair value on the combined balance sheets.

Note 18 - Unpaid Claims

Renown Health medical claims reserves are developed using an actuarial model to estimate incurred medical benefit liabilities for Commercial HMO, PPO and Senior Care Plus products. The model is built on historical claims data that are reported in claims triangles split by incurred and paid months. For a given reporting period, the base reserve estimates are developed beginning five months prior to the current month using a completion factor methodology that is based on a rolling twelve month averaging period. The most current month's reserve is estimated using a projection methodology that develops an average cost per member per month. The projection method average is usually based on a rolling twelve months with the appropriate trend applied to each period used in the development of average costs. For each of the prior month's estimates, the model allows the user to weight each estimate using a combination of completion and projection methods. Medical claims are assumed to be complete within twelve to thirteen months of incurred date.

Renown Health's medical claims activity and unpaid claims liabilities, prior to intercompany eliminations in order to present the complete insurance operations, as of and for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Unpaid claims liabilities, at beginning of year	\$ 58,325	\$ 42,161
Reinsurance recoverables, at beginning of year	(5,210)	(1,815)
Unpaid claims liabilities, net of reinsurance recoverables	53,115	40,346
Add provision for claims, net of reinsurance, occurring in:		
Current year	353,951	390,824
Prior years	(4,593)	(3,592)
Net incurred losses during current year	349,358	387,232
Deduct payments for claims, net of reinsurance		
Occurring in:		
Current year	305,639	337,189
Prior years	45,963	37,274
Net claims payments during current year	351,602	374,463
Unpaid claims liabilities, net of reinsurance recoverables	50,871	53,115
Reinsurance recoverables, at end of year	1,287	5,210
Unpaid claims liabilities, at end of year	\$ 52,158	\$ 58,325

The favorable development in 2019 and 2018 was a result of changes in estimates of insured events in prior years. Net claims incurred were decreased by \$4,593 and \$3,592 in 2019 and 2018 due to better than estimated claim development and adequate margin established in the prior years' reserves. Due to uncertainties inherent in the reserving process, there is at least a reasonable possibility that actual claims paid could differ materially from amounts accrued.

In addition to the base reserve, there is a 10% margin for adverse claims development added to the base reserve estimates. The margin for adverse claims development is monitored and reviewed monthly and is also discussed with Renown Health's appointed actuary on a regular basis. Management believes the additional 10% reserve amounts beyond the base reserves are reasonable and appropriate. There were no other changes in methodology and assumptions used to calculate medical claims reserves for the years ended June 30, 2019 and 2018.

Note 19 - Subsequent Events

Renown Health has evaluated subsequent events through September 3, 2019, the date which the combined financial statement were issued.



Supplementary Information
June 30, 2019 and 2018

Renown Health



Independent Auditor's Report on Combining and Supplementary Information

The Board of Directors
Renown Health
Reno, Nevada

We have audited the combined financial statements of Renown Health as of and for the years ended June 30, 2019 and 2018, and our report thereon dated September 3, 2019, which expressed an unmodified opinion on those combined financial statements, appears on pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the combined financial statements taken as a whole. The obligated group combining schedules as of and for the years ended June 30, 2019 and 2018 on pages 44 to 47 are presented for the purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

The statistical and other information, on page 48 to 50, which are the responsibility of management, have not been subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Reno, Nevada
September 3, 2019



June 30, 2019 and 2018

Renown Health Obligated Group

Renown Health Obligated Group
 Combined Balance Sheets
 June 30, 2019 and 2018

	2019	2018
	(In Thousands)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 63,441	\$ 72,377
Marketable securities	645,761	592,617
Receivables		
Patient	151,853	145,988
Other	2,732	2,133
Inventory	32,401	31,260
Prepaid expenses and other	3,425	3,202
Total current assets	899,613	847,577
Funds Held in Trust	13,221	7,746
Property and Equipment, Net	403,688	411,708
Due from Renown Health	141,882	137,970
Other Assets		
Goodwill	6,662	6,662
Other	18	11
Total other assets	6,680	6,673
Total assets	\$ 1,465,084	\$ 1,411,674

Renown Health Obligated Group
 Combined Balance Sheets
 June 30, 2019 and 2018

	2019	2018
	(In Thousands)	
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 11,437	\$ 25,052
Accounts payable		
Trade	24,679	19,889
Estimated third-party payor settlements and other	3,438	6,350
Accrued compensation, benefits and other	22,807	21,486
Total current liabilities	62,361	72,777
Other	45,769	33,991
Long-Term Debt, Less Current Maturities, Unamortized Discounts and Premiums, and Unamortized Bond Costs	442,029	439,547
Total liabilities	550,159	546,315
Net Assets Without Donor Restrictions	914,925	865,359
Total liabilities and net assets	\$ 1,465,084	\$ 1,411,674

Renown Health Obligated Group
 Combined Statements of Operations and Changes in Net Assets
 Years Ended June 30, 2019 and 2018

	2019	2018
	(In Thousands)	
Revenues, Gains, and Other Support Without Donor Restrictions		
Patient service revenues	\$ 951,633	\$ 906,001
Other revenues	16,140	15,246
Total revenues, gains, and other support without donor restrictions	967,773	921,247
Expenses		
Salaries and wages	314,965	287,045
Employee benefits	55,932	52,600
Supplies	195,586	182,051
Professional fees	49,393	55,108
Purchased services	175,224	148,242
Purchased charity care	2,366	3,409
Repairs and maintenance	5,801	5,263
Utilities and telephone	5,656	4,901
Insurance	742	752
Provision for depreciation/amortization	33,234	33,857
Interest	19,290	20,373
Rental and lease	4,945	5,222
Other	6,728	6,570
Total expenses	869,862	805,393
Operating Income	97,911	115,854
Other Income (Loss)		
Net investment return, excluding change in unrealized gains and losses on other than trading investments	35,633	6,128
Gain (loss) on interest rate swaps	(13,627)	8,027
Other income	22,006	14,155
Revenues in Excess of Expenses	119,917	130,009
Change in Unrealized Gains and Losses on Other Than Trading Investments	(3,182)	15,859
Change in Unrealized Gains and Losses on Interest Rate Swaps	1,849	1,865
Interaffiliate Transfers	(72,671)	(74,125)
Other Changes	-	237
Contributions and Grants for Property Acquisitions	3,653	2,441
Increase in Net Assets Without Donor Restrictions	49,566	76,286
Net Assets, Beginning of Year	865,359	789,073
Net Assets, End of Year	\$ 914,925	\$ 865,359

Renown Health Obligated Group
 Combined Statements of Cash Flows
 Years Ended June 30, 2019 and 2018

	2019	2018
	(In Thousands)	
Operating Activities		
Change in net assets	\$ 49,566	\$ 76,286
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributed equipment	(3,653)	(2,441)
Realized loss (gain) on sale of property	(29)	337
Net gains and losses on marketable securities	(9,284)	(9,139)
Change in fair value on interest rate swaps	11,778	(9,892)
Amortization of debt issuance costs and bond discounts/premiums	(278)	(17)
Interaffiliate transfers	72,671	74,125
Changes in operating assets and liabilities		
Patient accounts receivable and other receivables, less interest receivable	26,824	20,593
Inventory	(1,141)	(4,965)
Prepaid expenses and other	(230)	(738)
Due from Renown Health	(76,583)	(58,892)
Accounts payable and accrued expenses	3,199	(1,188)
Net Cash from Operating Activities	72,840	84,069
Investing Activities		
Purchase of property and equipment	(21,700)	(18,768)
Sales of property and equipment	168	25
Purchase of marketable securities	(476,742)	(480,909)
Sales of marketable securities	432,828	439,171
Increase in funds held in trust	(5)	(36)
Net Cash used for Investing Activities	(65,451)	(60,517)
Financing Activities		
Principal payments on long-term debt	(10,855)	(10,532)
Decrease (increase) in swap collateral	(5,470)	5,940
Net Cash used for Financing Activities	(16,325)	(4,592)
Net Change in Cash and Cash Equivalents	(8,936)	18,960
Cash and Cash Equivalents, Beginning of Year	72,377	53,417
Cash and Cash Equivalents, End of Year	\$ 63,441	\$ 72,377
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest, net of interest capitalized of (\$88) in 2019 and (\$75) in 2018	\$ 18,957	\$ 19,529

Renown Health Obligated Group
Selected Utilization Statistics (Unaudited)

	2015	2016	2017	2018	2019
Renown Regional Medical Center					
Licensed beds	808	808	808	808	808
Available beds	643	659	649	661	665
Patient Days	145,823	152,947	173,713	182,844	180,577
Observation Days	18,520	17,816	12,727	11,745	16,667
Equivalent Patient Days	164,343	170,763	186,440	194,589	197,244
Admissions	27,003	28,083	30,826	33,538	32,215
Observations	15,557	15,501	11,782	11,631	13,642
Equivalent Admissions	42,560	43,584	42,608	45,169	45,857
Average length of stay	5.4	5.4	5.6	5.5	5.6
Average daily census (1)	450	467	511	533	540
Occupancy percent (1) (2)	70.0%	70.8%	78.7%	80.7%	81.3%
Case mix index - total	1.8100	1.8300	1.8610	1.7891	1.7836
Case mix index - Medicare	2.0900	2.0300	2.0261	1.9847	2.0651
Number of surgeries	20,828	22,019	22,611	24,513	24,257
Emergency room visits	93,383	93,520	95,077	98,883	102,977
Deliveries	4,060	4,063	4,065	4,487	4,527
Outpatient visits	310,380	367,185	397,301	436,166	461,232
Renown South Meadows Medical Center					
Licensed beds	76	76	76	76	76
Available beds	76	76	76	76	76
Patient Days	8,843	9,564	12,285	12,548	13,549
Observation Days	2,096	2,568	2,065	2,202	2,619
Equivalent Patient days	10,939	12,132	14,350	14,750	16,168
Admissions	2,896	3,087	4,070	4,357	4,388
Observations	2,337	2,678	2,200	2,478	3,009
Equivalent Admissions	5,233	5,765	6,270	6,835	7,397
Average length of stay	3.1	3.1	3.0	2.9	3.1
Average daily census (1)	30	33	39	40	44
Occupancy percent (1) (2)	39.4%	43.6%	51.7%	53.2%	58.3%
Number of surgeries	7,678	7,400	7,288	5,302	5,165
Emergency room visits	23,979	24,415	25,247	26,477	27,339
Outpatient visits	28,811	35,433	35,800	38,202	42,700
Renown Rehabilitation Hospital					
Licensed beds	62	62	62	62	62
Available beds	62	62	62	62	62
Patient days	13,590	13,361	13,216	12,484	11,703
Admissions	879	807	819	824	824
Average length of stay	15.5	16.6	16.1	15.2	14.2
Average daily census	37	37	36	34	32
Occupancy percent (2)	60.1%	58.9%	58.4%	55.2%	51.7%

(1) Based on equivalent admissions & equivalent days

(2) Based on available beds

Renown Health Obligated Group
Historical Performance Financial Ratios (Unaudited)
As of and For The Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Days Revenue in Accounts Receivable	58.2	58.8
Days Cash on Hand	309.4	314.7
Cash to Debt (%)	156.4	143.1
Debt to Capitalization (%)	33.1	34.9
Maximum Annual Debt Service Coverage	5.9	5.6
Debt to Cash Flow	2.7	3.0
Net Operating Margin (%)	10.1	12.6
Operating Cash Flow Margin (%)	15.5	18.5
EBITDA Margin	18.5	19.0

Renown Health Obligated Group Financial Ratio Definitions:

Days Revenue in Accounts Receivable: Patient accounts receivable divided by (patient revenue divided by the days in the year).

Days Cash on Hand: Cash and marketable securities divided by [total operating expenses — provisions for depreciation — (gain)/loss on disposal of equipment (divided by the days in the year)].

Cash to Debt: Cash and marketable securities divided by long-term debt.

Debt to Cash Flow: Long-term debt divided by (income + provisions for depreciation).

Maximum Annual Debt Service Coverage: (Income + provision for depreciation + interest expense + (gain)loss on disposal of equipment + loss(gain) on interest rate swaps + unrealized loss(gain) on investments + loss on extinguishment of debt) divided by maximum annual debt service.

Debt to Capitalization: Long-term debt, including current maturities, divided by net assets + long-term debt, including current maturities.

Operating Cash Flow Margin: (Income from operations + interest expense + provision for depreciation) divided by total operating revenues.

Net Operating Margin: Income from operations divided by total operating revenues.

EBITDA Margin: Operating Income + investment income + interest expense + provision for depreciation + provision for taxes divided by total operating revenues + investment income.