

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
DECEMBER 31, 2017 AND 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Saint Luke's Hospital of Trenton
d/b/a Wright Memorial Hospital

We have audited the accompanying financial statements of Saint Luke's Hospital of Trenton d/b/a Wright Memorial Hospital, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to previously present fairly, in all material respects, the financial position of Saint Luke's Hospital of Trenton d/b/a Wright Memorial Hospital as of December 31, 2017 and 2016, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Wendling Koe Nelson & Johnson LLC
Topeka, Kansas
May 15, 2018

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
BALANCE SHEETS
December 31,

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash	\$ 1,980,088	\$ 3,510,181
Patient accounts receivable, net of allowance for uncollectible accounts of \$1,400,624 in 2017 and \$1,024,651 in 2016	5,617,515	4,322,083
Other receivables	54,610	75,048
Due from affiliates	376,625	97,672
Estimated third-party payor settlements	2,219,723	1,524,202
Inventories	533,525	519,685
Prepaid expenses	<u>431,770</u>	<u>373,641</u>
Total current assets	11,213,856	10,422,512
BENEFICIAL INTEREST IN NET ASSETS OF FOUNDATION	157,579	156,312
PROPERTY AND EQUIPMENT, NET	2,769,192	2,736,238
OTHER ASSETS	<u> </u>	<u>17,333</u>
Total assets	<u>\$ 14,140,627</u>	<u>\$ 13,332,395</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable		
Trade	\$ 393,038	\$ 966,607
Due to affiliates	3,569,346	1,141,878
Estimated third-party payor settlements	984,362	707,903
Accrued salaries and benefits	377,467	350,267
Accrued compensated absences	<u>581,312</u>	<u>557,142</u>
Total current liabilities	5,905,525	3,723,797
DUE TO TRUSTEE	<u>1,370,359</u>	<u>1,370,359</u>
Total liabilities	<u>7,275,884</u>	<u>5,094,156</u>
NET ASSETS		
Unrestricted	6,707,164	8,081,927
Temporarily restricted	<u>157,579</u>	<u>156,312</u>
Total net assets	<u>6,864,743</u>	<u>8,238,239</u>
Total liabilities and net assets	<u>\$ 14,140,627</u>	<u>\$ 13,332,395</u>

The accompanying notes are an integral part of these statements.

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
STATEMENTS OF OPERATIONS
Year ended December 31,

	<u>2017</u>	<u>2016</u>
Unrestricted revenues, gains, and other support		
Patient service revenue	\$ 31,465,794	\$ 32,577,025
Provision for bad debts	<u>(2,449,219)</u>	<u>(2,660,535)</u>
Net patient service revenue	29,016,575	29,916,490
Other revenues	<u>651,422</u>	<u>598,659</u>
Total revenues, gains, and other support	<u>29,667,997</u>	<u>30,515,149</u>
Expenses		
Salaries and wages	10,885,868	11,214,335
Employee benefits	3,091,556	3,206,552
Purchased services, supplies, and other	16,290,133	15,650,584
Depreciation and amortization	<u>822,163</u>	<u>861,478</u>
Total expenses	<u>31,089,720</u>	<u>30,932,949</u>
Loss from operations	<u>(1,421,723)</u>	<u>(417,800)</u>
Other income and expense		
Investment income (loss)	(3,005)	2,553
Fundraising expenses	(23,637)	(61,309)
Other expenses	<u>(92,784)</u>	<u>(70,307)</u>
	<u>(119,426)</u>	<u>(129,063)</u>
Excess of expenses over revenues	(1,541,149)	(546,863)
Transfer from Foundation	871	161,335
Contribution of property and equipment	7,151	348,280
Affiliate transfers, net	144,530	20,323
Net assets released from restrictions used for acquisition of property and equipment	<u>13,834</u>	<u> </u>
Change in unrestricted net assets	<u>\$ (1,374,763)</u>	<u>\$ (16,925)</u>

The accompanying notes are an integral part of these statements.

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
STATEMENTS OF CHANGES IN NET ASSETS
Years ended December 31, 2017 and 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>
Net assets at December 31, 2015	\$ 8,098,852	\$ 296,695
Excess of expenses over revenues	(546,863)	
Transfer from Foundation	161,335	(161,335)
Contribution of property and equipment	348,280	
Affiliate transfers, net	20,323	
Change in beneficial interest in net assets of Foundation	<u> </u>	<u>20,952</u>
Net assets at December 31, 2016	8,081,927	156,312
Excess of expenses over revenues	(1,541,149)	
Transfer from Foundation	871	(871)
Contribution of property and equipment	7,151	(7,151)
Affiliate transfers, net	144,530	
Restricted donations		13,834
Net assets released from restrictions used for acquisition of property and equipment	13,834	(13,834)
Change in beneficial interest in net assets of Foundation	<u> </u>	<u>9,289</u>
Net assets at December 31, 2017	<u>\$ 6,707,164</u>	<u>\$ 157,579</u>

The accompanying notes are an integral part of these statements.

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended December 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ (1,373,496)	\$ (157,308)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	822,163	861,478
Loss on disposal of equipment		24,095
Provision for bad debts	2,449,219	2,660,535
Contribution of property and equipment	(7,151)	(348,280)
Undistributed portion of change in beneficial interest in net assets of Foundation	(2,138)	(20,952)
Changes in assets and liabilities		
Patient accounts receivable	(3,744,651)	(2,471,843)
Estimated third-party payor settlements	(419,062)	(948,500)
Inventories and other current assets	(48,587)	(41,648)
Accounts payable and accrued expenses	(376,421)	(12,329)
Due to and from affiliates	<u>2,148,515</u>	<u>921,868</u>
Net cash provided (used) by operating activities	<u>(551,609)</u>	<u>467,116</u>
Cash flows from investing activities		
Acquisition of property and equipment	(1,021,596)	(707,452)
Proceeds from sale of equipment	<u>42,241</u>	<u>25,649</u>
Net cash used by investing activities	<u>(979,355)</u>	<u>(681,803)</u>
Cash flows from financing activities		
Transfer of funds from Foundation	<u>871</u>	<u>161,335</u>
Net cash provided by financing activities	<u>871</u>	<u>161,335</u>
Net change in cash	(1,530,093)	(53,352)
Cash at beginning of year	<u>3,510,181</u>	<u>3,563,533</u>
Cash at end of year	<u>\$ 1,980,088</u>	<u>\$ 3,510,181</u>

The accompanying notes are an integral part of these statements.

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows. The preparation of 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 financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Organization

Saint Luke's Hospital of Trenton d/b/a Wright Memorial Hospital (the Hospital) is a not-for-profit corporation organized to operate an acute care hospital facility located in Trenton, Missouri. On April 1, 1995, the Hospital entered into an agreement (the Agreement) with Trenton Trust Company as trustee under an irrevocable trust agreement dated September 20, 1932 (the Trust). Trenton Trust Company, the original trustee for the Trust, has since been succeeded by Citizens Bank and Trust Company (the Trustee) as trustee for the Trust. The Trust, for many years, owned and operated Wright Memorial Hospital (WMH). It delegated to the Hospital the responsibility to operate WMH when the Agreement was executed. The Agreement required the Hospital to continue operating the hospital facility under the name of WMH. The Agreement also leased WMH's real estate, facilities, and equipment to the Hospital.

Saint Luke's Health System, Inc. (the System), is the sole voting member of the Hospital. The System is a not-for-profit Kansas corporation which operates an integrated health care delivery system serving the greater Kansas City metropolitan area and surrounding communities.

The Agreement had an initial term of ten years, although it could be terminated by either party after the second year of the Agreement with notice of termination one year prior to the intended termination date. During 2002, an amendment to the Agreement extended its term an additional five years from the original expiration date. The Agreement also provided an option to the Hospital to purchase the facility at an agreed-upon price at any time during the term of the Agreement. The System unconditionally guaranteed the obligations of the Hospital pursuant to the Agreement. The terms of the Agreement required the Hospital to make lease payments to the Trustee equal to 3 percent of adjusted operating revenue (adjusted for selected capital items and bad debt expense).

On September 2, 2009, the Agreement was amended and restated (Restated Agreement) in connection with the Trust incurring \$30,000,000 of debt to finance construction of a new hospital facility. The Restated Agreement is for an initial term of twelve years commencing on April 12, 2011, the date that the Hospital occupied the new facility. The obligations of the Trust, System, and Hospital remained in effect as stated in the Agreement until then. Effective on the date of occupancy, the Hospital makes lease payments to the Trustee equal to the Trust's regularly scheduled debt service payments required by the debt less any interest earned by bond reserve funds. The Restated Agreement provides the Hospital an option to purchase the new

SAINT LUKE'S HOSPITAL OF TRENTON
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

facility at an agreed-upon price at any time during the term of the Restated Agreement. The Hospital also has the option to extend the Restated Agreement for five additional periods of five years each with lease payments determined in the same manner as during the initial term.

In conjunction with the Agreement, the Hospital acquired the net working capital of WMH at the date of inception. A liability has been established for settlement of the acquisition of the net working capital. Payment of this obligation is due upon termination of the Agreement.

2. Allowance for uncollectible accounts

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

3. Inventories

Inventories are stated at the lower of cost or net realizable value with cost determined on the first-in, first-out method.

4. Beneficial interest in net assets of Foundation

Wright Memorial Hospital Foundation, Inc. (the Foundation), is a not-for-profit corporation established to raise funds to promote, advance, encourage, assist, and support the growth, development, and operation of WMH and the services provided by it. The Hospital and the Foundation are financially interrelated organizations. As such, the Hospital recognizes as an asset its interest in the net assets of the Foundation. At the end of each reporting period, it adjusts the interest for its share of the change in net assets of the Foundation occurring during that period. Transactions occurring between the two organizations have been eliminated during the preparation of these financial statements.

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

5. Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of property and equipment are included in purchased services, supplies, and other expenses.

6. Temporarily restricted net assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

7. Statement of operations

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as other income.

8. Net patient service revenue

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 the related services are rendered and adjusted in future periods as final settlements are determined.

9. Excess of expenses over revenues

The statement of operations includes *excess of expenses over revenues*. Changes in unrestricted net assets which are excluded from *excess of expenses over revenues*, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

10. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

11. Income taxes

The Hospital and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on their related income pursuant to Section 501(a) of the Code. Management is not aware of any uncertainties in income tax positions. For both entities, the years ended December 31, 2017, 2016, 2015, and 2014, remain subject to examination for both federal and state purposes.

12. Cash

For purposes of the statement of cash flows, cash includes all monies in banks and all liquid investments with original maturities of three months or less.

13. Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09, including subsequent amendments, is effective for the Hospital as of January 1, 2018.

The Hospital adopted ASU 2014-09 on January 1, 2018, using the modified retrospective method of transition. The Hospital's process for implementation began with a preliminary evaluation of ASU 2014-09 and considered subsequent interpretations by the FASB Transition Resource Group for Revenue Recognition and the American Institute of Certified Public Accountants. The Hospital performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for net patient service revenue, the Hospital performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what is currently classified as provision for bad debts and presented as a reduction to net patient service revenue on the statements of operations will be treated as a price concession that reduces the transaction price, which is reported as net patient service revenue. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The impact of adopting ASU 2014-09 is not material to total unrestricted revenues, excess of expenses over revenues or unrestricted net assets.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than twelve months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease.

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

This amends current guidance that requires only capital leases to be recognized on the lessee balance sheet. ASU 2016-02 will also require additional disclosures on the amount, timing, and uncertainty of cash flows arising from leases. The guidance is effective for the Hospital for reporting periods beginning after December 15, 2018, with early adoption permitted. The Hospital is currently evaluating the impact that ASU 2016-02 will have on its financial statements and will adopt the provisions upon the effective date.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities. This standard sets forth changes to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for the Hospital for annual reporting periods beginning after December 15, 2017, and interim periods beginning after December 15, 2018. The Hospital is currently evaluating the impact that ASU 2016-14 will have on its financial statements and will adopt the provisions upon the effective date.

In August 2016, the FASB issued guidance to clarify the classification of eight types of transactions in the statement of cash flows to reduce diversity in practices. The Hospital is required to adopt this new guidance for fiscal year 2019. Upon adoption, changes reflected in the financial statements will be presentation only.

14. Subsequent events

The Hospital has evaluated subsequent events through May 15, 2018, which is the date the financial statements were available to be issued. During this period there were no subsequent events requiring recognition or disclosure in the financial statements.

15. Reclassifications

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

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the balance sheets as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Services rendered to Medicare beneficiaries are paid based on varying cost reimbursement methodologies. The Hospital is paid for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE B - NET PATIENT SERVICE REVENUE - Continued

classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2016.

Medicaid - Hospital services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Rural health clinic services rendered to Medicaid beneficiaries are paid based on a cost reimbursement methodology.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates.

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

A summary of net patient service revenue follows:

	<u>2017</u>	<u>2016</u>
Gross patient service charges		
Inpatient	\$ 8,921,190	\$ 9,723,754
Outpatient	41,384,597	41,421,715
Rural health clinic	<u>4,121,298</u>	<u>5,086,842</u>
	54,427,085	56,232,311
Contractual adjustments	(22,090,458)	(22,699,337)
Charity care	<u>(870,833)</u>	<u>(955,949)</u>
Patient service revenue	31,465,794	32,577,025
Provision for bad debts	<u>(2,449,219)</u>	<u>(2,660,535)</u>
Net patient service revenue	<u>\$ 29,016,575</u>	<u>\$ 29,916,490</u>

Patient service revenue, net of contractual adjustments and charity care (but before the provision for bad debts), by major payor sources is as follows:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 17,424,673	\$ 15,208,930
Medicaid	2,339,542	5,251,644
Blue Cross	5,909,540	5,784,071
Other third-party payors	4,914,612	5,730,897
Patients	<u>877,427</u>	<u>601,483</u>
Patient service revenue	<u>\$ 31,465,794</u>	<u>\$ 32,577,025</u>

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE B - NET PATIENT SERVICE REVENUE - Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 55 percent and 7 percent, respectively, of patient service revenue net of contractual adjustments and charity care during 2017, and 47 percent and 16 percent, respectively, of patient service revenue net of contractual adjustments and charity care during 2016. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital is dedicated to providing both services and leadership in caring for the needy and accepts all patients regardless of ability to pay. The Hospital provides such care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the Hospital does not attempt to collect amounts initially determined to qualify as charity care, such charges are not included in net patient service revenue. The cost incurred in providing these services of approximately \$393,000 and \$545,000 during the years ended December 31, 2017 and 2016, respectively, is included in the Hospital's operating expenses, and is estimated using the Hospital's prior year overall cost-to-charge ratio. In addition, the Hospital provides care for medically indigent patients covered under the Medicaid welfare program at rates substantially below standard charges.

NOTE C - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Prior to any allowances for uncollectible accounts or contractual adjustments, the Hospital's allowance for uncollectible accounts on amounts due from patients equaled 13 percent and 14 percent of accounts receivable at December 31, 2017 and 2016, respectively. In addition, the Hospital's net bad debt write-offs were \$2,441,557 and \$2,478,854 for the years ended December 31, 2017 and 2016, respectively. The Hospital did not materially change its charity care or uninsured discount policies during the year ended December 31, 2017. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant bad debt write-offs from third-party payors.

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE D - BENEFICIAL INTEREST IN NET ASSETS OF FOUNDATION

The following is a summary of the assets, liabilities, net assets, revenues and expenses, and changes in net assets of the Foundation (significant intercompany balances and transactions have been eliminated):

	<u>2017</u>	<u>2016</u>
Cash	\$ 156,014	\$ 153,760
Pledges receivable	<u>1,565</u>	<u>2,552</u>
Total assets	<u>\$ 157,579</u>	<u>\$ 156,312</u>
Accounts payable	\$ 11	\$ -
Net assets		
Unrestricted	64,280	115,885
Temporarily restricted	<u>93,288</u>	<u>40,427</u>
Total liabilities and net assets	<u>\$ 157,579</u>	<u>\$ 156,312</u>
Revenues	\$ 43,295	\$ 80,640
Expenses	(34,016)	(59,688)
Transfer to the Hospital	(871)	(161,335)
Contribution of property and equipment	<u>(7,151)</u>	<u> </u>
Change in net assets	<u>\$ 1,257</u>	<u>\$ (140,383)</u>

NOTE E - PROPERTY AND EQUIPMENT

Under the Restated Agreement, the Trustee is responsible for all major replacements and major repairs of fixed assets, other than major movable equipment. The Hospital is responsible for any replacements or repairs of fixed assets, other than major movable equipment, that are not major. The Hospital is responsible for repair, purchase, or replacement of all movable equipment after the effective date of the Restated Agreement.

Property and equipment are summarized as follows:

	<u>2017</u>	<u>2016</u>
Major movable equipment	\$ 8,710,993	\$ 7,800,927
Less accumulated depreciation	<u>5,995,496</u>	<u>5,210,467</u>
	2,715,497	2,590,460
Construction in progress	<u>53,695</u>	<u>145,778</u>
Property and equipment, net	<u>\$ 2,769,192</u>	<u>\$ 2,736,238</u>

SAINT LUKE'S HOSPITAL OF TRENTON
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE F - RETIREMENT PLANS

The Hospital participates in a hard-frozen defined benefit pension plan sponsored by the System (the Plan). The Plan is a multiple-employer, cash-balance pension plan covering all eligible employees of certain System entities. Benefits are based on each participant's years of service and compensation. Plan assets are principally invested in U.S. government and agency securities, corporate bonds, equity securities, and temporary cash investments.

Contributions to the Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. The System expects to make a \$1.5 million contribution to the Plan in 2018. The System contributed \$1 million to the Plan in 2017 and did not make a contribution to the Plan in 2016.

The Hospital also participates in a tax-deferred 403(b) plan and a 401(a) defined contribution retirement plan sponsored by the System that covers substantially all employees meeting the eligibility requirements set forth under these plans. The Hospital makes mandatory contributions to the 401(a) plan from 2.0 percent to 4.0 percent of compensation based on years of service and matching contributions of 50 percent of employee contributions up to 4.0 percent for employees that contribute to the 403(b) plan.

The Hospital recorded expenses of \$323,070 and \$322,100 related to these plans during the years ended December 31, 2017 and 2016, respectively, which are included in employee benefits expenses in the statement of operations.

NOTE G - COMMITMENTS AND CONTINGENCIES

The Hospital leases real estate, facilities, and equipment under the Restated Agreement with the Trustee (see Note A1). The Hospital also rents a medical office building and various items of equipment under other agreements. All of these agreements are classified as operating leases.

Rental expense for all operating leases consisted of the following:

	<u>2017</u>	<u>2016</u>
Under the Restated Agreement	\$ 2,492,883	\$ 2,508,347
Medical office building	368,217	363,941
All other building and equipment rentals	<u>141,258</u>	<u>152,604</u>
	<u>\$ 3,002,358</u>	<u>\$ 3,024,892</u>

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NOTE G - COMMITMENTS AND CONTINGENCIES - Continued

Scheduled future minimum rental payments for noncancellable operating leases are as follows:

2018	\$ 2,920,064
2019	2,918,754
2020	2,917,662
2021	2,937,127
2022	2,940,430
Thereafter	<u>855,845</u>
	<u>\$ 15,489,882</u>

NOTE H - FUNCTIONAL EXPENSES

The Hospital provides general health care services to residents of its service area. Expenses related to providing these services are as follows:

	<u>2017</u>	<u>2016</u>
Health care services	\$ 25,943,223	\$ 26,151,146
General and administrative	<u>5,146,497</u>	<u>4,781,803</u>
	<u>\$ 31,089,720</u>	<u>\$ 30,932,949</u>

NOTE I - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is summarized as follows:

	<u>2017</u>	<u>2016</u>
Medicare	45.5%	36.6%
Medicaid	12.2	12.6
Blue Cross	8.9	7.2
Other third-party payors	16.7	16.5
Patients	<u>16.7</u>	<u>27.1</u>
	<u>100.0%</u>	<u>100.0%</u>

At December 31, 2017, the carrying amount of bank deposits was \$1,978,738 and the bank balances were \$1,981,742. Of the bank balances, \$372,125 was covered by federal depository insurance and \$1,609,617 was uninsured and uncollateralized. Management assesses the credit risk of the Hospital's primary financial institution on a quarterly basis and believes the risk associated with the uninsured bank deposits is minimal.

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NOTE J - MEDICAL MALPRACTICE INSURANCE

For the year ended December 31, 2017, the Hospital was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$2,000,000 per occurrence up to an annual aggregate of \$6,000,000 for all claims made during the policy year. The Hospital is also covered by an umbrella policy for liability in excess of the underlying limits set forth above in the amount of \$50,000,000 per occurrence with an aggregate amount in any policy year of \$50,000,000. All coverage is on a claims-made basis. As of December 31, 2017, the above policies are in effect through April 1, 2018. The Hospital intends to again renew coverage at that date and is aware of no reason why such coverage would be denied at that time.

No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under the Hospital's incident reporting system has been made because the amount is not reasonably estimable.

Based on historical experience and present conditions, it is the opinion of management that any claims or expenses for unasserted claims related to periods prior to December 31, 2017, will have no material effect on the financial statements of the Hospital.

NOTE K - RELATED PARTY TRANSACTIONS

The Hospital enters into transactions with affiliates. Supplies and other expenses during the years ended December 31, 2017 and 2016, include \$2,669,575 and \$2,600,000, respectively, of amounts paid to the System for shared expenses. The Hospital also purchases various services and supplies through the System and its other affiliates at cost. The amounts due to and from affiliates are summarized as follows:

	<u>2017</u>	<u>2016</u>
Due from affiliates		
Saint Luke's Health System, Inc.	\$ 257,422	\$ 90,325
Other inter-system balances	119,203	7,347
	\$ 376,625	\$ 97,672
Due to affiliates		
Saint Luke's Health System, Inc.	\$ 3,278,724	\$ 1,000,878
Other inter-system balances	290,622	141,000
	\$ 3,569,346	\$ 1,141,878