



REPORT OF INDEPENDENT AUDITORS AND  
COMBINED FINANCIAL STATEMENTS AND  
OTHER FINANCIAL INFORMATION

**YUMA REGIONAL MEDICAL CENTER  
AND AFFILIATES**

September 30, 2017 and 2016

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## **Report of Independent Auditors**

To the Board of Directors  
Yuma Regional Medical Center and Affiliates

### **Report on Financial Statements**

We have audited the accompanying combined financial statements of Yuma Regional Medical Center and Affiliates (the "Medical Center"), which comprise the combined balance sheets as of September 30, 2017 and 2016, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Yuma Regional Medical Center and Affiliates as of September 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

Scottsdale, Arizona  
December 15, 2017

**Yuma Regional Medical Center and Affiliates  
Combined Balance Sheets**

<b>ASSETS</b>	September 30,	
	2017	2016
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 58,963,395	\$ 30,359,304
Accounts receivable, net of allowance for doubtful accounts of approximately \$24,465,000 and \$17,512,000 in 2017 and 2016, respectively	47,267,719	50,774,216
Short-term investments	18,012,106	16,857,666
Inventories	7,502,511	7,732,270
Prepaid expenses and other current assets	7,263,388	8,269,745
Total current assets	139,009,119	113,993,201
<b>ASSETS LIMITED TO USE</b>		
PROPERTY AND EQUIPMENT, net	255,442,122	229,017,299
EQUITY METHOD INVESTMENTS IN AFFILIATES	378,158,610	372,700,035
GOODWILL	7,172,060	8,269,688
OTHER ASSETS	9,714,155	9,714,155
Total assets	\$ 791,921,606	\$ 736,591,434
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 19,927,789	\$ 26,002,862
Accrued expenses	16,605,007	14,912,725
Self-insurance programs liabilities	2,394,012	3,000,012
Current maturities of long-term debt	4,667,353	1,917,172
Estimated third-party payor settlements, net	2,401,046	2,884,492
Total current liabilities	45,995,207	48,717,263
LONG-TERM DEBT, net of current maturities, premium, and deferred financing costs	209,431,103	194,291,821
ACCRUED PENSION COSTS	57,351,317	80,265,938
INTEREST RATE SWAPS	8,449,552	12,317,921
SELF-INSURANCE PROGRAMS LIABILITIES, net of current portion	4,374,515	5,854,898
OTHER LIABILITIES	1,857,430	1,949,212
Total liabilities	327,459,124	343,397,053
<b>NET ASSETS</b>		
Unrestricted	456,681,286	386,552,036
Temporarily restricted	4,573,099	3,434,248
Permanently restricted	3,208,097	3,208,097
Total net assets	464,462,482	393,194,381
Total liabilities and net assets	\$ 791,921,606	\$ 736,591,434

See accompanying notes.

## Yuma Regional Medical Center and Affiliates Combined Statements of Operations

	Years Ended September 30,	
	2017	2016
<b>UNRESTRICTED REVENUES</b>		
Net patient service revenue	\$ 466,480,107	\$ 430,058,401
Provision for doubtful accounts	(23,880,472)	(18,932,863)
Net patient service revenue less provision for doubtful accounts	442,599,635	411,125,538
Other revenue	6,151,886	6,153,858
Total unrestricted revenues	448,751,521	417,279,396
<b>EXPENSES</b>		
Salaries and wages	168,462,220	153,798,418
Employee benefits	36,765,797	38,420,674
Medical supplies	65,372,032	66,357,353
General supplies	5,438,214	5,540,336
Professional fees	33,066,719	30,587,535
Purchased services	34,355,860	35,634,668
Other operating expenses	39,551,392	38,065,294
Depreciation and amortization	35,022,167	30,129,323
Interest expense, net	5,838,942	1,616,380
Total operating expenses	423,873,343	400,149,981
<b>OPERATING INCOME</b>	24,878,178	17,129,415
<b>Nonoperating income (loss)</b>		
Net investment income	17,750,878	16,679,456
Equity in earnings of unconsolidated affiliates	4,171,948	3,721,566
Loss on sale of equity method investments in affiliates	(14,669)	-
Change in fair value of interest rate swaps	3,868,369	75,192
Other nonoperating income	17,889	29,586
Total nonoperating income (loss)	25,794,415	20,505,800
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<b>\$ 50,672,593</b>	<b>\$ 37,635,215</b>

## Yuma Regional Medical Center and Affiliates Combined Statements of Changes in Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at September 30, 2015	\$ 354,343,248	\$ 3,066,692	\$ 3,208,097	\$ 360,618,037
Excess of revenues over expenses	37,635,215	-	-	37,635,215
Actuary change in pension plan assets and liabilities	(5,440,220)	-	-	(5,440,220)
Distributions/capital contributions	13,793	-	-	13,793
Donations, gifts, and contributions	-	518,922	-	518,922
Net investment income	-	398,223	-	398,223
Net assets released from restrictions used for operations	-	(549,589)	-	(549,589)
Change in net assets	32,208,788	367,556	-	32,576,344
Net assets at September 30, 2016	386,552,036	3,434,248	3,208,097	393,194,381
Excess of revenues over expenses	50,672,593	-	-	50,672,593
Actuary change in pension plan assets and liabilities	19,430,968	-	-	19,430,968
Distributions/capital contributions	24,689	-	-	24,689
Donations, gifts, and contributions	-	1,162,272	-	1,162,272
Net investment income	-	553,077	-	553,077
Net assets released from restrictions used for operations	-	(575,498)	-	(575,498)
Transfer from temporarily restricted net assets	1,000	(1,000)	-	-
Change in net assets	70,129,250	1,138,851	-	71,268,101
Net assets at September 30, 2017	\$ 456,681,286	\$ 4,573,099	\$ 3,208,097	\$ 464,462,482

## Yuma Regional Medical Center and Affiliates

### Combined Statements of Cash Flows

	Years Ended September 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 71,268,101	\$ 32,576,344
Adjustments to reconcile increase in net cash to net cash provided by operating activities:		
Actuary change in pension liability	(19,430,968)	5,440,220
Change in fair value of interest rate swaps	(3,868,369)	(75,192)
Depreciation and amortization	35,022,167	30,129,323
Amortization of deferred financing costs	45,907	58,016
Amortization of bond premium	(204,121)	(195,229)
Net investment income	(18,303,955)	(17,077,679)
Equity in earnings of unconsolidated affiliates	(4,171,948)	(3,721,566)
Loss on sale of equity method investments in affiliates	14,669	-
Provision for doubtful accounts	23,880,472	18,932,863
Loss (gain) on disposal of property and equipment	(58,082)	5,921
Change in operating assets and liabilities:		
Accounts receivable	(20,373,975)	(26,196,917)
Inventories	229,759	(1,431,835)
Prepaid expenses and other assets	1,240,011	(1,718,019)
Accrued pension costs	(3,483,653)	6,485,744
Accounts payable, accrued expenses, and other liabilities	(9,938,778)	6,726,288
Estimated third-party payor settlements	(483,446)	1,993,394
Net cash provided by operating activities	51,383,791	51,931,676
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(35,642,784)	(75,750,859)
Proceeds from sale of property and equipment	88,151	3,380
Net sales (purchases) of investments classified as trading	(9,037,446)	14,882,594
Distribution of earnings from unconsolidated affiliates	4,892,907	1,920,484
Proceeds from sale of equity method investments in affiliates	362,000	-
Net cash used in investing activities	(39,337,172)	(58,944,401)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	20,000,000	-
Repayment of long-term debt	(3,087,033)	(1,829,244)
Repayment of capital lease obligation	(275,220)	(471,110)
Capitalization of deferred financing costs	(80,275)	-
Net cash provided by (used in) financing activities	16,557,472	(2,300,354)
Net change in cash and cash equivalents	28,604,091	(9,313,079)
CASH AND CASH EQUIVALENTS, beginning of year	30,359,304	39,672,383
CASH AND CASH EQUIVALENTS, end of year	\$ 58,963,395	\$ 30,359,304

**Yuma Regional Medical Center and Affiliates**  
**Combined Statements of Cash Flows (continued)**

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	Years Ended September 30,	
	2017	2016
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash payments for interest	<u>\$ 8,405,554</u>	<u>\$ 8,107,868</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Acquisitions of property and equipment using capital leases	<u>\$ 1,490,205</u>	<u>\$ -</u>
Acquisition of property and equipment included in accounts payable	<u>\$ 3,377,822</u>	<u>\$ 1,626,003</u>

# Yuma Regional Medical Center and Affiliates

## Notes to Combined Financial Statements

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### Note 1 – Organization and Business Activity

Yuma Regional Medical Center (“YRMC” or the “Medical Center”) is organized as a not-for-profit corporation under the laws of the state of Arizona and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. YRMC and its affiliates provide health care and related services to the people of Yuma, Arizona, and surrounding communities.

The mission of YRMC is to improve the health and well-being of individuals, families, and the communities it serves through excellence, innovation, and prudent use of resources.

### Note 2 – Summary of Significant Accounting Policies

**Basis of combination** – The combined financial statements include the accounts of YRMC; Hospital District No. 1 of Yuma County, Arizona (the “District”); Foundation of Yuma Regional Medical Center (the “Foundation”); Yuma Health Care Services, Inc. (YHCS); YRMC Professional Services Group, LLC (YPSG); Yuma Regional Cancer Center, LLC (YRCC); and Yuma Clinically Integrated Network, LC (YCIN) (organized during fiscal year 2016); collectively referred to as the Medical Center. The District was organized in 1958 as a political subdivision of the state of Arizona, primarily to assist in providing medical facilities for Yuma County, Arizona. The District owns certain land, buildings, and equipment that it leases to YRMC in return for YRMC providing health care services to the people of Yuma County. The District is included in the combined financial statements of the Medical Center as it is considered a special purpose leasing entity for accounting purposes. All intercompany transactions and balances are eliminated in combination.

The District, Foundation, YHCS, YPSG, YRCC, and YCIN are not members of the Obligated Group as defined under the Master Indenture for the outstanding bonds.

During the fiscal year ended September 30, 2016, the Medical Center dissolved Yuma Regional Cancer Center, LLC. During the fiscal year ended September 30, 2017, the Medical Center dissolved YRMC Professional Services Group, LLC and Yuma Health Care Service, Inc. All activities, assets, and liabilities of these entities were transferred to Yuma Regional Medical Center during the respective years.

**Subsequent events** – Subsequent events are events or transactions that occur after the combined balance sheet date but before the combined financial statements are available to be issued. The Medical Center recognizes in the combined financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the combined balance sheet, including the estimates inherent in the process of preparing the combined financial statements. The Medical Center’s combined financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the combined balance sheet but arose after the combined balance sheet date and before financial statements are available to be issued. The Medical Center has evaluated subsequent events through December 15, 2017, which is the date the combined financial statements were available to be issued.

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Medical Center's most significant accounting estimates are allowances for doubtful accounts; contractual allowances; liabilities associated with self-insured professional liability and medical malpractice, employee health insurance benefits, and workers' compensation claims; accrued pension cost, and estimated third-party payor settlements.

**Fair value of financial instruments** – The carrying values of financial instruments classified as current assets and current liabilities approximate fair value due to their liquidity and short-term natures. The fair values of other financial instruments are discussed in their respective notes.

**Cash and cash equivalents** – Cash and cash equivalents include certain investments in highly liquid instruments with original maturities of three months or less when acquired.

**Accounts receivable and allowance for contractual adjustments and doubtful accounts** – The Medical Center reports patient accounts receivable for services rendered at net realizable amounts due from third-party payors, patients, and others. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful 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 doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful 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 Medical Center records a significant 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 doubtful accounts.

**Short-term investments and investments** – Short-term investments include certificates of deposits and debt securities with maturity dates of one year or less from the combined balance sheet date and actively traded equity securities. These investments are stated at fair value, based on quoted market prices in active markets. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses unless the income is restricted by donor or law.

# Yuma Regional Medical Center and Affiliates

## Notes to Combined Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (continued)

**Inventories** – Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost or market value, utilizing the first-in, first-out method of accounting.

**Assets limited as to use** – Assets limited as to use are stated at fair value and primarily include investments held by trustees under an indenture agreement and designated assets set aside by the Board of Directors (the “Board”) primarily for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Income earned on the trust assets held under bond indenture agreements and Board-designated funds are reported as other unrestricted revenues.

**Property and equipment** – Property and equipment are stated at cost. Donated items are recorded at fair market value at the date of the donation. Depreciation expense is computed using the straight-line method. Depreciation is computed using the following estimated useful lives:

Buildings	22 to 50 years
Improvements	Shorter of estimated useful life (7 to 30 years) or remaining life of building
Equipment	3 to 10 years

Assets under capital lease obligations or leasehold improvements are amortized using the straight-line method over the shorter period of the lease term or respectful useful life. Interest costs incurred on borrowed funds net of interest income earned on temporary investments of the proceeds of the related borrowings during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Upon sale or retirement, cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is included in investment and other income. Costs incurred in the development and installation of software for internal use are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage, and whether the expenditures are of the nature that qualify them for capitalization under generally accepted accounting principles. Generally, costs that add additional functionality to existing systems are capitalized. Amounts capitalized are amortized over the useful life of the developed asset following project completion.

Unrestricted gifts of long-lived assets such as land, buildings, or equipment, are reported as unrestricted support, and are excluded from the excess of revenues over expense. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support, and are excluded from the excess of revenues over expenses. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

**Long-lived asset impairment** – Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

**Equity method investments** – The Medical Center utilizes the equity method of accounting for investments in certain affiliates where the Medical Center's ownership is equal to or less than fifty percent. Under this method, the Medical Center's share of the net income or net losses of the respective affiliate is reflected as investment income or loss, and serves to increase or reduce the recorded amount of the Medical Center's investment in the respective affiliates.

**Goodwill** – Goodwill is not amortized, but instead is subject to periodic impairment evaluation. The Medical Center evaluates goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. The Medical Center completes a qualitative assessment on an annual basis to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. The Medical Center considers various events and conditions as part of this qualitative assessment, including but not limited to, changes in financial performance such as negative or declining actual or planned revenues, earnings or cash flows; changes in legal, regulatory, contractual, political or other business factors; changes in industry or market conditions, changes in macroeconomic conditions, and other specific events. If it is determined that it is more likely than not that the fair value of the indefinite-lived intangible asset is less than the carrying value, the Medical Center will perform a quantitative impairment test.

In performing the quantitative periodic impairment tests, the fair value of the reporting unit is compared to its carrying value, including goodwill. The fair value of the reporting units are estimated using a combination of the income or discounted cash flow approach and market approach, which uses comparable data. If the carrying value exceeds the fair value, an impairment condition exists, which results in an impairment loss equal to the excess carrying value. There were no impairments recorded to goodwill for the years ended September 30, 2017 and 2016.

**Physician net income guarantees** – The Medical Center enters into agreements with non-employed physicians that include minimum net income guarantees. These guarantees arise out of a community need to recruit physicians in certain specialties to the areas surrounding the Medical Center and provide a guaranteed level of income to the physicians for the first year of practice. The guarantee provides a minimum level of compensation between the physician's actual collections on patient billings in this initial period and an agreed-upon income level based on the specialty. The physician is expected to practice in the area subsequent to the guarantee term for a minimum period of three years. Over the period subsequent to the guarantee period, amounts paid to the physician during the guarantee period are ratably forgiven, resulting in income to the physicians in the years of forgiveness. The estimated amount of the liability for the Medical Center's obligation under the guarantees was approximately \$404,000 and \$1,024,000 as of September 30, 2017 and 2016, respectively, and is included in other liabilities.

# Yuma Regional Medical Center and Affiliates

## Notes to Combined Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (continued)

**Deferred financing costs** – Certain costs incurred in connection with long-term financing programs have been deferred. Deferred financing costs are amortized over the life of the related financing using the effective interest method over the life of the respective financing. Amortization of deferred financing costs is included in interest expense.

**Derivative and hedging instruments** – The Medical Center has various interest rate swaps to manage the cost of borrowings on its outstanding debts. These interest rate swaps do not qualify as effective cash flow hedges. The Medical Center recognizes all its derivative instruments on the combined balance sheet at fair value. Therefore, the changes in their fair values are recognized within the excess of revenues over expenses.

As the Medical Center's derivative contracts are all executed with one counterparty and are subject to a master netting arrangement, the fair values of the derivatives are reported on a net basis. None of the Medical Center's derivative contracts are subject to collateral posting requirements.

**Temporarily and permanently restricted net assets** – Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose. Donations restricted by donors for specific purposes are included in temporarily restricted net assets until expenditures are made for the purposes stipulated by the donor, at which time a transfer of resources is made from temporarily restricted net assets to unrestricted net assets. Donated assets are recorded at their fair market value on the date of the gift. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity.

**Excess of revenues over expenses** – The combined statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include changes in the Medical Center's pension liability, permanent transfers 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 purpose of acquiring such assets).

**Income taxes** – YRMC and the Foundation are not-for-profit corporations exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes for these entities has been included in the accompanying combined financial statements. Management is not aware of any events that would cause YRMC or the Foundation to become disqualified for tax-exempt status. YPSG and YCIN are single member limited liability companies that are 100% owned by YRMC, and are considered disregarded entities for tax purposes.

YHCS is a taxable entity and accounts for income taxes under the liability method. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the currently enacted tax rates and laws. Valuation allowances are used to reduce deferred tax assets to their estimated net realizable values when management determines ultimate recovery is not probable.

The District is a political subdivision of the state of Arizona and is not subject to income taxes.

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

**Net patient service revenue** – The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). Net patient service revenue is reported at the estimated net realizable amounts before estimates for bad debts 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.

**Charity care** – The Medical Center 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 Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Medical Center maintains records to identify and monitor the level of charity care provided. These records include the amount of direct and indirect costs for services and supplies furnished under its charity care policy. Direct and indirect costs for providing charity care are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

**Donor-restricted gifts** – Unconditional promises to give cash and other assets to the Medical Center are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is 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 restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements.

**Advertising** – The Medical Center expenses advertising costs as they are incurred. During the years ended September 30, 2017 and 2016, the Medical Center incurred approximately \$928,000 and \$915,000 in advertising expense, respectively.

**Self-insurance programs** – The Medical Center has a comprehensive insurance program designed to safeguard its assets and properties. The Medical Center assumes retention risk for those risks that it can mitigate to offset risk transfer cost. Risk transfer is used to mitigate various exposures and losses to a third-party insurer when it is appropriate. In addition, the Medical Center purchases excess liability coverage to cover losses that exceed its self-insurance programs. It is the Medical Center's policy to record the expense and related liability for medical malpractice, general liability and workers' compensation losses based on actuarial determined estimates. There are known claims and incidents that may result in assertion of additional claims, as well as claims from unknown incidents arising from services provided to patients that may be asserted. However, management does not believe that the asserted or unasserted claims will exceed the total amount of insurance coverage. See Note 14.

# Yuma Regional Medical Center and Affiliates

## Notes to Combined Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (continued)

**Fiscal year** – The Medical Center has adopted a fiscal year ending September 30. All references to years herein refer to the respective fiscal year.

**Reclassifications** – Certain amounts were reclassified in the 2017 combined financial statements to conform to the 2016 presentation. Such reclassifications had no impact on previously reported excess of revenues over expenses or net assets.

#### Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance was scheduled to be effective at the beginning of our 2018 fiscal year and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. However, on July 9, 2015, the FASB approved a proposal to defer the effective date of the new revenue standard by one year, but will permit entities to adopt one year earlier if they choose (i.e., the original effective date). The deferral results in the new revenue standard being effective at the beginning of our 2019 fiscal year. We continue to evaluate the impact, if any, of adopting this new accounting standard on our financial statements.

In April 2015, the FASB issued new accounting guidance to simplify the presentation of debt issuance costs. This new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this standard. We adopted this standard in fiscal 2017. The adoption of this standard reduced total assets and long-term debt, net of current maturities, premium, and deferred financing costs, by approximately \$1.4 million as of September 30, 2017 and 2016.

In January 2016, the FASB issued new guidance related to the recognition and measurement of financial assets and liabilities. The new standard revises an entity’s accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The standard is effective as of the beginning of our 2020 fiscal year. In fiscal 2017 we early adopted the provision of this standard allowing the elimination of disclosure of the fair value for financial assets and financial liabilities measures at amortized cost.

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

In February 2016, the FASB issued new guidance related to accounting for leases. The new standard requires the recognition of assets and liabilities arising from lease transactions on the balance sheet and the disclosure of key information about leasing arrangements. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Both the asset and liability will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend on the classification of the lease as either a finance or an operating lease. The new standard is effective at the beginning of our 2020 fiscal year. Management is evaluating the effect the standard will have on the financial statements.

In August 2016, the FASB issued new accounting guidance related to the presentation of financial statements for not-for-profit entities. This new standard revises the current net asset classification requirements and information presented in financial statements and notes about a non-for-profit entity's liquidity, financial performance, and cash flows. The standard is effective at the beginning of our 2019 fiscal year. Management is evaluating the effect the standard will have on the financial statements.

#### **Note 3 – Net Patient Service Revenue and Allowance for Doubtful Accounts**

A summary of the payment arrangements with major third-party payors is as follows:

**Medicare** – Substantially all inpatient and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Medical Center is reimbursed for Medicare outlier payments and sole community hospital status at a tentative rate. Approximately 33% and 40% of the Medical Center's net patient revenue was derived from the Medicare program in 2017 and 2016, respectively, the continuation of which is dependent on government policies. The Medical Center does not believe that there are significant credit risks associated with this government agency.

Inpatient non-acute services, certain outpatient services, medical education costs, and defined capital costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. The Medicare cost reports of the Medical Center have been audited by the fiscal intermediary through September 30, 2011. Management believes that estimated accrued settlements related to unaudited cost reports are adequate. Estimates are continually monitored and reviewed, and any adjustments are reflected in current operations. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year examination is substantially completed.

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### Note 3 – Net Patient Service Revenue and Allowance for Doubtful Accounts (continued)

**Arizona Health Care Cost Containment System (AHCCCS)** – Inpatient and outpatient services rendered to the AHCCCS program beneficiaries are reimbursed under per diem and discounted charge methodologies. Approximately 17% and 16% of the Medical Center's net patient revenue was derived from the AHCCCS program in 2017 and 2016, respectively. The Medical Center does not believe that there are significant credit risks associated with this government agency.

**Other third-party payors** – The Medical Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Approximately 47% and 43% of the Medical Center's net patient revenue was derived from commercial, managed care, and other third-party payors in 2017 and 2016, respectively.

Laws and regulations governing the Medicare and AHCCCS programs are 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 Medical Center believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and AHCCCS programs.

On the basis of historical experience, a significant portion of the Medical Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Medical Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in 2017 and 2016 from these major payor sources, is as follows:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 153,838,526	\$ 171,419,794
AHCCCS	77,055,292	68,273,875
Other third-party payors	218,657,598	186,104,388
Self-pay	44,092,182	34,674,605
Less: Charity-care adjustment	<u>(27,163,491)</u>	<u>(30,414,261)</u>
Net patient service revenue	<u>\$ 466,480,107</u>	<u>\$ 430,058,401</u>

The Medical Center's allowance for doubtful accounts for self-pay patients was 85 and 98 percent of self-pay accounts receivable at September 30, 2017 and 2016, respectively. The Medical Center's self-pay write-offs increased approximately \$2,418,000 from approximately \$15,245,000 for 2016 to approximately \$17,663,000 for 2017. The Medical Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### Note 4 – Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the Medical Center uses various valuation approaches, including market, income and/or cost approaches. A hierarchy is used for inputs in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Medical Center. Unobservable inputs are inputs that reflect the Medical Center's assumptions about the value that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

**Level 1** – Valuations based on quoted prices in active markets for identical assets or liabilities that the Medical Center has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

**Level 2** – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs are valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

**Level 3** – Inputs that are unobservable for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The availability of observable inputs varies based on the nature of the specific financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair values requires more judgment. Accordingly, the degree of judgment exercised by the Medical Center in determining the fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. In certain cases, securities are measured using the net asset value per share practical expedient, an estimate of fair value, and are excluded from the fair value hierarchy.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. When market assumptions are available, the Medical Center is required to make assumptions regarding the assumptions that market participants would use to estimate the fair value of the financial instrument at the measurement date.

# Yuma Regional Medical Center and Affiliates

## Notes to Combined Financial Statements

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### Note 4 – Fair Value of Financial Instruments (continued)

The valuation methods used for assets and liabilities recorded at fair value either on a recurring or nonrecurring basis are as follows:

**Money market funds** – The money market accounts are public investment vehicles valued using \$1 for the Net Asset Value (“NAV”). The money market accounts are classified within Level 2 of the valuation hierarchy.

**Mutual funds** – Valued at the NAV of shares held by the Medical Center at year end using prices quoted by the relevant pricing agent. The mutual funds are classified within Level 1 of the valuation hierarchy.

**Private equity funds** – Valued using the net asset value practical expedient. Redemption of these investments is restricted except for periodic offers to repurchase units as determined by the Board of Directors of the funds. These offers are not guaranteed and generally occur on a quarterly or annual basis. The offers are generally limited to 5% of the total net asset value of the funds. As of September 30, 2017, there are no unfunded commitments related to this investment. The fair value has been estimated using the net asset value provided by the fund manager.

**Debt and equity securities** – Valued at the closing price reported on the major market on which the individual securities are traded or have reported broker trades which may be considered indicative of an active market. Where quoted prices are available in an active market, the investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, discounted cash flows and other observable inputs. Such securities are classified within Level 2 of the valuation hierarchy.

**Real estate investment trust** – Valued using the net asset value practical expedient. The Medical Center invests in an institutionally managed real estate investment trust that owns and manages a diversified portfolio of office, retail, industrial and apartment properties located primarily in the United States. This investment cannot be redeemed within one year of purchase. After the initial one-year holding period, redemptions can be requested on a daily basis, however total redemptions for the fund are limited to 5% of the total net asset value of the fund per quarter. As of September 30, 2017, there are no unfunded commitments related to this investment. The fair value has been estimated using the net asset value provided by the fund manager.

**Interest rate swap** – The fair value of the Medical Center’s interest rate swap contract is determined by calculating the value of the discounted cash flows of the difference between the fixed interest rate of the interest rate swaps and the USD - LIBOR - BBA (London Interbank Offered Rate), which would be the input used in the valuations. The USD - LIBOR - BBA is readily available in public markets or can be derived from information available in public quoted markets, therefore, such securities are classified within Level 2 of the valuation hierarchy.

## Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

### Note 4 – Fair Value of Financial Instruments (continued)

The following table presents the balances of the assets and liabilities measured at fair value on a recurring basis:

	September 30, 2017				
	Level 1	Level 2	Level 3	Net Asset Value (or equivalent)	Total Fair Value
<b>ASSETS</b>					
Short-term investments					
Certificates of deposit	\$ 1,895,772	\$ -	\$ -	\$ -	\$ 1,895,772
Equity securities	7,419,725	-	-	-	7,419,725
Mutual funds	4,580,408	-	-	-	4,580,408
Private equity funds	-	-	-	625,367	625,367
U.S. government securities	1,535,164	1,287,208	-	-	2,822,372
Corporate bonds	-	668,462	-	-	668,462
Total short-term investments	<u>15,431,069</u>	<u>1,955,670</u>	<u>-</u>	<u>625,367</u>	<u>18,012,106</u>
Assets limited as to use					
Cash and cash equivalents	19,980,953	-	-	-	19,980,953
Equity securities	113,098,580	-	-	-	113,098,580
Mutual funds	2,567,552	-	-	-	2,567,552
U.S. government securities	43,530,899	41,091,463	-	-	84,622,362
Corporate bonds	-	24,624,173	-	-	24,624,173
Real estate investment trust	-	-	-	10,548,502	10,548,502
Total assets limited as to use	<u>179,177,984</u>	<u>65,715,636</u>	<u>-</u>	<u>10,548,502</u>	<u>255,442,122</u>
	<u>\$ 194,609,053</u>	<u>\$ 67,671,306</u>	<u>\$ -</u>	<u>\$ 11,173,869</u>	<u>\$ 273,454,228</u>
<b>LIABILITIES</b>					
Interest rate swaps	<u>\$ -</u>	<u>\$ 8,449,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,449,552</u>

# Yuma Regional Medical Center and Affiliates

## Notes to Combined Financial Statements

### Note 4 – Fair Value of Financial Instruments (continued)

	September 30, 2016				Total Fair Value
	Level 1	Level 2	Level 3	Net Asset Value (or equivalent)	
<b>ASSETS</b>					
Short-term investments					
Money market funds	\$ 461,919	\$ -	\$ -	\$ -	\$ 461,919
Certificates of deposit	2,037,274	-	-	-	2,037,274
Equity securities	7,333,924	-	-	-	7,333,924
Mutual funds	4,055,802	-	-	-	4,055,802
U.S. government securities	1,322,675	1,018,214	-	-	2,340,889
Corporate bonds	-	627,858	-	-	627,858
Total short-term investments	<u>15,211,594</u>	<u>1,646,072</u>	<u>-</u>	<u>-</u>	<u>16,857,666</u>
Assets limited as to use					
Cash and cash equivalents	41,868,261	-	-	-	41,868,261
Equity securities	96,653,926	-	-	-	96,653,926
Mutual funds	1,103,745	-	-	-	1,103,745
U.S. government securities	32,675,301	38,235,442	-	-	70,910,743
Corporate bonds	-	18,480,624	-	-	18,480,624
Total assets limited as to use	<u>172,301,233</u>	<u>56,716,066</u>	<u>-</u>	<u>-</u>	<u>229,017,299</u>
	<u>\$ 187,512,827</u>	<u>\$ 58,362,138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 245,874,965</u>
<b>LIABILITIES</b>					
Interest rate swaps	<u>\$ -</u>	<u>\$ 12,317,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,317,921</u>

Joint venture investments are accounted for under the equity method of accounting, which is not a fair value measurement. There were no transfers of assets between levels of the fair value hierarchy during the years ended September 30, 2017 and 2016.

### Note 5 – Assets Limited as to Use and Short-Term Investments

A summary of the limitations as to the use of assets at September 30, is as follows:

	2017	2016
By Board for capital expenditures	\$ 241,678,684	\$ 225,195,236
Provisions of equipment term loans	11,983,300	-
Provisions of bond indentures	383,245	382,075
Malpractice liability cash reserve	1,100,932	3,382,537
Other	<u>295,961</u>	<u>57,451</u>
Total assets limited as to use	<u>\$ 255,442,122</u>	<u>\$ 229,017,299</u>

## Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

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### Note 5 – Assets Limited as to Use and Short-Term Investments (continued)

The Medical Center is required to maintain certain funds held by trustees in connection with the Industrial Development Authority of the City of Yuma, Arizona Hospital Revenue Refunding Bonds (Yuma Regional Medical Center) Series 2014 (see Note 8). These funds are principally comprised of certificates of deposit and U.S. government obligations. The funds are limited to payment of bond principal and interest, maintenance of a reserve account, and other restricted uses.

The Medical Center was required to maintain certain funds in an escrow account in connection with the \$15,000,000 and \$5,000,000 equipment term loans entered into in March 2017 (see Note 8). These funds are entirely comprised of cash and are limited to payment of specified capital expenses.

Following is a summary of assets limited as to use by investment type as of September 30:

	2017	2016
Cash and cash equivalents	\$ 19,980,953	\$ 41,868,261
Equity securities	113,098,580	96,653,926
Mutual funds	2,567,552	1,103,745
U.S. government securities	84,622,362	70,910,743
Corporate bonds	24,624,173	18,480,624
Real estate investment trust	10,548,502	-
Total assets limited as to use	\$ 255,442,122	\$ 229,017,299

Short-term investments include the following as of September 30:

	2017	2016
Money market funds	\$ -	\$ 461,919
Certificates of deposit	1,895,772	2,037,274
Equity securities	7,419,725	7,333,924
Mutual funds	4,580,408	4,055,802
Private equity funds	625,367	-
U.S. government securities	2,822,372	2,340,889
Corporate bonds	668,462	627,858
Total short-term investments	\$ 18,012,106	\$ 16,857,666

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### Note 5 – Assets Limited as to Use and Short-Term Investments (continued)

Investment income consisted of the following for the years ended September 30:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 5,235,543	\$ 4,854,553
Net realized gain on sale of investments	3,568,400	6,025,891
Net unrealized gain on investments	<u>9,500,012</u>	<u>6,197,235</u>
Net investment income	<u>\$ 18,303,955</u>	<u>\$ 17,077,679</u>

#### Note 6 – Concentration of Credit Risk

**Patient accounts receivable** – The Medical Center grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The following table summarizes the percentage of net accounts receivable from patients and third-party payors as of September 30:

	<u>2017</u>	<u>2016</u>
Private (commercial)	43%	39%
Private (self-pay)	9%	1%
Medicare	29%	37%
AHCCCS	13%	18%
Others (contractual arrangements)	<u>6%</u>	<u>5%</u>
	<u>100%</u>	<u>100%</u>

Receivables from government programs represent the only concentration of credit risk for the Medical Center and management does not believe there to be any credit risks associated with these governmental agencies. Negotiated and private receivables consist of receivables from various payors, including individuals involved in diverse activities, subject to differing economic conditions, and do not represent any concentrated credit risks to the Medical Center. Furthermore, management continually monitors and adjusts its reserves and allowances associated with these receivables.

**Cash and cash equivalents** – The Medical Center may, in the normal course of business, maintain checking and savings account balances in excess of the Federal Deposit Insurance Corporation's insurance limit in the United States. At September 30, 2017, the Medical Center had cash balances in excess of insured amounts of approximately \$40,900,000. The Medical Center monitors the financial condition of its depository banks. The Medical Center has not experienced any losses in such accounts, and management believes that the Medical Center is not exposed to any significant credit risk.

## Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

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### Note 7 – Property and Equipment

Property and equipment consisted of the following at September 30:

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 34,288,707	\$ 34,386,580
Buildings and improvements	406,931,492	266,541,399
Equipment	<u>230,959,146</u>	<u>219,054,579</u>
Gross property and equipment placed in service	672,179,345	519,982,558
Less accumulated depreciation and amortization	(313,279,965)	(284,516,968)
Construction in progress	<u>19,259,230</u>	<u>137,234,445</u>
Total property and equipment, net	<u>\$ 378,158,610</u>	<u>\$ 372,700,035</u>

In December 2016, the Medical Center placed into service \$135,587,000 of costs related to the construction of a new emergency department.

The Company has acquired certain property and equipment under capital leases. Property and equipment under capital leases consisted of the following at September 30:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 1,490,205	\$ 1,245,000
Accumulated amortization	<u>(235,949)</u>	<u>(1,172,375)</u>
Equipment under capital lease, net	<u>\$ 1,254,256</u>	<u>\$ 72,625</u>

Amortization expense for equipment under capital leases was approximately \$309,000 and \$534,000 for the years ended September 30, 2017 and 2016, respectively.

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

#### Note 8 – Long-Term Debt

Long-term debt consisted of the following at September 30:

	<u>2017</u>	<u>2016</u>
Hospital Revenue Bonds - Series 2014A	\$ 73,030,000	\$ 73,030,000
Hospital Revenue Bonds - Series 2014B	51,885,000	51,885,000
Hospital Revenue Bonds - Series 2014C	51,885,000	51,885,000
2015 Equipment Term Loan	16,305,521	18,170,756
2017 Equipment Term Loan (7 year)	14,001,090	-
2017 Equipment Term Loan (10 year)	4,777,112	-
Capital leases	1,266,922	51,937
	<u>213,150,645</u>	<u>195,022,693</u>
Hospital Revenue Bonds - Series 2014A premium	2,378,281	2,582,402
Deferred financing costs net	<u>(1,430,470)</u>	<u>(1,396,102)</u>
	214,098,456	196,208,993
Total long-term-debt, net of premium and deferred deferred financing costs	214,098,456	196,208,993
Less current maturities of long-term debt	<u>(4,667,353)</u>	<u>(1,917,172)</u>
	209,431,103	194,291,821
Total long-term-debt, net of current maturities, premium, and deferred financing costs	<u><u>\$ 209,431,103</u></u>	<u><u>\$ 194,291,821</u></u>

Future maturities of long-term debt at September 30, 2017, follows:

Year ended September 30,	Revenue Bonds	Equipment Term Loans	Other Capital Lease Obligations	Total
2018	\$ -	\$ 4,385,696	\$ 441,864	\$ 4,827,560
2019	-	4,477,652	441,864	4,919,516
2020	4,085,000	4,571,544	441,864	9,098,408
2021	4,275,000	4,667,413	441,864	9,384,277
2022	4,485,000	4,765,302	73,644	9,323,946
Thereafter	<u>163,955,000</u>	<u>12,216,116</u>	<u>-</u>	<u>176,171,116</u>
	176,800,000	35,083,723	1,841,100	213,724,823
Less amount representing executory costs	-	-	435,000	435,000
Less amount representing interest	-	-	<u>139,178</u>	<u>139,178</u>
Principal carrying value	<u><u>\$ 176,800,000</u></u>	<u><u>\$ 35,083,723</u></u>	<u><u>\$ 1,266,922</u></u>	<u><u>\$ 213,150,645</u></u>

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### Note 8 – Long-Term Debt (continued)

In February 2014, the Medical Center issued \$73,030,000 in Series 2014A Hospital Revenue Bonds (Series 2014A Bonds) to finance improvements and renovations to the hospital. The Series 2014A Bonds mature in installments ranging from \$3,745,000 to \$10,000,000 beginning in 2019. The final maturity date is August 1, 2032. Interest is due semiannually on February 1 and August 1 with annual interest rates ranging from 4.25% to 5.25%.

In February 2014, the Medical Center also issued \$51,885,000 in Series 2014B Variable Rate Hospital Revenue Bonds (Series 2014B Bonds) and \$51,885,000 in Series 2014C Variable Rate Hospital Revenue Bonds (Series 2014C Bonds). The proceeds of these bonds were used to refund the Series 2008 Bonds. The advance refunding of the Series 2008 Bonds was considered a legal defeasement. The Series 2014B and 2014C Bonds mature on August 1, 2043 and bear interest at variable rates, which ranged from 1.51% to 2.04% for the Series 2014B Bonds and ranged from 1.51% to 2.03% for the Series 2014C Bonds during 2017. Interest is due on a monthly or semi-annual basis, dependent on the applied interest rate. The effective interest rate on the 2014B and 2014C Bonds was 2.04% and 2.03%, respectively, at September 30, 2017.

The Series 2014A, 2014B, and 2014C Bonds are collateralized by a Master Indenture, as supplemented. The bond indentures require that certain funds be held by a trustee. The Master Indenture also places other restrictions, including restriction on disposition of assets and maintenance of certain specified financial ratios, among others. The Medical Center was in compliance with these covenants as of September 30, 2017.

In September 2015, the Medical Center entered into an equipment term loan with a financial institution and Arizona Health Facilities Authority (the “2015 Equipment Term Loan”) to finance the construction of a new emergency department. Under the 2015 Equipment Term Loan, the Medical Center received \$20,000,000 that was deposited into an escrow account owned by the Medical Center in exchange for a first security interest in its electronic medical record system. The proceeds were restricted for future build out materials and other capital expenses related to the construction of a new emergency department. The 2015 Equipment Term Loan bears interest at a rate of 1.95% and requires 120 monthly payments of \$183,579 with a final maturity date of September 15, 2025.

In March 2017, the Medical Center entered into two separate equipment term loans with a financial institution and the Industrial Development Authority of the City of Yuma, Arizona (the “2017 Equipment Term Loans”) to finance certain equipment and the expansion and upgrade of the Medical Center’s electronic medical record system. The first term loan was for \$15,000,000, bears interest at a rate of 2.13% percent, and requires 84 monthly payments of \$192,373 with a final maturity date of March 14, 2024. The proceeds are restricted for certain equipment and software. The second term loan was for \$5,000,000, bears interest at a rate of 2.37% percent and requires 120 monthly payments of \$46,840 with a final maturity date of March 14, 2027. The proceeds are restricted for the expansion and upgrade of the Medical Center’s electronic medical record system. Under the 2017 Equipment Term Loans, the Medical Center received \$20,000,000 that was deposited into an escrow account owned by the Medical Center in exchange for a first security interest in the assets to be acquired. As of September 30, 2017, \$11,983,300 remained in the escrow account and is included in the Medical Center’s assets limited to use (See Note 5).

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### Note 9 – Interest Rate Swaps

In 2004, the Medical Center entered into three fixed payor interest rate swaps to economically hedge the Series 2004 Bonds. In conjunction with the defeasement of the Series 2004 Bonds and Series 2008 Bonds, these interest rate swaps were left in place to economically hedge the Series 2014 Bonds. The notational amount of these swaps decrease over their terms. The outstanding notational amount for the first swap agreement was \$2,250,000 as of September 30, 2016. The Medical Center paid a 3.485% fixed rate and received 60% of the one-month LIBOR rate plus 0.36% (0.67% at September 30, 2016) from the counterparty. The first swap agreement expired on August 1, 2017. The outstanding notational amount for the second swap agreement was \$23,325,000 and \$24,550,000 as of September 30, 2017 and 2016, respectively. The Medical Center pays a 3.80% fixed rate and receives 60% of the one-month LIBOR rate plus 0.36%. The second swap agreement expires on August 1, 2031. The outstanding notational amount for the third swap agreement was \$28,075,000 and \$54,200,000 as of September 30, 2017 and 2016, respectively. The Medical Center pays a 3.88% fixed rate and receives 60% of the one-month LIBOR rate plus 0.36% from the counterparty. The third swap agreement expires on August 1, 2031. Settlements on these interest rate swaps are made monthly.

In 2001, the Medical Center entered into two basis swaps to economically hedge the Series 2001 Bonds. The first basis swap agreement had an outstanding notional amount of \$51,180,000 and \$51,355,000 as of September 30, 2017 and 2016, respectively. In September 2006, the Medical Center amended the swap to receive 72.50% of the five-year LIBOR rate minus 0.265% instead of 72.50% of the three-month LIBOR rate. In January 2010, the Medical Center amended the basis swap to again receive 72.50% of the three-month LIBOR rate (0.96% and 0.63% at September 30, 2017 and 2016, respectively) from the counterparty and continued to pay the weighted-average of the SIFMA Municipal Swap Index rate. Settlements are made quarterly on November 1, February 1, May 1, and August 1. The notional amount decreases over the term of the agreement, which expires on August 1, 2031.

The second basis swap agreement had an outstanding notional amount of \$2,260,000 as of September 30, 2016. In September 2006, the Medical Center amended the swap to receive 70% of the five-year LIBOR rate minus 0.223% instead of 70% of the three-month LIBOR rate. In January 2010, the Medical Center amended the basis rate swap to again receive 70% of the three-month LIBOR rate (0.59% at September 30, 2016) from the counterparty, and to continue to pay a weighted-average of the SIFMA Municipal Swap Index rate. Settlements were made quarterly on November 1, February 1, May 1, and August 1. The notional amount decreased over the term of the agreement, which expired on August 1, 2017.

The fair value of these interest rate swaps is determined on contractual terms and discounted at the prevailing swap curve on the respective valuation date. The mark-to-market adjustment for these derivative instruments resulted in a gain of approximately \$3,868,000 and \$75,000 during the years ended September 30, 2017 and 2016, respectively, which includes the monetization noted above. All of Medical Center's derivative instruments were in liability positions at September 30, 2017 and 2016, respectively.

## Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

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### Note 9 – Interest Rate Swaps (continued)

Net interest expense for the years ended September 30 includes the following components:

	2017	2016
Interest paid during the year	\$ 3,888,241	\$ 5,467,665
Cash paid on swaps during the year	4,567,727	2,721,331
Less cash received from swaps during the year	(50,414)	(81,128)
Amortization of deferred financing costs	45,907	58,016
Amortization of bond premium	(204,121)	(195,229)
Interest expense capitalized	(2,302,208)	(6,382,284)
Change in accrued interest and swap receivable	(106,190)	28,009
Net interest expense	\$ 5,838,942	\$ 1,616,380

### Note 10 – Retirement Plans

The Medical Center has an eligible noncontributory defined benefit retirement plan (the “Plan”) covering substantially all hospital employees hired prior to September 26, 2006, as described more completely below. Employees of certain other subsidiaries of the Medical Center are covered on the same terms. Under the Plan, employee benefits are based on each employee's years of service, and the employee's highest average compensation during five consecutive years of the last 10 years. Vesting occurs over a five-year period. Annual contributions are made to the Plan sufficient to satisfy legal funding requirements established by the Employee Retirement Income Security Act of 1974 (ERISA). For the upcoming fiscal year ending September 30, 2018 the employer expects to make cash contributions in the range of \$0 to \$7,732,822. The employer contributions will satisfy the minimum required contributions under ERISA and include an additional amount sufficient to bring the Plan's funded status, as measured under ERISA (i.e., the Adjusted Funded Target Attainment Percentage, or AFTAP), to 80%.

As of September 26, 2006, the Medical Center ceased offering pension benefits to new employees under the Plan. The Medical Center will continue to provide pension benefits under the Plan for retirees and employees hired prior to September 26, 2006, who met eligibility requirements. During an initial choice phase (October 1, 2006 to December 31, 2006), all current employees were given an opportunity to cease participation in the Plan and enroll in a qualified defined contribution plan (the “401(k) Plan”). As of January 1, 2007, new employees are enrolled in the 401(k) Plan, which requires the Medical Center to match 100% on the first 3% contributed by the employee. If the employee contributes 4%, the Medical Center will match 3 1/2% and if the employee contributes 5% or more, the Medical Center will match 4%. The Medical Center made matching contributions to the 401(k) Plan of approximately \$4,277,000 in 2017 and \$3,596,000 in 2016.

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### Note 10 – Retirement Plans (continued)

Pension cost and the funded status of the Plan, as determined by the Plan's actuary as of and for the years ended September 30 follow:

	<u>2017</u>	<u>2016</u>
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 226,537,101	\$ 201,355,030
Service cost	2,367,139	2,383,632
Interest cost	7,496,043	8,133,698
Actuarial loss (gain)	(12,174,347)	21,100,199
Benefits paid	<u>(7,235,142)</u>	<u>(6,435,458)</u>
Projected benefit obligation at end of year	<u>\$ 216,990,794</u>	<u>\$ 226,537,101</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 146,271,163	\$ 133,015,056
Actual return on plan assets	16,240,540	18,630,905
Employer contributions	4,362,916	1,060,660
Benefits paid	<u>(7,235,142)</u>	<u>(6,435,458)</u>
Fair value of plan assets at end of year	<u>159,639,477</u>	<u>146,271,163</u>
Funded status (accrued pension costs)	<u>\$ (57,351,317)</u>	<u>\$ (80,265,938)</u>
Unrecognized net loss recorded in net assets	<u>\$ 50,848,977</u>	<u>\$ 70,279,945</u>

The underfunded status of the Plan at September 30, 2017 and 2016 is recognized in the accompanying combined balance sheets as a liability.

Net periodic benefit cost, included in employee benefits expense, is comprised of the following for the years ended September 30:

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
Components of net periodic benefit cost		
Service cost	\$ 2,367,139	\$ 2,383,632
Interest cost	7,496,043	8,133,698
Expected return on plan assets	(11,183,058)	(10,147,352)
Amortization of prior service cost	657,290	657,290
Amortization of actuarial cost	<u>1,541,849</u>	<u>6,519,136</u>
Net periodic benefit cost	<u>\$ 879,263</u>	<u>\$ 7,546,404</u>

## Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

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### Note 10 – Retirement Plans (continued)

Changes in plan assets and benefit obligations recognized in unrestricted net assets during 2017 and 2016, respectively, include:

	<u>2017</u>	<u>2016</u>
Net loss	\$ (17,231,829)	\$ 12,616,646
Amortization of actuarial loss	(1,541,849)	(6,519,136)
Amortization of prior service cost	<u>(657,290)</u>	<u>(657,290)</u>
Change in pension plan assets and liabilities recognized as changes in net assets	<u>\$ (19,430,968)</u>	<u>\$ 5,440,220</u>

The assumptions used to determine the projected benefit obligation and net periodic benefit cost for the Plan are set forth below:

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
Weighted-average assumptions used to determine benefit obligation:		
Measurement date	September 30, 2017	September 30, 2016
Discount rate	3.67%	3.41%
Rate of compensation increase	2.79%	2.83%
Weighted-average assumptions used to determine net periodic benefit cost:		
Fiscal year end	2017	2016
Discount rate	3.41%	4.18%
Expected return on plan assets	7.75%	7.75%
Rate of compensation increase	2.79%	2.83%

The expected long-term rate of return on plan assets assumption of 7.75% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. Based on the Medical Center's investment allocation for the Plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 7.25% - 9.25%. A rate of 7.75% near the midpoint of the best estimate range was selected.

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### Note 10 – Retirement Plans (continued)

The Medical Center updates its mortality assumptions periodically to use the mortality tables as published by the Society of Actuaries. The Medical Center used the mortality assumptions under the MP-2016 and MP-2015 and tables to calculate the projected benefit obligation as of September 30, 2017 and 2016, respectively. Additionally, the Medical Center updates its discount rate annually based on the anticipated yield of investments. The change in mortality assumptions along with the change in discount rate shown in the table above resulted in a decrease in the Medical Center's projected benefit obligation of approximately \$12,174,000 for the year ended September 30, 2017 and an increase in the Medical Center's projected benefit obligation of approximately \$21,000,000 for the year ended September 30, 2016.

**Plan assets** – The following represents the Plan's weighted-average asset allocation by asset category:

Asset category:	September 30,	
	2017	2016
Equity	60%	58%
Fixed income	35%	34%
Cash	4%	5%
Other	1%	3%
	<u>100%</u>	<u>100%</u>

Plan assets are intended to satisfy, over time, the obligation of the Medical Center to provide retirement benefits in accordance with the Plan's terms. Hence, Plan assets are to be managed in a prudent manner for the exclusive benefit of the Plan's participants and their beneficiaries, consistent with the provision of ERISA.

The targeted range by principal investment category as a percentage of the total value of the Plan assets is: 1) domestic equities: 35% to 45%, 2) international equities: 7% to 13%, 3) fixed income: 30% to 40%, 4) real estate: 3% to 7%, and 5) cash: 0% to 10%.

The investment objective for Plan assets shall be to achieve an annual average rate of return (net of investment management expense) over a moving five-year period, which exceeds the average annual rate of return that would have been achieved in the same period by a composite market index comprised of the Russell 3000 Index (weighted 0.55), the Barclays Capital Aggregate Bond Index (weighted 0.30), and MSCI AC World Index (weighted 0.15).

## Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

### Note 10 – Retirement Plans (continued)

The fair value of the Plan's assets at September 30, 2017 and 2016, by asset category, are as follows:

	2017		
	Level 1	Level 2	Total Fair Value
Cash and cash equivalents	\$ 5,351,172	\$ -	\$ 5,351,172
Equity securities	97,559,685	-	97,559,685
U.S. corporate bonds	-	31,244,161	31,244,161
U.S. government bonds	15,178,336	2,412,397	17,590,733
Foreign bonds	-	6,320,101	6,320,101
Foreign equity mutual fund	1,573,625	-	1,573,625
	<u>\$ 119,662,818</u>	<u>\$ 39,976,659</u>	<u>\$ 159,639,477</u>
	2016		
	Level 1	Level 2	Total Fair Value
Cash and cash equivalents	\$ 6,638,924	\$ -	\$ 6,638,924
Equity securities	82,739,958	-	82,739,958
U.S. corporate bonds	-	26,766,987	26,766,987
U.S. government bonds	14,885,628	3,423,959	18,309,587
Foreign bonds	-	4,787,215	4,787,215
Real estate investment trusts	-	4,322,553	4,322,553
Foreign equity mutual fund	2,705,939	-	2,705,939
	<u>\$ 106,970,449</u>	<u>\$ 39,300,714</u>	<u>\$ 146,271,163</u>

See Note 4 for the valuation methods used for assets and liabilities recorded at fair value.

**Benefit payments** – The benefit payments, which reflect expected future service, are expected to be paid as follows:

<u>Year ending September 30,</u>	
2018	\$ 7,732,822
2019	8,352,448
2020	8,885,760
2021	9,360,336
2022	9,769,030
2023-2027	54,723,267

No portion of the pension liability would be classified as a current liability because plan assets exceed the value of benefit obligations expected to be paid within the year ended September 30, 2017.

# Yuma Regional Medical Center and Affiliates

## Notes to Combined Financial Statements

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### Note 10 – Retirement Plans (continued)

No plan assets are expected to be returned to the Medical Center during the year ending September 30, 2018.

As of October 1, 2016 almost all of the plan's participants are considered inactive. Beginning in the year ended September 30, 2017 the Medical Center prospectively changed the amortization period of the unrecognized actuarial loss to be over the expected future lifetime of inactive participants, which is approximately 27 years. This change in amortization period resulted in approximately a \$5,654,000 reduction to pension expense for the year ended September 30, 2017 as compared to pension expense for the year ended September 30, 2016.

Amounts not yet reflected in net periodic pension cost, which are expected to be reflected in expense in fiscal 2018, are as follows:

Amortization of prior service cost	\$ 639,917
Amortization of net loss	<u>1,019,403</u>
	<u>\$ 1,659,320</u>

### Note 11 – Commitments and Contingencies

**Regulation and litigation** – The Medical Center is involved in litigation and regulatory investigations arising in the course of business and of a nature that is routine to the industry. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Medical Center's future financial position or results from operations.

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Medical Center is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### Note 12 – Functional Expenses

The Medical Center provides health care services to residents within its geographic locations. Operating expenses related to providing these services are as follows for the years ended September 30:

	2017	2016
Health care services	\$ 400,136,436	\$ 372,539,632
General and administrative	23,736,907	27,610,349
Total operating expenses	\$ 423,873,343	\$ 400,149,981

#### Note 13 – Charity Care

In support of its mission and philosophy, the Medical Center provides a number of services for which it receives partial or no reimbursement. These services include charity care, support of children's programs, services to undocumented aliens, services to patients who qualify for government-supported programs, and other programs that support the community.

The Medical Center provides uncompensated health care to individuals who cannot afford health care due to inadequate resources, and do not otherwise qualify for government-subsidized insurance. Because the Medical Center does not pursue collections, charity care is not included in net patient service revenue. A copy of the Medical Center's Charity Care Policy is available at the website: [www.yumaregional.org](http://www.yumaregional.org). The costs of providing health care services that are uncompensated are estimated to be approximately \$6,745,000 and \$7,924,000 for the years ended September 30, 2017 and 2016, respectively.

#### Note 14 – Self-Insurance Programs

**Professional liability and estimated medical malpractice claims** – The Medical Center is self-insured for medical malpractice and general liability for the first \$1,000,000 of loss per occurrence. Losses in excess of this amount are insured through claims-made professional liability policies that also provide coverage for incidents reported within a specified time period.

Losses from asserted and unasserted claims identified are accrued based on estimates that incorporate the Medical Center's past experience, as well as other considerations, including the nature of each claim or incident, and relevant trend factors. Gross medical malpractice and general liability losses have been discounted at a rate of 4% and totaled approximately \$3,482,000 and \$4,830,000 at September 30, 2017 and 2016, respectively. There was no insurance receivable at September 30, 2017 and 2016 related to the expected claims as no individual claims identified and accrued for were in excess of the self-insured amount.

# Yuma Regional Medical Center and Affiliates

## Notes to Combined Financial Statements

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### Note 14 – Self-Insurance Programs (continued)

**Workers' compensation insurance** – The Medical Center is self-insured for workers' compensation risk for the first \$250,000 of loss per occurrence. Losses in excess of this amount are insured through third-party insurance policies, which provide coverage up to statutory amounts. The Medical Center currently has reserved \$893,000 and \$1,025,000 for workers' compensation claims at September 30, 2017 and 2016, respectively.

**Employee health insurance** – The Medical Center is self-insured for employee health benefits, and records an accrual for claims incurred but not yet reported. Stop loss coverage is maintained, which caps the maximum payable per fiscal year ending June 30. Healthcare benefit expense for the years ended September 30, 2017 and 2016 was approximately \$18,545,000 and \$14,357,000, respectively. Accruals for unpaid claims incurred but not reported amounted to approximately \$2,394,000 and 3,000,000 at September 30, 2017 and 2016, respectively, and are included in the combined balance sheet in self-insurance programs liability. Estimates for incurred but not reported claims are based on historical trends, expected lag time in reporting of claims, and other factors.

### Note 15 – Investments in Affiliates

**HealthSouth of Yuma, Inc.** – The Medical Center has a joint venture operating agreement with HealthSouth of Yuma, Inc. (HealthSouth) for the purpose of owning and operating a rehabilitation hospital in Yuma. The Medical Center has a 49% membership interest in this joint venture (Yuma Rehabilitation Hospital, LLC). Under the terms of this agreement, HealthSouth will provide management services to Yuma Rehabilitation Hospital, LLC and has the right and option to put all of its membership interest to the Medical Center should the management services agreement be terminated. HealthSouth and the Medical Center have separate options to acquire each other's respective membership interest in Yuma Rehabilitation Hospital, LLC due to change in control and other contingent dissolution event circumstances. The Medical Center also has an option to purchase all of HealthSouth's membership interest in Yuma Rehabilitation Hospital, LLC in April 2022. Management is currently not aware of any plans by Yuma Rehabilitation Hospital, LLC to terminate the management services agreement.

Condensed financial information for HealthSouth as of and for the years ended September 30:

#### Summary of Statements of Operations

	2017	2016
Revenues	\$ 22,189,075	\$ 20,877,859
Net income	\$ 4,151,929	\$ 3,671,053

## Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

### Note 15 – Investments in Affiliates (continued)

#### Summary of Balance Sheets

	2017	2016
Assets		
Current assets	\$ 7,640,652	\$ 7,454,120
Noncurrent assets	7,912,882	8,639,092
Total assets	\$ 15,553,534	\$ 16,093,212
Liabilities and Equity		
Current liabilities	\$ 815,807	\$ 1,188,388
Noncurrent liabilities	140,804	139,374
Equity	14,596,923	14,765,450
Total liabilities and equity	\$ 15,553,534	\$ 16,093,212

**Desert Healthcare Services, LLC** – The Medical Center formed Desert Healthcare Services, LLC (DHS) and entered into an operating agreement with Yuma Unified Medical Associates, Inc. (IPA) for the purpose of owning and operating urgent care facilities in Yuma. The Medical Center had a 50% membership interest in DHS. On September 30, 2017, the Medical Center sold its interest in DHS for \$362,000 and recorded a loss on sale of \$14,669.

Condensed financial information for DHS for the years ended September 30, 2017 and 2016 and as of September 30, 2016:

#### Summary of Statements of Operations

	2017	2016
Revenues	\$ 4,974,110	\$ 5,244,822
Net income	\$ 365,484	\$ 388,949

#### Summary of Balance Sheet

		2016
Assets		
Current assets		\$ 1,553,897
Noncurrent assets		209,146
Total assets		\$ 1,763,043
Liabilities and Equity		
Current liabilities		\$ 183,679
Equity		1,579,364
Total liabilities and equity		\$ 1,763,043

## Yuma Regional Medical Center and Affiliates

### Notes to Combined Financial Statements

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#### Note 15 – Investments in Affiliates (continued)

The table below sets forth the carrying values of the Medical Center's equity method investments in affiliates, and the Medical Center's share of their earnings or losses, as of and for the years ended September 30, 2017 and 2016. The Medical Center accounts for its investments in affiliates by the equity method. The Medical Center records its share of such earnings (loss) in the combined statements of operations in net investment income.

<b>September 30, 2017</b>	<u>HEALTHSOUTH</u>	<u>DHS</u>	<u>TOTAL</u>
Equity method investments			
in affiliates, beginning of year	\$ 7,255,690	\$ 1,013,998	\$ 8,269,688
Equity in earnings of affiliates	3,989,206	182,742	4,171,948
Distribution of earnings affiliates	(4,072,836)	(820,071)	(4,892,907)
Sale of membership interest	<u>-</u>	<u>(376,669)</u>	<u>(376,669)</u>
Equity method investments			
in affiliates, end of year	<u>\$ 7,172,060</u>	<u>\$ -</u>	<u>\$ 7,172,060</u>
<b>September 30, 2016</b>	<u>HEALTHSOUTH</u>	<u>DHS</u>	<u>TOTAL</u>
Equity method investments			
in affiliates, beginning of year	\$ 5,454,901	\$ 1,013,705	\$ 6,468,606
Equity in earnings of affiliates	3,527,091	194,475	3,721,566
Distribution of earnings affiliates	<u>(1,726,302)</u>	<u>(194,182)</u>	<u>(1,920,484)</u>
Equity method investments			
in affiliates, end of year	<u>\$ 7,255,690</u>	<u>\$ 1,013,998</u>	<u>\$ 8,269,688</u>

## **Other Financial Information**

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## Report of Independent Auditors on Combining Information

To the Board of Directors  
Yuma Regional Medical Center and Affiliates

We have audited the combined financial statements of Yuma Regional Medical Center and Affiliates as of and for the years ended September 30, 2017 and 2016, and have issued our report thereon dated December 15, 2017, which contained an unmodified opinion on those combined financial statements. Our audits were performed for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary combining information is presented for the purposes of additional analysis, and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

*Moss Adams LLP*

Scottsdale, Arizona  
December 15, 2017

**Yuma Regional Medical Center and Affiliates**  
**Condensed Combining Balance Sheet**  
**September 30, 2017**

	YRMC/ District	Foundation	YHCS	YCIN	YRCC	YPSG	Eliminations	Total
<b>Assets</b>								
Current assets	\$ 126,320,226	\$ 12,698,003	\$ -	\$ -	\$ -	\$ -	\$ (9,110)	\$ 139,009,119
Assets limited as to use	255,442,122	-	-	-	-	-	-	255,442,122
Property and equipment, net	378,143,202	15,408	-	-	-	-	-	378,158,610
Equity method investments	19,649,976	-	-	-	-	-	(12,477,916)	7,172,060
Goodwill	9,714,155	-	-	-	-	-	-	9,714,155
Other assets	2,425,540	-	-	-	-	-	-	2,425,540
<b>Total assets</b>	<b>\$ 791,695,221</b>	<b>\$ 12,713,411</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (12,487,026)</b>	<b>\$ 791,921,606</b>
<b>Liabilities and net assets</b>								
Current liabilities	\$ 45,968,054	\$ 36,261	\$ -	\$ 325,258	\$ -	\$ -	\$ (334,366)	\$ 45,995,207
Long-term debt, net	209,431,103	-	-	-	-	-	-	209,431,103
Accrued pension cost and other liabilities	71,833,582	199,232	-	-	-	-	-	72,032,814
<b>Net assets</b>	<b>464,462,482</b>	<b>12,477,918</b>	<b>-</b>	<b>(325,258)</b>	<b>-</b>	<b>-</b>	<b>(12,152,660)</b>	<b>464,462,482</b>
<b>Total liabilities and net assets</b>	<b>\$ 791,695,221</b>	<b>\$ 12,713,411</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (12,487,026)</b>	<b>\$ 791,921,606</b>

**Yuma Regional Medical Center and Affiliates**  
**Condensed Combining Balance Sheet**  
**September 30, 2016**

	YRMC/ District	Foundation	YHCS	YCIN	YRCC	YPSG	Eliminations	Total
<b>Assets</b>								
Current assets	\$ 100,122,959	\$ 11,180,185	\$ 1,543,460	\$ -	\$ -	\$ 1,152,307	\$ (5,710)	\$ 113,993,201
Assets limited as to use	229,017,299	-	-	-	-	-	-	229,017,299
Property and equipment, net	372,305,015	20,844	374,176	-	-	-	-	372,700,035
Equity method investments	22,509,331	-	-	-	-	-	(14,239,643)	8,269,688
Goodwill	9,714,155	-	-	-	-	-	-	9,714,155
Other assets	2,659,194	-	237,862	-	-	-	-	2,897,056
<b>Total assets</b>	<b>\$ 736,327,953</b>	<b>\$ 11,201,029</b>	<b>\$ 2,155,498</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,152,307</b>	<b>\$ (14,245,353)</b>	<b>\$ 736,591,434</b>
<b>Liabilities and net assets</b>								
Current liabilities	\$ 48,632,731	\$ 30,162	\$ 37,399	\$ 281,554	\$ -	\$ 21,364	\$ (285,947)	\$ 48,717,263
Long-term debt, net	194,291,821	-	-	-	-	-	-	194,291,821
Accrued pension cost and other liabilities	100,209,020	178,949	-	-	-	-	-	100,387,969
<b>Net assets</b>	<b>393,194,381</b>	<b>10,991,918</b>	<b>2,118,099</b>	<b>(281,554)</b>	<b>-</b>	<b>1,130,943</b>	<b>(13,959,406)</b>	<b>393,194,381</b>
<b>Total liabilities and net assets</b>	<b>\$ 736,327,953</b>	<b>\$ 11,201,029</b>	<b>\$ 2,155,498</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,152,307</b>	<b>\$ (14,245,353)</b>	<b>\$ 736,591,434</b>

**Yuma Regional Medical Center and Affiliates**  
**Condensed Combining Statement of Operations**  
**Year Ended September 30, 2017**

	YRMC/ District	Foundation	YHCS	YCIN	YRCC	YPSG	Eliminations	Total
Unrestricted revenues								
Net patient service	\$ 466,084,980	\$ -	\$ 459,557	\$ -	\$ -	\$ (64,430)	\$ -	\$ 466,480,107
Provision for doubtful accounts	(23,608,691)	-	(146,737)	-	-	(125,044)	-	(23,880,472)
Net patient service revenue less provision for doubtful accounts	442,476,289	-	312,820	-	-	(189,474)	-	442,599,635
Other revenue	5,590,720	817,017	248,320	-	-	(8,099)	(496,072)	6,151,886
Total revenues	448,067,009	817,017	561,140	-	-	(197,573)	(496,072)	448,751,521
Expenses								
Salaries and wages	168,045,552	451,808	303,417	14,419	-	-	(352,976)	168,462,220
Employee benefits	36,729,986	-	52,440	4,311	-	-	(20,940)	36,765,797
Medical supplies	65,170,385	-	201,647	-	-	-	-	65,372,032
General supplies	5,423,496	11,424	19,692	2,642	-	-	(19,040)	5,438,214
Professional fees	33,013,882	38,059	28,428	21,645	-	-	(35,295)	33,066,719
Purchased services	34,359,744	9,236	25,046	-	-	641	(38,807)	34,355,860
Operating and other expenses	38,939,053	485,806	154,838	687	-	22	(29,014)	39,551,392
Depreciation and amortization	34,962,988	5,436	53,743	-	-	-	-	35,022,167
Interest, net	5,838,942	-	-	-	-	-	-	5,838,942
Total operating expenses	422,484,028	1,001,769	839,251	43,704	-	663	(496,072)	423,873,343
Operating income (loss)	25,582,981	(184,752)	(278,111)	(43,704)	-	(198,236)	-	24,878,178
Net investment income	17,216,977	530,901	3,000	-	-	-	-	17,750,878
Equity in earnings (losses) of unconsolidated affiliates	4,075,747	-	-	-	-	-	96,201	4,171,948
Loss on sale of equity method investments in affiliates	(14,669)	-	-	-	-	-	-	(14,669)
Change in fair value of interest rate swaps	3,868,369	-	-	-	-	-	-	3,868,369
Other nonoperating income (loss)	(56,812)	-	74,701	-	-	-	-	17,889
Excess (deficit) of revenues over expenses	\$ 50,672,593	\$ 346,149	\$ (200,410)	\$ (43,704)	\$ -	\$ (198,236)	\$ 96,201	\$ 50,672,593

**Yuma Regional Medical Center and Affiliates**  
**Condensed Combining Statement of Operations**  
**Year Ended September 30, 2016**

	YRMC/ District	Foundation	YHCS	YCIN	YRCC	YPSG	Eliminations	Total
Unrestricted revenues								
Net patient service	\$ 428,895,658	\$ -	\$ 628,948	\$ -	\$ 1,040,362	\$ (506,567)	\$ -	\$ 430,058,401
Provision for doubtful accounts	(18,654,147)	-	(83,534)	-	(78,865)	(116,317)	-	(18,932,863)
Net patient service revenue less provision for doubtful accounts	410,241,511	-	545,414	-	961,497	(622,884)	-	411,125,538
Other revenue	5,662,670	555,783	389,981	-	-	11,952	(466,528)	6,153,858
Total revenues	415,904,181	555,783	935,395	-	961,497	(610,932)	(466,528)	417,279,396
Expenses								
Salaries and wages	150,930,099	420,907	374,777	-	2,401,469	-	(328,834)	153,798,418
Employee benefits	38,165,908	-	81,952	-	192,343	-	(19,529)	38,420,674
Medical supplies	66,005,044	-	355,589	-	-	(3,280)	-	66,357,353
General supplies	5,511,452	7,518	34,740	-	-	86	(13,460)	5,540,336
Professional fees	29,641,794	37,301	32,782	281,554	628,070	-	(33,966)	30,587,535
Purchased services	35,577,395	8,199	38,618	-	-	48,122	(37,666)	35,634,668
Operating and other expenses	37,093,539	412,977	209,855	-	55,507	326,489	(33,073)	38,065,294
Depreciation and amortization	30,063,718	4,599	60,493	-	513	-	-	30,129,323
Interest, net	1,616,380	-	-	-	-	-	-	1,616,380
Total operating expenses	394,605,329	891,501	1,188,806	281,554	3,277,902	371,417	(466,528)	400,149,981
Operating income (loss)	21,298,852	(335,718)	(253,411)	(281,554)	(2,316,405)	(982,349)	-	17,129,415
Net investment loss	16,250,729	401,777	26,950	-	-	-	-	16,679,456
Equity in earnings (losses) of unconsolidated affiliates	(19,144)	-	-	-	-	-	3,740,710	3,721,566
Change in fair value of interest rate swaps	75,192	-	-	-	-	-	-	75,192
Other nonoperating loss	29,586	-	-	-	-	-	-	29,586
Excess (deficit) of revenues over expenses	\$ 37,635,215	\$ 66,059	\$ (226,461)	\$ (281,554)	\$ (2,316,405)	\$ (982,349)	\$ 3,740,710	\$ 37,635,215

**Yuma Regional Medical Center and Affiliates**  
**Condensed Combining Statement Changes in Net Assets**  
**Year Ended September 30, 2017**

	YRMC/ District	Foundation	YHCS	YCIN	YRCC	YPSG	Eliminations	Total
<b>Unrestricted net assets</b>								
Excess (deficit) of revenues over expenses	\$ 50,672,593	\$ 346,149	\$ (200,410)	\$ (43,704)	\$ -	\$ (198,236)	\$ 96,201	\$ 50,672,593
Change in pension liability	19,430,968	-	-	-	-	-	-	19,430,968
Distributions/capital contributions	1,164,540	-	(1,917,689)	-	-	(932,707)	1,710,545	24,689
Transfers from temporarily restricted net assets	-	1,000	-	-	-	-	-	1,000
Increase in unrestricted net asset	<u>71,268,101</u>	<u>347,149</u>	<u>(2,118,099)</u>	<u>(43,704)</u>	<u>-</u>	<u>(1,130,943)</u>	<u>1,806,746</u>	<u>70,129,250</u>
<b>Temporarily restricted net assets</b>								
Donations, gifts, and contributions	-	1,162,272	-	-	-	-	-	1,162,272
Investment income	-	553,077	-	-	-	-	-	553,077
Net assets released from restricted used for operations	-	(575,498)	-	-	-	-	-	(575,498)
Transfers to unrestricted net assets	-	(1,000)	-	-	-	-	-	(1,000)
Increase in temporarily restricted net assets	<u>-</u>	<u>1,138,851</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,138,851</u>
<b>Permanently restricted net assets</b>								
Donations, gifts, and contributions	-	-	-	-	-	-	-	-
Increase in permanently restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	71,268,101	1,486,000	(2,118,099)	(43,704)	-	(1,130,943)	1,806,746	71,268,101
Net assets, beginning of year	<u>393,194,381</u>	<u>10,991,918</u>	<u>2,118,099</u>	<u>(281,554)</u>	<u>-</u>	<u>1,130,943</u>	<u>(13,959,406)</u>	<u>393,194,381</u>
Net assets, end of year	<u>\$ 464,462,482</u>	<u>\$ 12,477,918</u>	<u>\$ -</u>	<u>\$ (325,258)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,152,660)</u>	<u>\$ 464,462,482</u>

**Yuma Regional Medical Center and Affiliates**  
**Condensed Combining Statement Changes in Net Assets**  
**Year Ended September 30, 2016**

	YRMC/ District	Foundation	YHCS	YCIN	YRCC	YPSG	Eliminations	Total
<b>Unrestricted net assets</b>								
Excess (deficit) of revenues over expenses	\$ 37,635,215	\$ 66,059	\$ (226,461)	\$ (281,554)	\$ (2,316,405)	\$ (982,349)	\$ 3,740,710	\$ 37,635,215
Change in pension liability	(5,440,220)	-	-	-	-	-	-	(5,440,220)
Distributions/capital contributions	381,349	-	-	-	1,758,041	(804,647)	(1,320,950)	13,793
Increase in unrestricted net asset	<u>32,576,344</u>	<u>66,059</u>	<u>(226,461)</u>	<u>(281,554)</u>	<u>(558,364)</u>	<u>(1,786,996)</u>	<u>2,419,760</u>	<u>32,208,788</u>
<b>Temporarily restricted net assets</b>								
Donations, gifts, and contributions	-	518,922	-	-	-	-	-	518,922
Net assets released from restricted used for operations	-	(549,589)	-	-	-	-	-	(549,589)
Investment income	-	398,223	-	-	-	-	-	398,223
Increase in temporarily restricted net assets	<u>-</u>	<u>367,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>367,556</u>
Change in net assets	32,576,344	433,615	(226,461)	(281,554)	(558,364)	(1,786,996)	2,419,760	32,576,344
Net assets, beginning of year	<u>360,618,037</u>	<u>10,558,303</u>	<u>2,344,560</u>	<u>-</u>	<u>558,364</u>	<u>2,917,939</u>	<u>(16,379,166)</u>	<u>360,618,037</u>
Net assets, end of year	<u>\$ 393,194,381</u>	<u>\$ 10,991,918</u>	<u>\$ 2,118,099</u>	<u>\$ (281,554)</u>	<u>\$ -</u>	<u>\$ 1,130,943</u>	<u>\$ (13,959,406)</u>	<u>\$ 393,194,381</u>