

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
DECEMBER 31, 2018 AND 2017



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Wendling Noe Nelson & Johnson LLC

Certified Public Accountants and Management Consultants

Heather R. Eichen, CPA · Brian J. Florea, CPA
John R. Helms, CPA · Eric L. Otting, CPA

Adam C. Crouch, CPA · Tyler R. Crow, CPA
Ashley R. Davis, CPA · Cameron L. Werth, CPA
Darrell D. Loyd, CPA · John E. Wendling, CPA
Jere Noe.

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, 2018 and 2017, 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, 2018 and 2017, 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.

Change in accounting principle

As discussed in Note A12 to the financial statements, management has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-9, "Revenue from Contracts with Customers," and FASB ASU 2016-14, "Presentation of Financial Statements for Not-For-Profit Entities." Our opinion is not modified with respect to these items.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
April 30, 2019

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

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash	\$ 2,508,577	\$ 1,980,088
Patient accounts receivable	4,294,182	5,617,515
Other receivables	88,514	54,610
Due from affiliates	279,704	376,625
Estimated third-party payor settlements	1,324,553	2,219,723
Inventories	545,705	533,525
Prepaid expenses	458,018	431,770
	9,499,253	11,213,856
BENEFICIAL INTEREST IN NET ASSETS OF FOUNDATION		
	177,082	157,579
PROPERTY AND EQUIPMENT, NET		
	2,458,309	2,769,192
	<u>\$12,134,644</u>	<u>\$14,140,627</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable		
Trade	\$ 799,985	\$ 393,038
Due to affiliates	378,512	3,569,346
Estimated third-party payor settlements	2,038,560	984,362
Accrued salaries and benefits	329,256	377,467
Accrued compensated absences	472,584	581,312
	4,018,897	5,905,525
DUE TO TRUSTEE		
	1,370,359	1,370,359
	<u>5,389,256</u>	<u>7,275,884</u>
NET ASSETS		
Without donor restrictions	6,568,306	6,707,164
With donor restrictions	177,082	157,579
	6,745,388	6,864,743
	<u>\$12,134,644</u>	<u>\$14,140,627</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>2018</u>	<u>2017</u>
Changes in net assets without donor restrictions		
Revenues, gains, and other support		
Patient service revenue	\$ 30,698,844	\$ 29,016,575
Other revenues	<u>408,878</u>	<u>651,422</u>
Total revenues, gains, and other support	<u>31,107,722</u>	<u>29,667,997</u>
Expenses		
Salaries and wages	11,069,177	10,885,868
Employee benefits	2,996,539	3,091,556
Purchased services, supplies, and other	16,473,969	16,290,133
Depreciation and amortization	<u>691,640</u>	<u>822,163</u>
Total expenses	<u>31,231,325</u>	<u>31,089,720</u>
Loss from operations	<u>(123,603)</u>	<u>(1,421,723)</u>
Other income and expense		
Investment income (loss)	267	(3,005)
Contributions	150	
Fundraising expenses	(17,981)	(23,637)
Other expenses	<u>(41,443)</u>	<u>(92,784)</u>
	<u>(59,007)</u>	<u>(119,426)</u>
Excess of expenses over revenues	(182,610)	(1,541,149)
Transfer from Foundation	22,835	871
Contribution of property and equipment		7,151
Affiliate transfers, net	20,917	144,530
Net assets released from restrictions used for acquisition of property and equipment		<u>13,834</u>
Change in net assets without donor restrictions	<u>\$ (138,858)</u>	<u>\$ (1,374,763)</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, 2018 and 2017

	<u>Without donor restrictions</u>	<u>With donor restrictions</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 contributions		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>9,289</u>
Net assets at December 31, 2017	6,707,164	157,579
Excess of expenses over revenues	(182,610)	
Transfer from Foundation	22,835	(22,835)
Affiliate transfers, net	20,917	
Change in beneficial interest in net assets of Foundation		<u>42,338</u>
Net assets at December 31, 2018	<u>\$ 6,568,306</u>	<u>\$ 177,082</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>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (119,355)	\$ (1,373,496)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	691,640	822,163
Provision for implicit price concessions	2,362,358	2,449,219
Contribution of property and equipment		(7,151)
Undistributed portion of change in beneficial interest in net assets of Foundation	(42,338)	(2,138)
Changes in assets and liabilities		
Patient accounts receivable	(1,039,025)	(3,744,651)
Estimated third-party payor settlements	1,949,368	(419,062)
Inventories and other current assets	(80,901)	(48,587)
Accounts payable and accrued expenses	246,532	(376,421)
Due to and from affiliates	(3,093,913)	2,148,515
Net cash provided (used) by operating activities	<u>874,366</u>	<u>(551,609)</u>
Cash flows from investing activities		
Acquisition of property and equipment	(368,712)	(1,021,596)
Proceeds from sale of equipment		<u>42,241</u>
Net cash used by investing activities	<u>(368,712)</u>	<u>(979,355)</u>
Cash flows from financing activities		
Transfer of funds from Foundation	<u>22,835</u>	<u>871</u>
Net cash provided by financing activities	<u>22,835</u>	<u>871</u>
Net change in cash	528,489	(1,530,093)
Cash at beginning of year	<u>1,980,088</u>	<u>3,510,181</u>
Cash at end of year	<u>\$ 2,508,577</u>	<u>\$ 1,980,088</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, 2018 and 2017

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 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.

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

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. Inventories

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

3. 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.

4. 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.

5. Net assets

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

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor or certain grantor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

6. 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.

7. Revenue

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. Other operating revenue is recognized at an amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration from customers, third-party payors, and others. Primary categories of other operating revenue include pharmacy revenue, grant revenue, cafeteria revenue, and other miscellaneous revenue.

8. Excess of expenses over revenues

The statement of operations includes *excess of expenses over revenues*. Changes in net assets without donor restrictions 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).

9. 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.

10. 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, 2018, 2017, 2016, and 2015, remain subject to examination for both federal and state purposes.

11. 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.

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

12. Adoption of accounting pronouncements

Effective January 1, 2018, the Hospital adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the full retrospective method of transition. This ASU converged and replaced existing revenue recognition guidance, including industry-specific guidance, and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled in an exchange of goods or services. The adoption of this ASU did not result in changes to previously reported revenues, other than presentation.

Effective January 1, 2018, the Hospital adopted FASB ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. This ASU changes certain financial statement requirements for not-for-profit entities in an effort to make the information more meaningful to users and reduce reporting complexity. The Hospital adopted the ASU and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented. The adoption of this ASU did not result in changes to previously reported net assets, other than presentation.

13. Forthcoming accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires the rights and obligations arising from lease contracts, including existing and new agreements to be recognized as assets and liabilities on the balance sheet. The ASU will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. This ASU is effective for the Hospital beginning January 1, 2019, and will be applied using a modified retrospective approach. The primary effect of adopting the ASU will be to record right-of-use assets and obligations for current operating leases. The Hospital is currently evaluating the effect of adoption on its financial statements.

14. Subsequent events

The Hospital has evaluated subsequent events through April 30, 2019, 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.

NOTE B - PATIENT SERVICE REVENUE

Patient service revenue is reported at the amount that reflects the consideration which the Hospital expects to be paid for providing patient care. Patient service revenue is recognized as performance obligations are satisfied based on the nature of the services provided.

Performance obligations are identified based on the nature of the services provided. Revenue associated with performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services. The Hospital measures the performance obligation from admission into the Hospital, to the point when there are no further services required for the patient,

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE B - PATIENT SERVICE REVENUE - Continued

which is generally at the time of discharge. For outpatient and physician clinic services, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed. In the case of outpatient and physician clinic services, recognition of the obligation over time yields the same results as recognizing the obligation at a point in time. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligations based on the inputs needed to satisfy the obligations.

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

The Hospital uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenues and types of services provided for outpatient revenues. Based on historical collection trends and analyses, the Hospital believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if the individual contract approach were used.

The Hospital determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with the Hospital's policy and implicit price concessions based on the historical collection experience of patient accounts. The Hospital determines the transaction price associated with services provided to patients who have third-party coverage based on reimbursement terms per contractual agreements, discount policies, and historical experience. Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. For those patients and for uninsured patients who do not qualify for charity care, the Hospital determines the transaction price associated with services on the basis of charges, reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on historical collection experience for applicable patient portfolios. Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates and such amounts are not reported as revenue. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE B - PATIENT SERVICE REVENUE - Continued

Agreements with third-party payors typically provide for payments at amounts less than established charges. 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 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.

Other - 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.

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. During the last few years, as a result of nationwide investigations by government agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with these laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from Medicare and Medicaid programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations or that the laws and regulations themselves will not be subject to challenge, and it is not possible to determine the impact (if any) such claims, penalties, or challenges would have on the Hospital.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new

SAINT LUKE'S HOSPITAL OF TRENTON
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE B - PATIENT SERVICE REVENUE - Continued

information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price from changes in estimates due to settlements of prior years' cost reports and Medicaid settlements, were not significant in 2018 or 2017.

In certain instances, the Hospital receives payment in advance of the services provided and considers these amounts to be contract liabilities. Contract liabilities at December 31, 2018 and 2017, were not significant.

A reconciliation of standard charges by service type to revenue recognized is summarized below:

	<u>2018</u>	<u>2017</u>
Patient service charges		
Inpatient	\$ 8,396,493	\$ 8,921,190
Outpatient	45,632,722	41,384,597
Rural health clinic	<u>4,397,709</u>	<u>4,121,298</u>
	58,426,924	54,427,085
Contractual adjustments	(24,550,492)	(22,090,458)
Implicit price concessions	(2,362,358)	(2,449,219)
Charity care	<u>(815,230)</u>	<u>(870,833)</u>
Patient service revenue	<u>\$ 30,698,844</u>	<u>\$ 29,016,575</u>

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by payors and service type. The composition of patient service revenue by primary payor is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	55.3%	58.1%
Medicaid	11.6	6.7
Blue Cross	15.6	18.3
Other third-party payors	17.3	15.4
Patients	<u>0.2</u>	<u>1.5</u>
Patient service revenue	<u>100.0%</u>	<u>100.0%</u>

Deductibles, copayments, and coinsurance under third-party payment programs which are the patient's responsibility are included within the primary payor category in the table above.

The composition of patient service revenue based on service type is as follows:

	<u>2018</u>	<u>2017</u>
Inpatient	22.9%	28.1%
Outpatient	64.9	59.1
Rural health clinic	<u>12.2</u>	<u>12.8</u>
	<u>100.0%</u>	<u>100.0%</u>

SAINT LUKE'S HOSPITAL OF TRENTON
D/B/A WRIGHT MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE C - CHARITY CARE

The Hospital is dedicated to providing both services and leadership in caring for the needy and accepts all patients regardless of their ability to pay. The cost incurred in providing these services of approximately \$382,000 and \$393,000 during the years ended December 31, 2018 and 2017, 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 D - LIQUIDITY AND AVAILABILITY

Financial assets and liquidity resources available within one year for general expenditures, such as operating expenses and capital expenditures not financed with debt, are as follows:

	<u>2018</u>	<u>2017</u>
Financial assets		
Cash	\$ 2,508,577	\$ 1,980,088
Patient accounts receivable	4,294,182	5,617,515
Other receivables	88,514	54,610
Due from affiliates	279,704	376,625
Estimated third party payor settlements receivable	1,324,553	2,219,723
Beneficial interest in net assets of Foundation	<u>177,082</u>	<u>157,579</u>
Total financial assets	<u>8,672,612</u>	<u>10,406,140</u>
Less		
Beneficial interest in net assets of Foundation	<u>177,082</u>	<u>157,579</u>
Financial assets not available to be used within one year	<u>177,082</u>	<u>157,579</u>
Financial assets available to meet general expenditures within one year	<u>\$ 8,495,530</u>	<u>\$ 10,248,561</u>

SAINT LUKE'S HOSPITAL OF TRENTON
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE E - 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>2018</u>	<u>2017</u>
Cash	\$ 124,253	\$ 156,014
Pledges receivable	<u>52,840</u>	<u>1,565</u>
Total assets	<u>\$ 177,093</u>	<u>\$ 157,579</u>
Accounts payable	\$ 11	\$ 11
Net assets		
Without donor restrictions	80,722	64,280
With donor restrictions	<u>96,360</u>	<u>93,288</u>
Total liabilities and net assets	<u>\$ 177,093</u>	<u>\$ 157,579</u>
	<u>2018</u>	<u>2017</u>
Revenues	\$ 82,061	\$ 43,295
Expenses	(39,723)	(34,016)
Transfer to the Hospital	(22,835)	(871)
Contribution of property and equipment	<u> </u>	<u>(7,151)</u>
Change in net assets	<u>\$ 19,503</u>	<u>\$ 1,257</u>

NOTE F - 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>2018</u>	<u>2017</u>
Major movable equipment	\$ 9,137,080	\$ 8,710,993
Less accumulated depreciation	<u>6,678,771</u>	<u>5,995,496</u>
Construction in progress	<u>2,458,309</u>	<u>2,715,497</u>
Property and equipment, net	<u>\$ 2,458,309</u>	<u>\$ 2,769,192</u>

SAINT LUKE'S HOSPITAL OF TRENTON
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NOTE G - 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 million contribution to the Plan in 2019. The System contributed \$1.5 million and \$1 million to the Plan in 2018 and 2017, respectively.

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 \$367,615 and \$323,070 related to these plans during the years ended December 31, 2018 and 2017, respectively, which are included in employee benefits expenses in the statement of operations.

NOTE H - 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>2018</u>	<u>2017</u>
Under the Restated Agreement	\$ 2,456,893	\$ 2,492,883
Medical office building	368,217	368,217
All other building and equipment rentals	<u>102,470</u>	<u>141,258</u>
	<u>\$ 2,927,580</u>	<u>\$ 3,002,358</u>

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

2019	\$ 2,918,754
2020	2,917,662
2021	2,937,127
2022	2,940,430
2023	840,178
Thereafter	<u>15,667</u>
	<u>\$12,569,818</u>

SAINT LUKE'S HOSPITAL OF TRENTON
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
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NOTE I - FUNCTIONAL EXPENSES

The financial statements report certain expense categories that are attributable to more than one health care service function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest, and other occupancy costs, are allocated to a function based on a square-footage basis. Employee benefits are allocated based on salaries, which are recorded based on time and effort.

	December 31, 2018			
	<u>Health care services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 9,388,423	\$ 1,680,169	\$ 585	\$ 11,069,177
Employee benefits	2,473,858	519,177	3,504	2,996,539
Purchased services, supplies, and other	13,357,917	3,110,155	5,897	16,473,969
Depreciation and amortization	616,085	75,545	10	691,640
Total operating expenses	<u>\$25,836,283</u>	<u>\$ 5,385,046</u>	<u>\$ 9,996</u>	<u>\$ 31,231,325</u>

	December 31, 2017			
	<u>Health care services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 9,486,477	\$ 1,398,853	\$ 538	\$ 10,885,868
Employee benefits	2,669,028	416,066	6,462	3,091,556
Purchased services, supplies, and other	13,030,321	3,253,851	5,961	16,290,133
Depreciation and amortization	749,844	72,105	214	822,163
Total operating expenses	<u>\$25,935,670</u>	<u>\$ 5,140,875</u>	<u>\$ 13,175</u>	<u>\$ 31,089,720</u>

NOTE J - 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>2018</u>	<u>2017</u>
Medicare	40.8%	45.5%
Medicaid	14.1	12.2
Blue Cross	6.6	8.9
Other third-party payors	21.4	16.7
Patients	<u>17.1</u>	<u>16.7</u>
	<u>100.0%</u>	<u>100.0%</u>

At December 31, 2018, the carrying amount of bank deposits was \$2,507,056 and the bank balances were \$2,506,956. Of the bank balances, \$52,860 was covered by federal depository insurance and \$2,454,096 was held in the name of Saint Luke's Health System, Inc., in a pooled account and 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 K - MEDICAL MALPRACTICE INSURANCE

For the year ended December 31, 2018, 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, 2018, the above policies are in effect through April 1, 2019. The Hospital intends to 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, 2018, will have no material effect on the financial statements of the Hospital.

NOTE L - RELATED PARTY TRANSACTIONS

The Hospital enters into transactions with affiliates. Supplies and other expenses during the years ended December 31, 2018 and 2017, include \$3,150,058 and \$2,669,575, 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>2018</u>	<u>2017</u>
Due from affiliates		
Saint Luke's Health System, Inc.	\$ 168,099	\$ 257,422
Other inter-system balances	<u>111,605</u>	<u>119,203</u>
	<u>\$ 279,704</u>	<u>\$ 376,625</u>
Due to affiliates		
Saint Luke's Health System, Inc.	\$ 150,335	\$ 3,278,724
Other inter-system balances	<u>228,177</u>	<u>290,622</u>
	<u>\$ 378,512</u>	<u>\$ 3,569,346</u>

