

Woman's 
Hospital

2017
Financial Statements

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

CONTENTS

	<u>Page</u>
<u>Independent Auditors' Report</u>	1 - 2
<u>Consolidated Financial Statements</u>	
Balance Sheets	3 - 4
Statements of Operations	5 - 6
Statements of Changes in Net Assets	7 - 8
Statements of Cash Flows	9 - 10
Notes to Financial Statements	11 - 32

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Woman's Hospital Foundation
d/b/a Woman's Hospital
Baton Rouge, Louisiana

Report on Financial Statements

We have audited the accompanying consolidated financial statements of The Woman's Hospital Foundation, d/b/a Woman's Hospital (the Hospital), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements referred to on the previous page present fairly, in all material respects, the consolidated financial position of The Woman's Hospital Foundation, d/b/a Woman's Hospital, as of September 30, 2017 and 2016, and the results of its consolidated operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Postlethwaite & Netterville

Baton Rouge, Louisiana
January 24, 2018

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016

ASSETS

	2017	2016
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 184,130,184	\$ 172,628,297
Short-term investments	25,748,729	25,532,752
Total cash and short-term investments	209,878,913	198,161,049
Assets limited as to use	4,999,028	11,505,747
Patient accounts receivable, net of allowances for doubtful accounts of \$8,124,617 at 2017 and \$6,929,028 at 2016	32,249,722	32,223,643
Estimated third-party payor settlements	2,069,105	1,803,993
Inventories	4,289,096	3,721,306
Other current assets	9,640,045	9,131,787
Total current assets	263,125,909	256,547,525
<u>ASSETS LIMITED AS TO USE</u>		
Held by trustee in accordance with bond indentures	2,814,238	30,881,226
Held by the Baton Rouge Area Foundation on behalf of the Hospital and the Foundation for Woman's	989,817	1,001,654
Internally designated for Founders and Friends	6,261,641	5,282,725
Donor restricted for capital improvements	1,250,000	1,250,000
Certificates of deposit	742,867	740,715
Internally designated for funded depreciation	174,150,981	156,461,994
Total assets whose use is limited	186,209,544	195,618,314
Less: amounts required to meet current liabilities	(4,999,028)	(11,505,747)
Noncurrent assets whose use is limited	181,210,516	184,112,567
<u>PROPERTY AND EQUIPMENT, net</u>	382,806,005	366,115,905
<u>OTHER ASSETS</u>		
Goodwill	6,935,210	8,001,220
Other	4,093,583	3,313,582
Total other assets	11,028,793	11,314,802
TOTAL ASSETS	\$ 838,171,223	\$ 818,090,799

The accompanying notes are an integral part of these consolidated statements.

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
<u>CURRENT LIABILITIES</u>		
Current portion of long-term debt	\$ 2,090,000	\$ 4,017,283
Accrued interest payable	2,909,028	7,488,464
Accounts payable	5,001,844	3,558,965
Accrued expenses	28,306,113	26,348,434
Accrued contribution for the defined contribution plan	2,354,155	2,495,867
Estimated third-party payor settlements	200,000	200,000
Other current liabilities	924,275	210,791
Credit balances in patient accounts receivable	1,398,273	1,484,063
Total current liabilities	<u>43,183,688</u>	<u>45,803,867</u>
<u>LONG - TERM DEBT, net of current portion</u>		
Long-term debt, net of current portion	304,285,000	316,870,000
Unamortized bond premium (discount)	25,348,993	(4,255,269)
Less: deferred financing costs	(1,678,149)	(3,759,451)
Total long-term debt	<u>327,955,844</u>	<u>308,855,280</u>
<u>NET ASSETS</u>		
Controlling interest:		
Unrestricted net assets	462,884,427	459,364,572
Temporarily restricted net assets	1,154,317	1,066,708
Permanently restricted net assets	1,250,000	1,250,000
Total controlling interest	<u>465,288,744</u>	<u>461,681,280</u>
Noncontrolling interest	1,742,947	1,750,372
Total net assets	<u>467,031,691</u>	<u>463,431,652</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 838,171,223</u>	<u>\$ 818,090,799</u>

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
<u>OPERATING REVENUES</u>		
Patient service revenues, net of contractual allowances	\$ 275,588,520	\$ 274,749,447
Less: provision for doubtful accounts	4,164,885	6,579,592
Net patient service revenue	271,423,635	268,169,855
Other operating revenues	17,158,733	17,498,091
Investment revenues	5,997,935	2,948,131
Total operating revenues	294,580,303	288,616,077
<u>OPERATING EXPENSES</u>		
Salaries, wages, and FICA	133,897,654	126,409,485
Employee benefits	20,462,386	20,429,795
Medical supplies and drugs	27,493,632	27,722,143
Other operating expenses	51,653,759	51,473,551
Total operating expenses before depreciation, amortization, interest, and goodwill impairment	233,507,431	226,034,974
Depreciation and amortization	17,608,503	20,125,747
Interest expense	14,936,545	15,837,536
Goodwill impairment	1,066,010	-
Loss on extinguishment of debt	41,179,568	-
Total operating expenses	308,298,057	261,998,257
INCOME FROM OPERATIONS	(13,717,754)	26,617,820

The accompanying notes are an integral part of these consolidated statements.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
INCOME FROM OPERATIONS	\$ (13,717,754)	\$ 26,617,820
Philanthropy	2,201,234	2,212,311
Other revenues, net	<u>2,057,393</u>	<u>7,049,708</u>
	<u>4,258,627</u>	<u>9,262,019</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(9,459,127)	35,879,839
Unrealized gains on investment securities	13,025,364	11,315,610
Less: increase in unrestricted net assets attributable to noncontrolling interest	<u>(46,382)</u>	<u>(59,108)</u>
INCREASE IN UNRESTRICTED NET ASSETS	3,519,855	47,136,341
Net increase in temporarily restricted net assets	<u>87,609</u>	<u>(149,522)</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO THE WOMAN'S HOSPITAL FOUNDATION	3,607,464	46,986,819
Increase in net assets attributable to noncontrolling interest	<u>46,382</u>	<u>59,108</u>
INCREASE IN NET ASSETS	<u>\$ 3,653,846</u>	<u>\$ 47,045,927</u>

The accompanying notes are an integral part of these consolidated statements.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	Controlling Interest		
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
Balance at September 30, 2015	\$ 412,228,231	\$ 1,216,230	\$ 1,250,000
Increase (decrease) in net assets for the year ended September 30, 2016	47,136,341	(149,522)	-
Distributions to noncontrolling interest	-	-	-
Balance at September 30, 2016	459,364,572	1,066,708	1,250,000
Increase (decrease) in net assets for the year ended September 30, 2017	3,519,855	87,609	-
Distributions to noncontrolling interest	-	-	-
Balance at September 30, 2017	\$ 462,884,427	\$ 1,154,317	\$ 1,250,000

The accompanying notes are an integral part of these consolidated financial statements.

<u>Total Controlling Interest</u>	<u>Noncontrolling Interest</u>	<u>Total</u>
\$ 414,694,461	\$ 1,719,244	\$ 416,413,705
46,986,819	59,108	47,045,927
-	<u>(27,980)</u>	<u>(27,980)</u>
461,681,280	1,750,372	463,431,652
3,607,464	46,382	3,653,846
-	<u>(53,807)</u>	<u>(53,807)</u>
<u>\$ 465,288,744</u>	<u>\$ 1,742,947</u>	<u>\$ 467,031,691</u>

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Increase in net assets	\$ 3,653,846	\$ 47,045,927
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:		
Depreciation	17,574,796	17,733,692
Amortization	33,707	2,392,055
Goodwill impairment	1,066,010	-
Loss on extinguishment of debt	41,179,568	-
Net unrealized (gains) losses on securities	(13,025,364)	(11,315,610)
Realized gains on sales of securities	(3,130,386)	(76,530)
Loss on sales of property and equipment	28,884	671,056
Provision for doubtful accounts	4,164,885	6,579,592
Changes in operating assets and liabilities:		
Patient accounts receivable	(4,276,754)	(3,203,384)
Inventories	(567,790)	(237,208)
Other current assets	(508,258)	(846,616)
Other assets	(780,001)	(451,375)
Estimated third-party payor settlements	(265,112)	(1,566,849)
Accounts payable	1,442,879	669,890
Accrued expenses and other liabilities	2,529,451	(5,397,922)
Interest payable	(4,579,436)	(1,771,376)
Net cash provided by operating activities	44,540,925	50,225,342
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Acquisitions of property and equipment	(34,530,910)	(12,737,096)
Acquisition of assets and intangibles	-	(831,020)
Net sales (purchases) of short-term investments	(215,977)	(200,670)
Net sales (purchases) of investments whose use is limited	25,564,520	535,766
Proceeds from sales of property and equipment	237,130	1,165,785
Net cash provided by (used in) investing activities	(8,945,237)	(12,067,235)

The accompanying notes are an integral part of these consolidated statements.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Principal payments on long-term debt	\$ (24,039,994)	\$ (69,245,000)
Proceeds from issuance of long-term debt	-	63,605,000
Payment of debt issuance costs	-	(286,279)
Distributions paid to noncontrolling interest	(53,807)	(27,980)
Repayment of capital leases	-	(28,465)
Net cash used in financing activities	(24,093,801)	(5,982,724)
Net increase in cash and cash equivalents	11,501,887	32,175,383
Cash and cash equivalents at beginning of year	172,628,297	140,452,914
Cash and cash equivalents at end of year	\$ 184,130,184	\$ 172,628,297
 <u>Supplemental disclosure of cash flow information:</u>		
Cash paid during the year for interest	\$ 19,515,981	\$ 17,608,912
 Cash and cash equivalents	 \$ 184,130,184	 \$ 172,628,297
Short-term investments	25,748,729	25,532,752
Total cash, cash equivalents, and short-term investments	\$ 209,878,913	\$ 198,161,049

The accompanying notes are an integral part of these consolidated statements.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

1. Summary of significant accounting policies

The accounting and reporting policies of The Woman's Hospital Foundation, d/b/a Woman's Hospital (the Hospital), conform to the accounting principles generally accepted in the United States and the prevailing practices within the healthcare industry. The significant accounting policies used by the Hospital in preparing and presenting its consolidated financial statements are summarized as follows:

Organization

The Woman's Hospital Foundation, d/b/a Woman's Hospital (the Hospital), is a private not-for-profit healthcare organization located in Baton Rouge, Louisiana. The Hospital operates a specialized facility which provides obstetric, gynecological, breast health, newborn, and neonatal services for women, infants, and children in Baton Rouge and surrounding areas. Admitting physicians are primarily practitioners in the local area.

The Hospital is the sole member of the Foundation for Woman's (the Foundation) which was organized for the purposes of promoting the welfare of the Hospital and increasing the usefulness of the Hospital to Baton Rouge and the surrounding areas.

The Hospital also holds a greater than 50% interest in both Woman's Retail Ventures, LLC and Stumberg Land, LLC. These companies are limited liability companies owned by Woman's Hospital and outside investors that are primarily physicians.

Basis of presentation

The consolidated financial statements include the accounts of the Woman's Hospital Foundation, d/b/a Woman's Hospital, its 100% owned subsidiaries, The Woman's Hospital Auxiliary and the Foundation for Woman's; and majority interests in Woman's Retail Ventures, LLC, and Stumberg Land, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents includes checking accounts, savings accounts, money market funds, and certain investments in highly liquid debt instruments which had maturities of three months or less at the date of purchase.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

1. Summary of significant accounting policies (continued)

Short-term investments

Short-term investments include money market funds and fixed income securities that the Hospital has set aside to meet its current operating needs. These investments are measured at their fair value in the consolidated balance sheets.

Investments and investment income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at their fair value in the consolidated balance sheets. For those investments where quoted market prices are unavailable, management estimates fair value based on information provided by the fund managers. Donated investments are recorded at their market value at the date of receipt, which is then treated as cost.

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in income from operations unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from income from operations unless the investments are trading securities.

Assets limited as to use

Assets limited as to use primarily include assets held by trustees under indenture agreements, assets whose use are restricted to specific purposes by donors, designated assets set aside by the Board of Directors for future capital improvements, and assets designated for Founders and Friends over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been classified as current assets in the consolidated balance sheets.

Patient accounts receivable

The Hospital provides credit in the normal course of operations to patients located primarily in Baton Rouge and the surrounding areas and insurance companies conducting operations in these areas.

The Hospital maintains an allowance for doubtful accounts based on management's assessment of collectability. The Hospital determines if patient accounts receivable are past-due based on the original bill date; however, the Hospital does not charge interest on past-due accounts. The Hospital writes off patient accounts receivable if management considers the collection of the outstanding balances to be doubtful.

Inventories

Inventories consist primarily of medical supplies and drugs, and are stated at the lower of cost (first-in, first-out method) or market.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

1. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are stated at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that increase the values or extend the lives of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 40 years.

When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gains and losses are recognized in the Hospital's yearly operations. The Hospital recognizes an impairment loss on property and equipment if the carrying amount is not recoverable and exceeds its fair value.

Goodwill

Goodwill, which represents the excess of the cost over the net tangible and identifiable intangible assets of acquired businesses, is stated at cost and is not being amortized.

The Hospital evaluates the goodwill for potential impairment and recorded an impairment of goodwill of approximately \$1,066,000 during the year ended September 30, 2017.

Costs of borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Debt issuance costs

The Hospital has adopted Accounting Standards Update (ASU) 2015-03, *Interest-Imputation of Interest*, which was issued by the Financial Accounting Standards Board (FASB) to simplify the presentation of debt issuance costs. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the consolidated balance sheets as a direct reduction from the carrying amount of the debt liability. Deferred costs are amortized to interest expense over the term of the related debt.

Temporarily and permanently restricted net assets

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

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

1. Summary of significant accounting policies (continued)

Income from operations

Operating revenues include, but are not limited to, patient revenues, child care center revenues, dietary and cafeteria revenues, fitness center revenues, graphic services, retail revenues, rental revenues, and interest, dividends and realized gains and losses on the sales of investment securities. Changes in unrestricted net assets, which are excluded from income from operations, include unrealized gains and losses on investments from other than trading securities, Low Income Needy Care Collaborative revenues, contributions, restricted investment income, and other non-operating activities.

Incentive payments received in connection with the implementation of electronic health records, which totaled approximately \$210,000 and \$16,000 for the years ended September 30, 2017 and 2016, respectively are included in other operating revenues.

Net patient service revenue and third party settlements

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period that the related services are rendered and adjusted in future periods as final settlements are determined. Discounts are available to uninsured patients.

The Hospital follows the Accounting Standards Update (ASU) 2011-07, *Healthcare Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Healthcare Entities*, which requires certain healthcare entities to present the provision for doubtful accounts relating to patient service revenue as a deduction from patient service revenue in the consolidated statements of operations rather than as an operating expense.

The Hospital applies the principles surrounding balance sheet offsetting; as such, the third party receivables and payables are presented separately on the accompanying consolidated balance sheets.

Charity care

The Hospital provides care to patients who meet certain criteria established under its charity care policy without charge or at rates substantially lower than its prevailing rates. The Hospital follows Accounting Standards Update (ASU) 2010-23, *Measuring Charity Care for Disclosure*, which requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

1. Summary of significant accounting policies (continued)

Donor-restricted gifts

Unconditional promises to give cash and other assets to the Hospital are reported at their fair values at the date the promises are received. Conditional promises to give and indications of intentions to give are reported at their fair values at the date the gifts are received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received, are reported as unrestricted contributions in the accompanying consolidated financial statements.

Professional liability claims

Through the Louisiana Hospital Association Professional and General Liability Insurance Funds, the Hospital maintains insurance for protection from losses resulting from professional liability claims. Except for a \$9,500,000 umbrella policy, which is written on a claims made basis, all other policies are on an occurrence basis. The Hospital has not experienced material losses from professional liability claims in the past.

Advertising

The Hospital expenses the cost of advertising as incurred. Total advertising expenses were approximately \$1,106,000 and \$1,081,000 for the years ended September 30, 2017 and 2016 respectively.

Income taxes

The Hospital and the Foundation are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes on related income has been included in the consolidated financial statements.

For income tax purposes, Woman's Retail Ventures, LLC and Stumberg Land, LLC are treated as partnerships. The members of Woman's Retail Ventures, LLC and Stumberg Land, LLC are taxed individually based on their proportionate unit share of their taxable income. As such, no provision is made for income taxes in the accompanying consolidated financial statements.

The Hospital applies the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Hospital recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. The Hospital has evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

1. Summary of significant accounting policies (continued)

Accounting pronouncements issued but not yet adopted

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, the number of net asset classes is reduced from three to two; enhanced disclosure of underwater endowments is required; reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature is required; and qualitative information in the notes to the financial statements on how the organization manages its liquid available resources and liquidity risk is required. This standard is effective for fiscal years beginning after December 15, 2017. Early application of this standard is permitted.

ASU 2014-09, *Revenue from Contracts with Customers*, was issued to update the revenue recognition standard in order to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. This standard will be effective for fiscal years beginning after December 15, 2017.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements in excess of 12 months on the statements of financial position and to provide additional disclosures. This standard is effective for fiscal years beginning after December 15, 2018.

The Hospital is currently assessing the impact of these pronouncements on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform with the 2017 presentation.

2. Net patient service revenue

The Hospital has agreements with governmental payors, other third-party payors, and self-pay payors for payments to the Hospital at amounts different from its established rates. Contractual adjustments represent the differences between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors and self-pay payors. A summary of the basis of reimbursement follows:

- *Medicare* - inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge that include defined capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Hospitals that serve large populations of low-income patients are eligible for additional reimbursement to compensate for higher operating costs associated with the treatment of these patients. Disproportionate share payments approximated \$5,330,135 and \$8,164,000 for years ended September 30, 2017 and 2016, respectively.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

2. Net patient service revenue (continued)

- *Medicaid* - inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate-per-diem. These rates vary according to a patient classification system that is based on level of care and other factors. Certain extraordinary inpatient costs for children under the age of six are eligible for additional reimbursement. Disproportionate share payments to hospitals with high Medicaid utilization and unrecovered costs approximated \$250 and \$230,000 for the years ended September 30, 2017 and 2016 respectively.

Outpatient services are reimbursed at a prospectively determined fee schedule. For the small number of outpatient services where no fee schedule has been developed, outpatient services are paid based on a cost reimbursement methodology. The Hospital is paid for cost reimbursable items at a tentative rate, with final settlement determined after submission of an annual cost report by the Hospital and an audit thereof by the Medicaid fiscal intermediary.

- *Commercial and HMO* - the Hospital has entered into agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The payment methodology under these agreements is primarily percentage of billed charges.
- *Self-Pay* - the Hospital provides financial assistance to qualified applicants based on federal poverty level guidelines. Uninsured patients who do not qualify for financial assistance are eligible to receive a prepay discount.

Amounts receivable or payable under reimbursement agreements with the Medicare and Medicaid programs are subject to examination and retroactive adjustments. Provisions for estimated retroactive adjustments under such programs are provided for in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Hospital had estimated receivables of approximately \$2,069,000 and \$1,804,000 and estimated payables of \$200,000 at both September 30, 2017 and 2016. As of September 30, 2017, tentative settlements subject to audit had been made by the Medicaid program for all years ended through September 30, 2011, and tentative settlements had been made by the Medicare program for all years ended through September 30, 2016.

Since the laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Effective April 15, 2013, the Hospital entered into a Cooperative Endeavor Agreement (CEA) with the State of Louisiana Department of Health and Hospitals (DHH). The stated purposes of the CEA are to (a) provide healthcare services to the uninsured and high-risk Medicaid populations; (b) provide services that might not be otherwise available in the community; and (c) preserve the quality and quantity of medical education in Louisiana. As part of the CEA, the Hospital took over operations of the obstetrics and gynecology clinic (the Clinic) that was previously operated by Louisiana State University (LSU).

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

2. Net patient service revenue (continued)

Through June 30, 2016, the CEA stipulated that the Hospital would be paid 100% of its unreimbursed allowable costs associated with services provided to patients, whether insured or uninsured, of the LSU Graduate Medical Education (GME) programs and the Clinic, including patients of the neonatal intensive care unit born to patients of the LSU GME programs or the Clinic; its unreimbursed allowable cost for all costs associated with the LSU GME programs; and the cost of providing medically necessary internal medicine consultations and hospital based physician services to patients of the LSU GME programs or the Clinic when such services are not reimbursable by another payer. DHH was required to make quarterly interim payments to the Hospital in the amount of \$2.1 million based on an initial cost analysis. Upon completion of the Hospital's annual Medicaid cost report, a reconciliation was performed to determine if the Hospital's unreimbursed allowable costs exceeded the interim payments, at which time DHH would make an additional payment to the Hospital.

Effective July 1, 2016, the Hospital signed a Memorandum of Understanding (MOU) with the State of Louisiana, through the Division of Administration and Louisiana Department of Health. The MOU changed the payment method from 100% of its unreimbursed allowable costs associated with services provided to patients, whether insured or uninsured, of the LSU Graduate Medical Education (GME) programs and the obstetrics and gynecology clinic that was previously operated by Louisiana State University. Under the terms of the MOU, the Hospital was paid \$9,418,625 for services rendered under the CEA between July 1, 2016 and June 30, 2017. The Hospital was paid this amount regardless of substantiated allowable costs as defined in the underlying CEA. The payment timing and structure remained the same as agreed upon in the CEA. Quarterly payments to Hospital were \$2,377,264.

Effective July 1, 2017, the Hospital signed a MOU with the State of Louisiana through the Division of Administration and Louisiana Department of Health. Under the terms of the MOU, the Hospital will be paid \$10,203,122 for services rendered under the CEA between July 1, 2017 and June 30, 2018. The hospital will be paid this amount regardless of substantiated allowable costs as defined in the underlying CEA. Quarterly payments to the hospital will be \$2,550,781.

The Hospital recognized \$13,278,000 and \$8,675,000 under the CEA agreement for the years ended September 30, 2017 and 2016, respectively. Of these amounts, \$11,733,000 and \$7,320,000 are reported as reduction to contractual allowances while \$1,545,000 and \$1,355,000 are reported as other operating revenue during the years ended September 30, 2017 and 2016, respectively. Outstanding liabilities relating to this agreement totaled approximately \$1,979,000 at September 30, 2017.

Presented below is a summary of total net patient service revenue for the years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue	\$ 486,674,299	\$ 485,399,329
Less: contractual allowances	(211,085,779)	(210,649,882)
Less: provision for doubtful accounts	<u>(4,164,885)</u>	<u>(6,579,592)</u>
Net patient service revenue	<u>\$ 271,423,635</u>	<u>\$ 268,169,855</u>

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

3. Patient accounts receivable

A summary of the patient accounts receivable at September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Patient accounts receivable	\$ 52,000,207	\$ 52,247,538
Estimated allowance for doubtful accounts	(8,124,617)	(6,929,028)
Estimated allowance for contractual adjustments	(11,625,868)	(13,094,867)
Net patient accounts receivable	<u>\$ 32,249,722</u>	<u>\$ 32,223,643</u>

4. Investments

The composition of assets limited as to use at September 30, 2017 and 2016, is set forth in the following tables:

	<u>2017</u>	<u>2016</u>
Assets held by the trustee in accordance with bond indenture agreements:		
Cash and cash equivalents	\$ 2,814,238	\$ 8,435,531
U. S. Government agencies	-	22,445,695
	<u>\$ 2,814,238</u>	<u>\$ 30,881,226</u>
Assets held by the Baton Rouge Area Foundation on behalf of the Hospital	<u>\$ 989,817</u>	<u>\$ 1,001,654</u>
Assets internally designated by the Board of Directors for funded depreciation, and Founders and Friends:		
Cash and cash equivalents	\$ 145,412	\$ 133,493
Bond funds	10,601,271	9,877,726
Global bond funds	19,616,216	14,224,591
Equity funds	6,260,910	5,282,001
US large cap equities	18,561,021	16,359,694
US mid/small cap equities	7,091,422	6,278,410
Non US equities	16,397,943	15,441,882
Global equity	36,121,328	29,950,715
Emerging market equities	10,345,933	8,380,804
Commodities	9,961,468	11,838,332
Hedge funds	45,309,698	43,977,071
	<u>\$ 180,412,622</u>	<u>\$ 161,744,719</u>

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

4. Investments (continued)

	<u>2017</u>	<u>2016</u>
Assets restricted by donors for future capital improvements:		
Cash and cash equivalents	\$ 58,388	\$ 57,386
Bond funds	255,393	379,511
Global bond funds	119,313	-
US large cap equities	317,874	300,544
US mid/small cap equities	-	38,663
Non US equities	230,184	174,862
Global equities	52,198	50,246
Hedge funds	216,650	248,788
	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>

Investment income and gains for assets limited as to use, other investments, cash, and cash equivalents were comprised of the following during the years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 2,867,549	\$ 2,871,601
Net realized gains on sales of securities	3,130,386	76,530
Unrealized gains on securities	13,025,364	11,315,610
Total investment income	<u>\$ 19,023,299</u>	<u>\$ 14,263,741</u>

The following table presents the nature, characteristics, and risks on hedge funds as of September 30, 2017:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Long/short equity	\$ 8,442,926	-	> quarterly	≤ 90 days
Long/short equity	2,958,736	-	≤ quarterly	> 90 days
Long/short equity	34,124,686	-	≤ quarterly	≤ 90 days
Total	<u>\$ 45,526,348</u>	<u>\$ -</u>		

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

5. Property and equipment

Property and equipment consisted of the following at September 30, 2017 and 2016:

	2017	2016
Land and land improvements	\$ 14,853,876	\$ 14,712,268
Buildings	375,526,014	360,875,657
Movable and other equipment	98,328,468	87,502,624
	488,708,358	463,090,549
Less: accumulated depreciation	(120,310,617)	(103,976,858)
	368,397,741	359,113,691
Construction-in-progress	14,408,264	7,002,214
Property and equipment, net	\$ 382,806,005	\$ 366,115,905

Depreciation expense amounted to approximately \$17,577,000 and \$17,734,000 during the years ended September 30, 2017 and 2016, respectively.

6. Long-term debt

In February 2010, the Hospital completed an offering of \$319,520,000 of hospital revenue bonds - \$233,140,000 in Series 2010A and \$86,380,000 in Series 2010B. The proceeds of the Series 2010 Bonds were used, along with other available funds, (i) to finance the cost of designing, constructing, and equipping a replacement hospital facility/medical complex and replacement medical office building, (ii) to fund a deposit to the debt service reserve fund, (iii) to fund interest on the Series 2010 Bonds, and (iv) to pay the costs of issuance of the bonds.

The Series 2010 bonds were fixed rate serial bonds with rates ranging from 4.50% to 6.00% and were scheduled to mature on various dates from October 1, 2017, through October 1, 2044. These bonds were refunded during the year ended September 30, 2017.

In June 2017, the Hospital completed an offering of \$245,240,000 of hospital revenue bonds - \$225,305,000 in Series 2017A and \$19,935,000 in Series 2017B. The proceeds of the Series 2017 Bonds, together with other available funds of the Hospital, were used to (i) refund the outstanding Hospital Revenue Bonds (Series 2010A and 2010B Bonds) and (ii) pay the necessary costs in connection with the issuance of the Series 2017A Bonds. The Series 2017 bonds are fixed rate serial bonds with rates ranging from 2.00% to 5.00% and are scheduled to mature on various dates from October 1, 2018, through October 1, 2044.

Under the terms of the revenue bond indenture, the Hospital maintains certain deposits with a trustee. Such deposits are included with assets limited as to use. The revenue bond indenture also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding. The Hospital was in compliance with these covenants on September 30, 2017.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

6. Long-term debt (continued)

In December 2010, the Hospital replaced a taxable note with a tax-exempt note with Capital One in the amount of \$27,793,743. Interest on the tax-exempt note was payable at a variable interest rate equal to SIFMA plus 1.50%; however, the Hospital refinanced the note during September of 2015, and interest on the tax-exempt note became payable at a variable interest rate equal to SIFMA plus 0.85%. The note matured during the year ended September 30, 2017.

In October 2015, the Hospital borrowed additional funds from Capital One in order to refinance the portion of the Series 2010B Hospital Revenue Bonds that were callable as of October 1, 2015. This note bears interest at a variable rate equal to 65% of the One Month LIBOR plus 1.00% and requires monthly payments of principal and interest through its maturity in October of 2040.

A summary of long-term debt at September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) Hospital Revenue Bonds (Series 2017A and 2017B); due in annual installments through October 1, 2044, at interest rates ranging from 2.00% to 5.00%; secured by gross receipts and investments held by bond issuer	\$ 245,240,000	\$ -
Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) Hospital Revenue Bonds (Series 2010A and 2010B); due in annual installments through October 1, 2044, at interest rates ranging from 4.50% to 6.00%; secured by gross receipts and investments held by bond issuer	-	255,735,000
Capital One Tax-Exempt Note; due in installments through February 9, 2017, at a variable interest rate	-	2,102,283
Capital One Tax-Exempt Note; due in installments through October 1, 2040, at a variable interest rate	<u>61,135,000</u>	<u>63,050,000</u>
	306,375,000	320,887,283
Less: current portion of long-term debt	(2,090,000)	(4,017,283)
Unamortized bond premium (discount)	25,348,993	(4,255,269)
Less: debt issuance costs	<u>(1,678,149)</u>	<u>(3,759,451)</u>
Long-term debt, net of current maturities	<u>\$ 327,955,844</u>	<u>\$ 308,855,280</u>

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

6. Long-term debt (continued)

The long-term debt is scheduled to mature as follows:

Year ending September 30 th	Amount
2018	\$ 2,090,000
2019	6,935,000
2020	7,070,000
2021	7,220,000
2022	7,385,000
Thereafter	275,675,000
	306,375,000
Less: current portion of long-term debt	(2,090,000)
Less: debt issuance costs	(1,678,149)
Plus: unamortized bond premium	25,348,993
Total long-term debt, net	\$ 327,955,844

7. Insurance programs

Any exposure under \$100,000 for professional liability is covered by the Louisiana Hospital Association Insurance Funds. Additional professional liability coverage is provided by the Louisiana Patient's Compensation Fund up to the present statutory maximum of \$500,000 per claim (exclusive of additional amounts for future medical expenses provided by law). The preceding policies are on an occurrence basis. A commercial umbrella policy for an additional \$9,500,000 per claim with an aggregate of \$9,500,000 (claims-made), has been provided by the LHA Insurance Funds.

Any exposure under \$500,000 for general liability is covered by the Louisiana Hospital Association Insurance Funds.

The Hospital is self-insured for group health insurance and workers' compensation insurance. The liability for workers' compensation exposure is limited to the deductible of its excess workers' compensation policy of \$550,000 per claim. The Hospital has reflected its estimate of the ultimate liability for known and incurred but not reported claims in the accompanying financial statements.

8. Pension plans

The Hospital has a defined contribution retirement plan which covers substantially all employees. For all employees hired prior to October 1, 2011, the Hospital contributes a percentage of the participant's annual income based on years of credited service. Employees who have completed three years of service with 1,000 eligible hours per year are 100% vested in the Employer Contribution Plan. Contributions are deposited in participants' accounts after the end of each plan year. Expenses related to this plan totaled approximately \$2,500,000 and \$2,725,000 for the years ended September 30, 2017 and 2016, respectively.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

8. Pension plans (continued)

The Hospital's plan also allows for contributions to a tax deferred annuity to be matched by the Hospital on a percentage of compensation that an eligible employee elects to contribute. Eligible participants receive a matching percentage on the first ten percent of the salary they contribute to the 403(b), based on years of service. The Hospital's matching contributions for this plan totaled approximately \$3,549,000 and \$3,419,000 for the years ended September 30, 2017 and 2016, respectively.

The Hospital also has a 457(b) Deferred Compensation Plan. Eligible participants are allowed to make pre-tax salary deferral contributions, up to the statutory limits.

9. Business and credit concentrations

Financial instruments which potentially subject the Hospital to concentrations of credit risk consist principally of unsecured accounts receivable and temporary cash investments. The Hospital maintains several accounts at local financial institutions. The balances, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. Management believes the credit risk associated with these deposits is minimal.

The Hospital grants credit to patients, substantially all of whom are regional residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, and commercial insurance policies).

The mix of receivables from patients and third-party payors at September 30, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Medicare	3.4%	2.2%
Medicaid	14.4%	14.6%
Commercial insurance and managed care organizations	54.4%	52.6%
Self-pay patients and other	<u>27.8%</u>	<u>30.6%</u>
	<u>100.00%</u>	<u>100.00%</u>

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

10. Leases

The Hospital leases various pieces of equipment and operating facilities under operating leases which expire at various dates through September 2021, as well as several leases that are month to month. Rental expenses totaled approximately \$872,000 and \$831,000 during the years ended September 30, 2017 and 2016, respectively.

The following is a schedule, by year, of approximate future minimum lease payments required under all of these operating leases which have initial or remaining non-cancelable lease terms in excess of one year:

<u>Year ending</u> <u>September 30th</u>	<u>Amount</u>
2018	\$ 467,000
2019	448,000
2020	304,000
2021	327,000

The Hospital leases office space and clinical facilities, generally to members of its medical staff, under operating leases whose terms range from one to five years. Assets held for lease consisted of buildings and improvements with original costs totaling approximately \$36,425,000, and accumulated depreciation of the leased assets totaled approximately \$4,662,800 and \$3,723,000 at September 30, 2017 and 2016, respectively.

The approximate future minimum lease payments to be received from these leases during the next five years are as follows:

<u>Year ending</u> <u>September 30th</u>	<u>Amount</u>
2018	\$ 2,575,000
2019	2,677,000
2020	2,758,000
2021	2,842,000
2022	2,830,000
	<u>\$ 13,682,000</u>

11. Classification of expenses

The following table approximates the classification of operating expenses incurred during the years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Patient related services	\$ 167,579,000	\$ 161,692,000
General and administrative expenses	<u>140,707,000</u>	<u>100,306,000</u>
Total operating expenses	<u>\$ 308,286,000</u>	<u>\$ 261,998,000</u>

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

12. Disclosures about the fair value of financial instruments

The *Fair Value Measurements and Disclosures* topic of the FASB ASC establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value are described as follows:

- Level 1 - inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 - inputs for equity funds are based upon quoted prices for identical or similar instruments in markets that are not active, and structured investments are based on model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of assets or liabilities.
- Level 3 - inputs are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The asset or liability's fair-value measurement level within the fair-value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Money market funds / equity funds: valued at the daily closing price.

Government securities: valued at prices which are derived from a model which uses actively quoted rates prepayment models and other underlying credit and collateral data.

Bonds/ commodities: valued at the closing price reported in the active market in which the financial instrument is traded.

Hedge funds: the fair values of hedge funds are determined using the net asset value per share of the investment.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

12. Disclosures about the fair value of financial instruments (continued)

The following tables present the fair value at September 30, 2017 and 2016, for each of the fair-value hierarchy levels, of the Hospital's financial assets that are measured at fair value on a recurring basis.

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
September 30, 2017:			
<i>Short-term investments:</i>			
Money market funds	\$ 562,735	\$ -	\$ 562,735
Fixed income	-	25,185,994	25,185,994
<i>Assets limited as to use:</i>			
Money market	3,018,038	-	3,018,038
Bond funds	10,856,664	-	10,856,664
Global bond funds	19,735,529	-	19,735,529
Equity funds	6,260,910	989,817	7,250,727
US large cap equities	18,878,895	-	18,878,895
US mid/small cap equities	7,091,422	-	7,091,422
Non US equities	16,628,127	-	16,628,127
Global equities	36,173,526	-	36,173,526
Emerging market equities	10,345,933	-	10,345,933
Commodities	9,961,468	-	9,961,468
	<u>\$ 139,513,247</u>	<u>\$ 26,175,811</u>	<u>165,689,058</u>
Commingled funds (including hedge funds measured at net asset value) (a)			<u>45,526,348</u>
			<u>\$ 211,215,406</u>
September 30, 2016:			
<i>Short-term investments:</i>			
Money market funds	\$ 1,232,677	\$ -	\$ 1,232,677
Fixed income	-	24,300,075	24,300,075
<i>Assets limited as to use:</i>			
Money market	8,626,410	-	8,626,410
Government/Agency	22,445,695	-	22,445,695
Bond funds	10,257,237	-	10,257,237
Global bond funds	14,224,591	-	14,224,591
Equity funds	5,282,001	1,001,654	6,283,655
US large cap equities	16,660,238	-	16,660,238
US mid/small cap equities	6,317,073	-	6,317,073
Non US equities	15,616,744	-	15,616,744
Global equities	30,000,961	-	30,000,961
Emerging market equities	8,380,804	-	8,380,804
Commodities	11,838,332	-	11,838,332
	<u>\$ 150,882,763</u>	<u>\$ 25,301,729</u>	<u>176,184,492</u>
Commingled funds (including hedge funds measured at net asset value) (a)			<u>44,225,859</u>
			<u>\$ 220,410,351</u>

(a) - in accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts present in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

12. Disclosures about the fair value of financial instruments (continued)

Fair Value of Assets Measured on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis and therefore are not included in the tables above.

Limitations - fair value estimates are made at a specific point in time, based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following is a description of the valuation methodologies used for fair value disclosures. There have been no changes in the methodologies used at September 30, 2017 and 2016.

Cash and cash equivalents, short-term investments, net patient accounts receivable, other receivables, other assets, accounts payable, accrued interest payable, other accrued expenses, and estimated third-party payor settlements - the carrying amounts approximate fair value because of the short maturity of these instruments.

Assets limited as to use - the carrying amounts reported on the consolidated balance sheets are based on the fair value methodologies described above.

Long-term debt - the fair value of the Hospital's long-term debt is estimated based on current rates offered to the Hospital for borrowings with similar maturities.

The Hospital's financial instruments whose estimated fair value differs from its carrying amount are summarized as follows at September 30:

	<u>2017</u>		<u>2016</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Long-term debt	\$ 331,723,993	\$ 335,898,226	\$ 316,632,014	\$ 354,415,507

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

13. Endowment disclosure

The Hospital holds one endowment which is held in trust at a national financial institution. Appropriation of endowment assets for spending must be requested in writing to the trustee. The trustee has a committee that reviews all requests.

Changes in endowed net assets for the years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Endowment net assets - beginning of year	\$ 1,250,000	\$ 1,250,000
Investment Return:		
Investment income	27,444	31,055
Net appreciation (depreciation)	97,914	27,942
Transfer to unrestricted net assets	<u>(125,358)</u>	<u>(58,997)</u>
Endowment net assets - end of year	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>

14. Commitments and contingencies

The Hospital is involved in various legal actions and claims that arose as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Hospital. However, a small provision has been made in the consolidated financial statements related to these claims.

The Hospital has several income guarantees which are evidenced by note receivables from the physician to the Hospital. The notes are payable within twelve months after the guarantee period. Notes receivable on the income guarantees totaled approximately \$1,525,000 and \$1,145,000 at September 30, 2017 and 2016, respectively.

The Hospital has entered into several contracts in connection with the expansion and update of its facilities. The total estimated costs of these contracts is approximately \$31,420,000. The remaining balance on these contracts totaled approximately \$18,369,000 on September 30, 2017.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

15. Net assets

Temporarily restricted net assets at September 30, 2017 and 2016 were available to support the following programs and research grants:

	<u>2017</u>	<u>2016</u>
Employee emergency fund	\$ 28,748	\$ 49,502
Research	164,903	164,352
Disaster relief	120,187	70,516
NICU play area	52,076	52,076
Mobile mammography	125,854	489,612
NICU	223,425	104,014
Other	439,124	136,636
	<u>\$ 1,154,317</u>	<u>\$ 1,066,708</u>

16. Government sponsored insurance plans

The Hospital participates in government programs including Medicaid and Medicare. Under these programs, the Hospital provides care to patients at payment rates which are determined by the federal and state governments, regardless of actual cost. These programs pay the Hospital at amounts which are less than its cost of providing these services.

17. Service to the community (unaudited)

The Hospital is an active, caring member of the communities it serves. In carrying out its mission of improving the health of women and infants, the Board of Directors has established a policy under which the Hospital provides care to needy members of its communities. Following that policy, the Hospital provided health care services costing approximately \$2,312,000 and \$3,340,000 without charge during the years ended September 30, 2017 and 2016, respectively.

The table presented below summarizes the estimated losses incurred by the Hospital due to inadequate payments by this program and charity care provided:

	<u>2017</u>	<u>2016</u>
Charity care	\$ 2,312,000	\$ 3,340,000
Medicaid	22,816,000	20,252,000
Medicare	1,872,000	948,000
Financial assistance	2,735,000	1,256,000
	<u>\$ 29,735,000</u>	<u>\$ 25,796,000</u>

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

17. Service to the community (unaudited) - continued

In addition to community services directly associated with providing hospital-based care, the Hospital serves the community in numerous other ways. For example:

- The Hospital provided specialist and subspecialist physician call coverage for medical emergencies and clinical consultation for all patients at estimated costs to the Hospital of approximately \$1,754,000 and \$2,493,000 during the years ended September 30, 2017 and 2016, respectively.
- The Hospital employs certified lactation specialists to provide new mothers with the knowledge and skills necessary to give their babies the best possible start. Estimated costs associated with this program were approximately \$649,000 during the years ended September 30, 2017 and 2016.
- The Hospital's HIV Case Management program includes patient education, awareness of local community organizations, patient monitoring to ensure appointments are scheduled and prescriptions are filled, and documentation of outcomes. Estimated costs, net of grants received, associated with this program were approximately \$57,000 and \$60,000 during the years ended September 30, 2017 and 2016, respectively.
- To further enhance health services in our community, the Hospital provides subspecialty clinics for children, which includes cardiology, gastroenterology, genetics, nephrology, neurodevelopment, scoliosis, and urology services, as well as a diabetic clinic for adults. The unreimbursed costs for these clinics were \$671,000 and \$664,000 during the years ended September 30, 2017 and 2016, respectively.
- The Hospital employs hospitalists to care for patients in the Assessment Center. They perform medical screenings for patients and provide treatment as needed for emergent and non-emergent patients. The unreimbursed costs of the hospitalists were approximately \$3,482,000 and \$3,676,000 during the years ended September 30, 2017 and 2016, respectively.
- To assist in educating the community regarding health related issues, the Hospital sponsored 255 and 187 education programs during 2017 and 2016, respectively, in a variety of formats, including ongoing classes, health fairs, and outreach presentations. Estimated costs absorbed by the Hospital for these community programs were \$309,000 and \$322,000 during the years ended September 30, 2017 and 2016, respectively.
- The Hospital contributed \$5,000 and \$8,000 to Susan G. Komen during the years ended September 30, 2017 and 2016, respectively. This organization raises money to support breast cancer research.
- The Hospital contributed \$5,000 and \$7,000 during the years ended September 30, 2017 and 2016, respectively to the March of Dimes. This organization raises money to support programs aimed at improving the health of babies.

THE WOMAN'S HOSPITAL FOUNDATION
d/b/a WOMAN'S HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

17. Service to the community (unaudited) - continued

- The Hospital contributed \$122,000 and \$159,000 during the years ended September 30, 2017 and 2016, respectively, to support community service organizations.
- The Hospital provided other services at no charge to rape victims costing approximately \$102,000 and \$68,000 during the years ended September 30, 2017 and 2016 respectively.
- The Hospital supported research programs to improve the health of women and infants and contributed to the body of scientific knowledge at large. Estimated costs to support these programs were approximately \$732,000 and \$624,000 during the years ended September 30, 2017 and 2016, respectively.

The following table summarizes the community service costs from the above:

	2017	2016
Providing Benefits for Persons Living in the Community and State and Living in Poverty		
Charity care	\$ 2,312,000	\$ 3,340,000
Unreimbursed costs of Medicaid program	22,816,000	20,252,000
Unreimbursed costs of Medicare program	1,872,000	948,000
Subsidized health services		
Emergency services and clinical consultation	1,754,000	2,493,000
Lactation services	649,000	649,000
HIV case management	57,000	60,000
Subspecialty clinics	671,000	664,000
Unreimbursed hospitalists	3,482,000	3,676,000
Community education of health issues	309,000	322,000
Support of community service organizations		
Susan G. Komen	5,000	8,000
March of Dimes	5,000	7,000
Other grants and awards to service organizations	122,000	159,000
Subsidized health care		
Care for rape victims	102,000	68,000
Un-sponsored research	732,000	624,000
Total financial commitment	\$ 34,888,000	\$ 33,270,000

18. Subsequent events

Management has evaluated events through the date that the financial statements were available to be issued, January 24, 2018, and determined that no additional disclosures are necessary.