



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

**YUMA REGIONAL MEDICAL CENTER
AND AFFILIATES**

September 30, 2019 and 2018

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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, 2019 and 2018, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for 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, 2019 and 2018, 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.

Emphasis of Matters

As discussed in Note 2 to the combined financial statements, as of October 1, 2018, Yuma Regional Medical Center and Affiliates adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented, with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the combined financial statements, as of October 1, 2018, Yuma Regional Medical Center and Affiliates adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* using the modified retrospective method. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Phoenix, Arizona
January 27, 2020

Yuma Regional Medical Center and Affiliates Combined Balance Sheets

ASSETS		September 30,	
	<u>2019</u>	<u>2018</u>	
CURRENT ASSETS			
Cash and cash equivalents	\$ 43,012,636	\$ 49,256,126	
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$0 and \$25,540,000 in 2019 and 2018, respectively	53,137,959	52,950,914	
Short-term investments	17,552,006	19,057,349	
Inventories	9,046,758	7,717,711	
Prepaid expenses and other current assets	<u>9,213,343</u>	<u>9,114,001</u>	
Total current assets	<u>131,962,702</u>	<u>138,096,101</u>	
ASSETS LIMITED TO USE			
PROPERTY AND EQUIPMENT, net	350,250,899	326,629,895	
EQUITY METHOD INVESTMENTS IN AFFILIATES	353,635,469	361,789,560	
GOODWILL	6,352,414	6,939,057	
INTANGIBLE ASSETS, net	22,037,419	9,714,155	
OTHER ASSETS	757,829	40,000	
	<u>3,637,778</u>	<u>3,772,038</u>	
Total assets	<u><u>\$ 868,634,510</u></u>	<u><u>\$ 846,980,806</u></u>	
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 19,552,101	\$ 17,472,901	
Accrued expenses	22,405,960	19,170,500	
Self-insurance programs liabilities	2,553,435	2,607,617	
Current maturities of long-term debt	10,968,823	8,866,135	
Estimated third-party payor settlements, net	<u>5,348,084</u>	<u>3,869,184</u>	
Total current liabilities	<u>60,828,403</u>	<u>51,986,337</u>	
LONG-TERM DEBT, net of current maturities, premium, and deferred financing costs			
	209,233,676	200,420,645	
ACCRUED PENSION COSTS	55,733,746	46,515,356	
INTEREST RATE SWAPS	7,740,132	5,354,973	
SELF-INSURANCE PROGRAMS LIABILITIES, net of current portion	6,076,258	5,756,789	
OTHER LIABILITIES	<u>2,133,986</u>	<u>3,740,952</u>	
Total liabilities	<u>341,746,201</u>	<u>313,775,052</u>	
NET ASSETS			
Without donor restrictions	517,187,758	523,840,321	
With donor restrictions	<u>9,700,551</u>	<u>9,365,433</u>	
Total net assets	<u>526,888,309</u>	<u>533,205,754</u>	
Total liabilities and net assets	<u><u>\$ 868,634,510</u></u>	<u><u>\$ 846,980,806</u></u>	

See accompanying notes.

Yuma Regional Medical Center and Affiliates Combined Statements of Operations

	Years Ended September 30,	
	2019	2018
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
OPERATING REVENUES		
Net patient service	\$ -	\$ 501,680,256
Provision for doubtful accounts	-	(22,569,138)
Net patient service revenue	484,231,939	479,111,118
Other revenue	8,304,396	4,080,099
Total operating revenues without donor restrictions	492,536,335	483,191,217
OPERATING EXPENSES		
Salaries and wages	192,252,428	172,385,661
Employee benefits	41,898,413	40,482,854
Medical supplies	76,886,972	75,007,586
General supplies	6,301,709	5,899,807
Professional fees	33,635,057	33,152,310
Purchased services	39,492,577	34,815,996
Other operating expenses	40,825,772	40,290,891
Depreciation and amortization	38,961,524	40,214,421
Interest expense, net	8,283,404	8,155,790
Total operating expenses	478,537,856	450,405,316
OPERATING INCOME	13,998,479	32,785,901
NONOPERATING INCOME (EXPENSES)		
Net investment income	9,490,038	16,806,478
Equity in earnings of unconsolidated affiliates	3,637,135	3,849,228
Change in fair value of interest rate swaps	(2,385,159)	3,094,579
Other nonoperating expenses	(11,957)	(195,954)
Total nonoperating income	10,730,057	23,554,331
EXCESS OF REVENUES OVER EXPENSES	24,728,536	56,340,232
Actuarial change in pension plan assets and liabilities	(31,252,609)	10,747,331
Other changes in net assets	(128,490)	71,472
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ (6,652,563)	\$ 67,159,035

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

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets at October 1, 2017	\$ 456,681,286	\$ 7,781,196	\$ 464,462,482
Excess of revenues over expenses	56,340,232	-	56,340,232
Actuarial change in pension plan assets and liabilities	10,747,331	-	10,747,331
Other changes in net assets	71,472	1,250	72,722
Donations, gifts, and contributions	-	1,479,254	1,479,254
Net investment income	-	619,078	619,078
Net assets released from restrictions used for operations	-	(515,345)	(515,345)
Change in net assets	<u>67,159,035</u>	<u>1,584,237</u>	<u>68,743,272</u>
Net assets at September 30, 2018	<u>523,840,321</u>	<u>9,365,433</u>	<u>533,205,754</u>
Excess of revenues over expenses	24,728,536	-	24,728,536
Actuarial change in pension plan assets and liabilities	(31,252,609)	-	(31,252,609)
Other changes in net assets	(128,490)	-	(128,490)
Donations, gifts, and contributions	-	523,944	523,944
Net investment income	-	389,814	389,814
Net assets released from restrictions used for operations	-	(578,640)	(578,640)
Change in net assets	<u>(6,652,563)</u>	<u>335,118</u>	<u>(6,317,445)</u>
Net assets at September 30, 2019	<u>\$ 517,187,758</u>	<u>\$ 9,700,551</u>	<u>\$ 526,888,309</u>

Yuma Regional Medical Center and Affiliates Combined Statements of Cash Flows

	Years Ended September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (6,317,445)	\$ 68,743,272
Adjustments to reconcile change in net cash to net cash provided by operating activities:		
Actuarial change in pension liability	31,252,609	(10,747,331)
Change in fair value of interest rate swaps	2,385,159	(3,094,579)
Depreciation and amortization	38,961,524	40,214,421
Amortization of deferred financing costs	67,851	67,736
Amortization of bond premium	(220,448)	(213,421)
Net realized and unrealized gain on investments	(3,348,981)	(11,296,111)
Equity in earnings of unconsolidated affiliates	(3,637,135)	(3,849,228)
Provision for doubtful accounts	-	22,569,138
Loss on disposal of property and equipment	11,957	210,159
Change in operating assets and liabilities:		
Patient accounts receivable	(187,045)	(28,252,333)
Inventories	(1,329,047)	(215,200)
Prepaid expenses and other assets	34,918	(3,211,361)
Accrued pension costs	(22,034,219)	(88,630)
Accounts payable, accrued expenses, and other liabilities	4,594,812	5,142,197
Estimated third-party payor settlements	1,478,900	1,468,138
Net cash provided by operating activities	<u>41,713,410</u>	<u>77,446,867</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(29,211,567)	(25,682,929)
Proceeds from sale of property and equipment	-	49,458
Cash consideration paid for acquisitions	(15,270,747)	-
Net purchases of investments classified as trading	(8,766,680)	(60,936,905)
Purchases of assets limited as to use at cost	(10,000,000)	-
Distribution of earnings from unconsolidated affiliates	4,223,778	4,082,231
Net cash used in investing activities	<u>(59,025,216)</u>	<u>(82,488,145)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	20,000,000	-
Repayment of long-term debt	(8,562,653)	(4,385,696)
Repayment of capital lease obligation	(295,031)	(280,295)
Capitalization of deferred financing costs	(74,000)	-
Net cash provided by (used in) financing activities	<u>11,068,316</u>	<u>(4,665,991)</u>
Net change in cash and cash equivalents	<u>(6,243,490)</u>	<u>(9,707,269)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>49,256,126</u>	<u>58,963,395</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 43,012,636</u>	<u>\$ 49,256,126</u>

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

	<u>Years Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 8,445,440</u>	<u>\$ 8,232,747</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment included in accounts payable	<u>\$ 621,831</u>	<u>\$ 2,199,303</u>

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 1 – Organization and Business Activity

Yuma Regional Medical Center (“YRMC”) 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”), Southwest Health Collaborative, L.L.C (“SWHC”), and Yuma Regional Health System Insurance, LLC (“YRHSI”) collectively referred to as the Medical Center. All intercompany transactions and balances are eliminated in combination.

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 as it is considered a special purpose leasing entity for accounting purposes. The mission of the Foundation is to support a healthy community through philanthropy. The Foundation is included in the combined financial statements due to common management. SWHC is a clinically integrated network wholly-owned by YRMC. YRHSI is a captive insurance company incorporated in the State of Arizona wholly-owned by YRMC. YRHSI provides YRMC hospital, professional, and general liability coverages.

The District, Foundation, SWHC, and YRHSI are not members of the Obligated Group as defined under the Master Indenture for the outstanding bonds.

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

Classification of net assets – Based on the existence or absence of donor-imposed restrictions, the Medical Center classifies resources into two categories: without donor restrictions and with donor restrictions.

Without donor restrictions – Net assets that are not subject to donor-imposed restrictions may be extended for any purpose in performing the primary objectives of the Medical Center. These net assets may be used at the discretion of the Medical Center’s management and board of directors.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

With donor restrictions – Net assets subject to stipulations imposed by donors or grantors. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When this occurs, the related resources are reclassified to net assets without donor restrictions. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources must be maintained in perpetuity.

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 January 27, 2020, which is the date the combined financial statements were available to be issued.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) 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; implicit price concessions on patient accounts receivable; 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.

Patient accounts receivable, net – The Medical Center reports patient accounts receivable at net realizable amounts due from third-party payors, patients, and other insurers to which the Medical Center expects to be entitled in exchange for providing patient care. Management periodically reviews the adequacy of the implicit price concessions (during 2019) or the allowance for doubtful accounts (during 2018) based on historical experience, trends in health care coverage, and other collection indicators.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Contract assets – Amounts related to health care services provided to patients which have not been billed that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract asset balances consist primarily of health care services provided to patients who are still receiving inpatient care in the Medical Center as of the end of the year. Contract asset balances are included in patient accounts receivable on the combined balance sheet.

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.

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 invested in equity securities without a readily determinable fair value are stated at cost. All other assets limited as to use are stated at fair value. Assets limited as to use 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 changes in net assets without donor restrictions.

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 U.S. GAAP. 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.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Gifts without donor restrictions of long-lived assets such as land, buildings, or equipment, are reported as net assets without donor restrictions, 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.

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 is 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, 2019 and 2018.

Intangible assets – There are no intangible assets with indefinite lives as of September 30, 2019 and 2018. Intangible assets are amortized using the straight-line method over their estimated useful lives, which is the estimated period over which economic benefits are expected to be provided.

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. There were no impairments recorded to long-lived assets for the years ended September 30, 2019 and 2018.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 \$28,000 and \$1,645,000 as of September 30, 2019 and 2018, respectively, and is included in other liabilities.

Deferred financing costs – Certain costs incurred in connection with long-term financing programs have been deferred. Deferred financing costs are amortized 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.

Excess of revenues over expenses – The combined statement of operations includes excess of revenues over expenses. Changes in net assets without donor restrictions that are excluded from excess of revenues over expenses, consistent with industry practice, include certain 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).

Functional allocation of expenses – Expenses are summarized and categorized based upon their functional classification as either program or support services. Specific expenses readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses attributable to more than one program or support service require allocation on a reasonable basis that is consistently applied. Certain employee benefit costs are allocated proportionally to salaries and wages. Depreciation, amortization, and interest are allocated based on square footage. All other expenses are allocated based on direct costs.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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. SWHC and YRHSI are single member limited liability companies that are 100% owned by YRMC, and are considered disregarded entities for tax purposes.

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

Net patient service revenue – Net patient revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursements agreements with third-party payors. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements become known. See Note 4.

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 with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the combined statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying combined financial statements.

Advertising – The Medical Center expenses advertising costs as they are incurred. During the years ended September 30, 2019 and 2018, the Medical Center incurred approximately \$793,000 and \$1,053,000 in advertising expense, respectively.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 16.

Recently adopted accounting pronouncements – Effective October 1, 2018, the Medical Center adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* using a modified retrospective method of application to all contracts existing on October 1, 2018. ASU 2019-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates a Topic 606, *Revenue from Contracts with Customers*. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

Adoption of ASU 2014-09 resulted in changes to the Medical Center's presentation and disclosure of revenue primarily related to uninsured and underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of the Medical Center's provision for doubtful accounts included within net patient service revenues related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed to the Medical Center by patients with insurance. Under ASU 2014-09, the estimated uncollectible amounts due from these parties are generally considered implicit price concessions that are a direct reduction to net patient service revenue and not reflected separately as a provision for uncollectible accounts. For the year ended September 30, 2019, the Medical Center recorded approximately \$34,564,000 of implicit price concessions as a direct reduction of net patient service revenues that would have been recorded as provision for doubtful accounts prior to the adoption of ASU 2014-09.

Under Topic 606, subsequent changes in estimate of collectability due to a change in the financial status of a payor, will be recognized as bad debt expense in operating expenses under other operating expenses on the combined statements of operations. Additionally, upon adoption of ASU 2014-09 the allowance for doubtful accounts of approximately \$25,540,000 as of October 1, 2018, was reclassified as a component of patient accounts receivable. Other than these changes in the presentation on the combined statements of operations and combined balance sheets, the adoption of ASU 2014-09 did not have a material impact on the consolidated results of operations for the year ended September 30, 2019, and the Medical Center does not expect it to have a material impact on its combined results of operations on a prospective basis.

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

As part of the adoption of ASU 2014-09, the Medical Center elected two of the available practical expedients provided for the standard. First, the Medical Center does not adjust the transaction price for any financing components as those were deemed to be insignificant. Additionally, the Medical Center expenses all incremental customer contract acquisition costs as incurred because such costs are not material and would be amortized over a period less than one year. The ASU also requires an entity to disclose sufficient information to enable the financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Effective October 1, 2018, the Medical Center adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. ASU 2016-14 improves the current net asset classification requirements and the information presented in financial statements and notes about an entity's liquidity, financial performance, and cash flows. The update removes the requirement to present three classes of net assets with two classes, net assets with donor restrictions and net assets without donor restrictions. The update also removes the requirement to present or disclose the indirect method (reconciliation) if using the direct method for the statement of cash flows as well as adds several additional enhanced disclosures to the financial statement notes. The Medical Center adopted ASU 2016-14 retrospectively to all periods presented with the exception of certain information as permitted by the update. In accordance with ASU 2016-14, net assets as of September 30, 2018, have been reclassified as follows:

	As Adjusted	
	Without Donor Restrictions	With Donor Restrictions
As previously reported:		
Unrestricted	\$ 523,840,321	\$ -
Temporarily restricted	-	6,157,336
Permanently restricted	-	3,208,097
	\$ 523,840,321	\$ 9,365,433

In accordance with ASU 2016-14, net assets as of October 1, 2017, have been reclassified as follows:

	As Adjusted	
	Without Donor Restrictions	With Donor Restrictions
As previously reported:		
Unrestricted	\$ 456,681,286	\$ -
Temporarily restricted	-	4,573,099
Permanently restricted	-	3,208,097
	\$ 456,681,286	\$ 7,781,196

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Recently issued accounting pronouncements – In January 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments, including the requirement to measure certain equity investments at fair value with changes in fair value recognized in excess of revenue over expenses. Some of the other provisions include eliminating certain disclosure requirements related to financial instruments measured at amortized cost and adding disclosures related to the measurement categories of financial assets and financial liabilities. This ASU is effective at the beginning of our 2020 fiscal year. The Medical Center is currently assessing the impact that the adoption of this standard will have on its combined financial statements and related disclosures upon implementation.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU 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. This ASU is effective at the beginning of our 2020 fiscal year. The Medical Center is currently assessing the impact that the adoption of this standard will have on its combined financial statements and related disclosures upon implementation.

Note 3 – Acquisitions

On September 27, 2019, the Medical Center acquired substantially all of the operating assets of Focused Imaging of Arizona (“FIA”), an outpatient imaging center. As part of the same transaction, the Medical Center acquired substantially all of the operating assets of Advanced Radiology Healthcare, LLC (“ARH”), another outpatient imaging center partially owned by FIA. As a result of the acquisition, the Medical Center expects to increase its imaging capacity and reduce costs through economies of scale.

The Medical Center accounted for its acquisition of FIA and ARH as an acquisition by a not-for-profit entity under the acquisition method of accounting. Assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. The fair values of identifiable intangible assets were based on valuations using the income approach and estimates determined by management. The excess of the fair value of the purchase consideration over the tangible assets, identifiable intangible assets, and assumed liabilities was recorded as goodwill. The goodwill of \$11,917,000 arising from the acquisition consists largely of synergies and economies of scale expected from combining the operations of FIA and ARH with those of the Medical Center.

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 3 – Acquisitions (continued)

The following table summarizes the consideration paid and estimated fair value of assets and liabilities assumed at the date of acquisition:

Cash consideration	\$ 13,255,747
Net identifiable assets acquired (at fair value)	
Property and equipment	1,030,000
Intangible assets	
Tradenames	91,000
Noncompetition agreements	<u>218,000</u>
Total net identifiable assets acquired (at fair value)	<u>1,339,000</u>
Goodwill	<u><u>\$ 11,916,747</u></u>

In addition to the acquisition of FIA and ARH, the Medical Center acquired substantially all the operating assets of 6 other clinics during the year ended September 30, 2019. These acquisitions were accounted for as acquisitions by a not-for-profit entity under the acquisition method of accounting. The following table summarizes the aggregate consideration paid and estimated fair value of assets and liabilities assumed for these acquisitions:

Cash consideration	\$ 2,015,000
Net identifiable assets acquired (at fair value)	
Property and equipment	1,112,093
Intangible assets	
Tradenames	95,382
Noncompetition agreements	222,543
Medical records	<u>178,465</u>
Total net identifiable assets acquired (at fair value)	<u>1,608,483</u>
Goodwill	<u><u>\$ 406,517</u></u>

Subsequent to September 30, 2019, the Medical Center entered into two additional acquisitions by a not-for-profit entity in exchange for a combined purchase price of \$8,725,000 of which \$5,620,000 represents the fair value of two office buildings acquired. As a result of the acquisitions, the Medical Center expects to increase its medical services offerings and reduce costs through economies of scale.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 3 – Acquisitions (continued)

Financial statement information for the fiscal year ended September 30, 2018, and the period from October 1, 2018 through September 26, 2019, was unavailable for certain of the acquisitions. As a result, supplemental pro forma information including revenues and changes in net assets of the Medical Center as though the acquisitions occurred at the beginning of fiscal 2018 was determined to be impracticable.

Note 4 – Net Patient Service Revenue and Allowance for Doubtful Accounts

Net patient service revenue is reported at the amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Medical Center bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Medical Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The Medical Center believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in our hospital receiving inpatient acute care services or patients receiving services in our outpatient centers. The Medical Center measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Medical Center has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 4 – Net Patient Service Revenue and Allowance for Doubtful Accounts (continued)

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare – 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. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. The Medical Center is reimbursed for Medicare outlier payments and sole community hospital status at a tentative rate. Physician services are paid based upon established fee schedules. Approximately 39% and 36% of the Medical Center's net patient revenue was derived from the Medicare program in 2019 and 2018, 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. Settlements for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Medical Center's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. The Medicare cost reports of the Medical Center have been audited by the fiscal intermediary through September 30, 2015. 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. Adjustments arising from a change in the transaction price were not significant for fiscal year 2019 or 2018.

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 16% and 15% of the Medical Center's net patient revenue was derived from the AHCCCS program in 2019 and 2018, respectively. The Medical Center does not believe that there are significant credit risks associated with this government agency.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 4 – Net Patient Service Revenue and Allowance for Doubtful Accounts (continued)

Commercial and 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 44% and 45% of the Medical Center's net patient revenue was derived from commercial, managed care, and other third-party payors in 2019 and 2018, respectively.

Inpatient and outpatient services rendered to self-pay patients are recorded at the Medical Center's standard rates as generally billed. Approximately 1% and 10% of the Medical Center's net patient service revenue was derived from self-pay patients in 2019 and 2018, respectively. The reduction is due to the adoption of ASU 2014-09 in which the net patient service revenue derived from self-pay patients in 2019 is reduced by certain implicit price concessions that would have been recorded as provision for doubtful accounts prior to the adoption of ASU 2014-09.

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.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Medical Center also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Medical Center estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended September 30, 2019 and 2018, additional revenue of approximately \$3,266,000 and \$4,744,000, respectively, was recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Medical Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Medical Center has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Medical Center expects to collect based on its collection history with those patients.

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 4 – Net Patient Service Revenue and Allowance for Doubtful Accounts (continued)

Patients who meet the Medical Center’s criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The Medical Center has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. The following tables provide details of these factors.

The composition of net patient service revenue by primary payor for the year ended September 30, 2019, is as follows:

Medicare	\$ 192,139,202
AHCCCS	77,284,918
Commercial	192,357,155
Other third party	21,074,602
Self-pay	<u>1,376,062</u>
Net patient service revenue	<u><u>\$ 484,231,939</u></u>

Revenue from patient’s deductibles and coinsurance are included in the preceding categories based on the primary payor.

The composition of net patient service revenue by service line for the year ended September 30, 2019, is as follows:

Hospital - inpatient	\$ 182,144,238
Hospital - outpatient	278,736,381
Physician services	<u>23,351,320</u>
Net patient service revenue	<u><u>\$ 484,231,939</u></u>

Under Topic 605, the Medical Center’s revenue disclosure shows the sources of net patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), for the year ended September 30, 2018, is as follows:

Medicare	\$ 178,718,348
AHCCCS	73,431,903
Other third-party payors	227,369,116
Self-pay	51,127,042
Less: Charity-care adjustment	<u>(28,966,153)</u>
Net patient service revenue	<u><u>\$ 501,680,256</u></u>

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 4 – Net Patient Service Revenue and Allowance for Doubtful Accounts (continued)

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, under Topic 605, the Medical Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. The Medical Center's allowance for doubtful accounts for self-pay patients was 86% of self-pay patient accounts receivable at September 30, 2018. 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 for 2018. Upon adoption of ASU 2014-09 (Topic 606), the allowance for doubtful accounts of approximately \$25,540,000 as of October 1, 2018, was reclassified as a component of patient accounts receivable.

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

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

	<u>2019</u>	<u>2018</u>
Short-term investments at fair value		
Certificates of deposit	\$ 1,067,645	\$ 1,055,052
Equity securities	8,987,678	9,008,454
Mutual funds	4,769,413	4,980,667
U.S. government securities	1,422,601	2,564,795
Corporate bonds	603,208	773,159
Private equity funds	701,461	675,222
	<u>701,461</u>	<u>675,222</u>
Total short-term investments	<u>\$ 17,552,006</u>	<u>\$ 19,057,349</u>

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

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

Assets limited as to use consist of the following as of September 30:

	2019	2018
Assets limited as to use at fair value		
Cash and cash equivalents	\$ 65,233,089	\$ 73,690,983
Equity securities	195,304,632	188,080,958
Mutual funds	3,391,143	2,697,802
U.S. government securities	39,073,455	34,517,420
Corporate bonds	15,355,179	16,265,760
Real estate investment trusts	12,106,852	11,376,972
Private equity funds	9,786,549	-
Total assets limited as to use at fair value	340,250,899	326,629,895
Assets limited as to use at cost		
Equity securities	10,000,000	-
Total assets limited as to use at cost	10,000,000	-
Total assets limited as to use	\$ 350,250,899	\$ 326,629,895

During the year ended September 30, 2019, the Medical Center invested \$10,000,000 in a clinical-stage biopharmaceutical company that does not have a readily determinable fair value and is recorded at cost.

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

	2019	2018
By Board for capital expenditures	\$ 326,084,622	\$ 322,404,822
Provisions of equipment term loans	22,538,174	2,569,443
Provisions of bond indentures	395,139	387,160
Malpractice liability cash reserve	1,100,932	1,100,932
Other	132,032	167,538
Total assets limited as to use	\$ 350,250,899	\$ 326,629,895

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 10). 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.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

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

The Medical Center is required to maintain certain funds in escrow accounts in connection with certain equipment term loans entered into (see Note 10). These funds are entirely comprised of cash and are limited to payment of specified capital expenses.

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

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 6,530,871	\$ 6,129,445
Net realized gain on sale of investments	4,710,827	10,712,981
Net unrealized gain (loss) on investments	<u>(1,361,846)</u>	<u>583,130</u>
Net investment income	<u>\$ 9,879,852</u>	<u>\$ 17,425,556</u>

Note 6 – 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.

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 6 – Fair Value of Financial Instruments (continued)

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.

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

Certificates of deposit – Valued by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

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.

Equity securities, U.S. government securities, and corporate bonds – 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 trusts – 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, 2019, 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.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 6 – Fair Value of Financial Instruments (continued)

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. Unfunded commitments related to these investments totaled \$8,182,722 as of September 30, 2019. As of September 30, 2018, there are no unfunded commitments related to these investments. 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.

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

	September 30, 2019				
	Level 1	Level 2	Level 3	Net Asset Value (or equivalent)	Total Fair Value
ASSETS					
Short-term investments					
Certificates of deposit	\$ -	\$ 1,067,645	\$ -	\$ -	\$ 1,067,645
Equity securities	8,987,678	-	-	-	8,987,678
Mutual funds	4,769,413	-	-	-	4,769,413
U.S. government securities	911,486	511,115	-	-	1,422,601
Corporate bonds	-	603,208	-	-	603,208
Private equity funds	-	-	-	701,461	701,461
Total short-term investments	14,668,577	2,181,968	-	701,461	17,552,006
Assets limited as to use					
Cash and cash equivalents	65,233,089	-	-	-	65,233,089
Equity securities	195,304,632	-	-	-	195,304,632
Mutual funds	3,391,143	-	-	-	3,391,143
U.S. government securities	20,773,238	18,300,217	-	-	39,073,455
Corporate bonds	-	15,355,179	-	-	15,355,179
Real estate investment trusts	-	-	-	12,106,852	12,106,852
Private equity funds	-	-	-	9,786,549	9,786,549
Total assets limited as to use	284,702,102	33,655,396	-	21,893,401	340,250,899
Total assets at fair value	\$ 299,370,679	\$ 35,837,364	\$ -	\$ 22,594,862	\$ 357,802,905
LIABILITIES					
Interest rate swaps	\$ -	\$ 7,740,132	\$ -	\$ -	\$ 7,740,132

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 6 – Fair Value of Financial Instruments (continued)

	September 30, 2018				
	Level 1	Level 2	Level 3	Net Asset Value (or equivalent)	Total Fair Value
ASSETS					
Short-term investments					
Certificates of deposit	\$ -	\$ 1,055,052	\$ -	\$ -	\$ 1,055,052
Equity securities	9,008,454	-	-	-	9,008,454
Mutual funds	4,980,667	-	-	-	4,980,667
Private equity funds	-	-	-	675,222	675,222
U.S. government securities	1,393,390	1,171,405	-	-	2,564,795
Corporate bonds	-	773,159	-	-	773,159
Total short-term investments	<u>15,382,511</u>	<u>2,999,616</u>	<u>-</u>	<u>675,222</u>	<u>19,057,349</u>
Assets limited as to use					
Cash and cash equivalents	73,690,983	-	-	-	73,690,983
Equity securities	188,080,958	-	-	-	188,080,958
Mutual funds	2,697,802	-	-	-	2,697,802
U.S. government securities	17,589,350	16,928,070	-	-	34,517,420
Corporate bonds	-	16,265,760	-	-	16,265,760
Real estate investment trusts	-	-	-	11,376,972	11,376,972
Total assets limited as to use	<u>282,059,093</u>	<u>33,193,830</u>	<u>-</u>	<u>11,376,972</u>	<u>326,629,895</u>
Total assets at fair value	<u>\$ 297,441,604</u>	<u>\$ 36,193,446</u>	<u>\$ -</u>	<u>\$ 12,052,194</u>	<u>\$ 345,687,244</u>
LIABILITIES					
Interest rate swaps	<u>\$ -</u>	<u>\$ 5,354,973</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,354,973</u>

There were no transfers of assets between levels of the fair value hierarchy during the years ended September 30, 2019 and 2018.

Note 7 – 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 patient accounts receivable from patients and third-party payors as of September 30:

	2019	2018
Private (commercial)	39%	42%
Private (self-pay)	12%	9%
Medicare	30%	30%
AHCCCS	15%	15%
Others (contractual arrangements)	4%	4%
	<u>100%</u>	<u>100%</u>

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 7 – Concentration of Credit Risk (continued)

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, 2019, the Medical Center had cash balances in excess of insured amounts of approximately \$25,530,000. 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.

Note 8 – Property and Equipment

Property and equipment consisted of the following at September 30:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 36,257,144	\$ 34,933,286
Buildings and improvements	415,498,455	413,393,412
Equipment	<u>266,979,436</u>	<u>250,126,403</u>
Gross property and equipment placed in service	718,735,035	698,453,101
Less accumulated depreciation and amortization	(386,798,802)	(348,200,038)
Construction in progress	<u>21,699,236</u>	<u>11,536,497</u>
Total property and equipment, net	<u>\$ 353,635,469</u>	<u>\$ 361,789,560</u>

Depreciation expense was approximately \$38,874,000 and \$40,214,000 for the years then ended September 30, 2019 and 2018, respectively.

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 8 – Property and Equipment (continued)

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

	2019	2018
Equipment	\$ 1,490,205	\$ 1,490,205
Accumulated amortization	(837,992)	(536,970)
Equipment under capital lease, net	\$ 652,213	\$ 953,235

Amortization expense for equipment under capital leases was approximately \$301,000 for the years ended September 30, 2019 and 2018, respectively.

Note 9 – Intangible Assets

Intangible assets consisted of the following at September 30, 2019:

	Weighted-average Estimated Life (Years)	Gross Amount	Accumulated Amortization	Net Carrying Amount
Tradenames	4.0	\$ 186,382	\$ (17,728)	\$ 168,654
Noncompetition agreements	4.0	480,543	(36,876)	443,667
Medical records	3.0	178,465	(32,957)	145,508
Total intangible assets, net	3.8	\$ 845,390	\$ (87,561)	\$ 757,829

Intangible assets consisted of the following at September 30, 2018:

	Weighted-average Estimated Life (Years)	Gross Amount	Accumulated Amortization	Net Carrying Amount
Noncompetition agreements	3.0	\$ 40,000	\$ -	\$ 40,000

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 9 – Intangible assets (continued)

Amortization expense for intangible assets was approximately \$88,000 for the year ended September 30, 2019. Future amortization expense related to intangible assets is expected to be as follows:

Year ending September 30,	
2020	\$ 240,596
2021	240,596
2022	153,037
2023	61,800
2024	61,800
	<u>757,829</u>
	<u>\$ 757,829</u>

Note 10 – Long-Term Debt

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

	<u>2019</u>	<u>2018</u>
Hospital Revenue Bonds - Series 2014A	\$ 69,285,000	\$ 73,030,000
Hospital Revenue Bonds - Series 2014B	51,715,000	51,885,000
Hospital Revenue Bonds - Series 2014C	51,715,000	51,885,000
2015 Equipment Term Loan	12,464,231	14,403,587
2017 Equipment Term Loan (7 year)	9,897,444	11,971,098
2017 Equipment Term Loan (10 year)	3,858,700	4,323,343
2019 Equipment Term Loan (10 year)	20,000,000	-
Capital leases	691,596	986,627
	<u>219,626,971</u>	<u>208,484,655</u>
Total long-term-debt		
Hospital Revenue Bonds - Series 2014A premium	1,944,412	2,164,860
Deferred financing costs, net	<u>(1,368,884)</u>	<u>(1,362,735)</u>
Total long-term-debt, net of premium and deferred financing costs	220,202,499	209,286,780
Less current maturities of long-term debt	<u>(10,968,823)</u>	<u>(8,866,135)</u>
Total long-term-debt, net of current maturities, premium, and deferred financing costs	<u>\$ 209,233,676</u>	<u>\$ 200,420,645</u>

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 10 – Long-Term Debt (continued)

Future maturities of long-term debt at September 30, 2019, follows:

	Revenue Bonds	Equipment Term Loans	Other Capital Lease Obligations	Total
Year ending September 30,				
2020	\$ 4,275,000	\$ 6,383,900	\$ 441,864	\$ 11,100,764
2021	4,485,000	6,519,103	441,864	11,445,967
2022	4,700,000	6,657,179	73,644	11,430,823
2023	4,925,000	6,798,187	-	11,723,187
2024	5,155,000	5,782,820	-	10,937,820
Thereafter	149,175,000	14,079,186	-	163,254,186
	172,715,000	46,220,375	957,372	219,892,747
Less amount representing executory costs	-	-	226,200	226,200
Less amount representing interest	-	-	39,576	39,576
Principal carrying value	<u>\$ 172,715,000</u>	<u>\$ 46,220,375</u>	<u>\$ 691,596</u>	<u>\$ 219,626,971</u>

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 3.19% to 3.63% for the Series 2014B Bonds and ranged from 2.67% to 2.98% for the Series 2014C Bonds during the year ended September 30, 2019. 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 3.19% and 2.67%, respectively, at September 30, 2019.

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.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 10 – Long-Term Debt (continued)

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 certain equipment. Under the 2015 Equipment Term Loan, the Medical Center received \$20,000,000 in exchange for a first security interest in its electronic medical record system. 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 a master lease agreement with a financial institution and the Industrial Development Authority of the City of Yuma, Arizona. In 2017, the Medical Center entered into separate equipment term loans under this master lease agreement (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.

In March 2019, the Medical center entered into a third equipment term loan under this master lease agreement (the “2019 Equipment Term Loan”) to finance certain medical equipment and information technology hardware and software. This loan was for \$20,000,000, bears interest at a rate of 2.15%, and requires 120 monthly payments of \$185,365 with a final maturity date of September 10, 2029. The proceeds are restricted for certain medical equipment and information technology hardware and software. Under the 2019 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 the assets to be acquired. As of September 30, 2019, approximately \$22,538,000 remained in the escrow accounts related to this master lease agreement 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

Note 11 – 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 first swap agreement expired on August 1, 2017. The outstanding notational amount for the second swap agreement was \$20,725,000 and \$22,050,000 as of September 30, 2019 and 2018, 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 \$25,375,000 and \$26,775,000 as of September 30, 2019 and 2018, 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 \$45,900,000 and \$48,610,000 as of September 30, 2019 and 2018, 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 again to receive 72.50% of the three-month LIBOR rate (1.38% and 1.74% at September 30, 2019 and 2018, 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 expired on August 1, 2017. 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 again to receive 70% of the three-month LIBOR rate 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.

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 \$2,385,000 and \$3,095,000 during the years ended September 30, 2019 and 2018, respectively. All of Medical Center's derivative instruments were in liability positions at September 30, 2019 and 2018, respectively.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 11 – Interest Rate Swaps (continued)

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

	2019	2018
Interest paid during the year	\$ 7,599,044	\$ 7,020,433
Cash paid on swaps during the year	989,727	1,288,418
Less cash received from swaps during the year	(143,331)	(76,104)
Amortization of deferred financing costs	67,851	67,736
Amortization of bond premium	(220,448)	(213,421)
Change in accrued interest and swap receivable	(9,439)	68,728
	<u>\$ 8,283,404</u>	<u>\$ 8,155,790</u>
Net interest expense	<u>\$ 8,283,404</u>	<u>\$ 8,155,790</u>

Note 12 – 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, 2019, the employer expects to make cash contributions in the range of approximately \$0 to \$9,028,000. 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 \$5,343,000 in 2019 and \$4,747,000 in 2018.

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 12 – 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:

	2019	2018
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 204,796,417	\$ 216,990,794
Service cost	1,765,720	2,043,393
Interest cost	8,220,970	7,775,724
Actuarial loss (gain)	34,374,967	(13,631,044)
Benefits paid	(9,066,913)	(8,382,450)
Projected benefit obligation at end of year	\$ 240,091,161	\$ 204,796,417
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 158,281,061	\$ 159,639,477
Actual return on plan assets	13,995,847	7,024,034
Employer contributions	21,147,420	-
Benefits paid	(9,066,913)	(8,382,450)
Fair value of plan assets at end of year	184,357,415	158,281,061
Funded status (accrued pension costs)	\$ (55,733,746)	\$ (46,515,356)
Unrecognized net loss recorded in net assets without donor restrictions	\$ 71,354,255	\$ 40,101,646

The underfunded status of the Plan at September 30, 2019 and 2018, 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:

	2019	2018
Components of net periodic benefit cost		
Service cost	\$ 1,765,720	\$ 2,043,393
Interest cost	8,220,970	7,775,724
Expected return on plan assets	(12,251,980)	(11,680,091)
Amortization of prior service cost	634,825	639,917
Amortization of actuarial cost	743,666	999,302
Net periodic benefit cost	\$ (886,799)	\$ (221,755)

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 12 – Retirement Plans (continued)

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions during 2019 and 2018, respectively, include:

	<u>2019</u>	<u>2018</u>
Net loss (gain)	\$ 32,631,100	\$ (9,108,112)
Amortization of actuarial gain	(743,666)	(999,302)
Amortization of prior service credit	<u>(634,825)</u>	<u>(639,917)</u>
Change in pension plan assets and liabilities recognized as changes in net assets without donor restrictions	<u>\$ 31,252,609</u>	<u>\$ (10,747,331)</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>2019</u>	<u>2018</u>
Weighted-average assumptions used to determine benefit obligation:		
Measurement date	September 30, 2019	September 30, 2018
Discount rate	2.98%	4.09%
Rate of compensation increase	2.46%	2.89%
Weighted-average assumptions used to determine net periodic benefit cost:		
Fiscal year end	2019	2018
Discount rate	4.09%	3.67%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	2.89%	2.79%

The expected long-term rate of return on plan assets assumption of 7.50% 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.

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 12 – 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-2018 and MP-2017 tables to calculate the projected benefit obligation as of September 30, 2019 and 2018, 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 an increase in the Medical Center's projected benefit obligation of approximately \$34,375,000 and a decrease in the Medical Center's projected benefit obligation of approximately \$13,631,000 for the years ended September 30, 2019 and 2018, respectively.

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

Asset category:	September 30,	
	2019	2018
Equity	62%	61%
Fixed income	33%	34%
Cash	4%	4%
Other	1%	1%
	100%	100%

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) equity securities: 65% to 70%, 2) debt securities: 35% to 40%, and 3) 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 12 – Retirement Plans (continued)

The fair value of the Plan's assets at September 30, 2019 and 2018, by asset category, are as follows:

	September 30, 2019		
	Level 1	Level 2	Total Fair Value
Cash and cash equivalents	\$ 7,991,559	\$ -	\$ 7,991,559
Equity securities	108,382,402	-	108,382,402
U.S. corporate bonds	-	34,771,521	34,771,521
U.S. government bonds	18,322,209	1,885,852	20,208,061
Foreign bonds	-	5,052,233	5,052,233
Real estate investment trusts (REITs)	-	2,621,944	2,621,944
Foreign equity mutual fund	5,329,695	-	5,329,695
	<u>\$ 140,025,865</u>	<u>\$ 44,331,550</u>	<u>\$ 184,357,415</u>
	September 30, 2018		
	Level 1	Level 2	Total Fair Value
Cash and cash equivalents	\$ 5,774,330	\$ -	\$ 5,774,330
Equity securities	94,334,043	-	94,334,043
U.S. corporate bonds	-	30,012,846	30,012,846
U.S. government bonds	14,798,519	1,950,478	16,748,997
Foreign bonds	-	6,611,571	6,611,571
Real estate investment trusts (REITs)	-	2,437,643	2,437,643
Foreign equity mutual fund	2,361,631	-	2,361,631
	<u>\$ 117,268,523</u>	<u>\$ 41,012,538</u>	<u>\$ 158,281,061</u>

See Note 6 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:

Year ending September 30,	
2020	\$ 9,027,877
2021	9,496,488
2022	9,833,078
2023	10,263,351
2024	10,720,177
2025-2029	58,682,598
	<u>\$ 108,023,569</u>

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 12 – Retirement Plans (continued)

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, 2019. No plan assets are expected to be returned to the Medical Center during the year ending September 30, 2020.

Amounts not yet reflected in net periodic pension cost, which are expected to be reflected in expense in fiscal 2020, are as follows:

Amortization of prior service cost	\$ 351,271
Amortization of net loss	<u>1,860,933</u>
	<u><u>\$ 2,212,204</u></u>

Note 13 – 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

Note 14 – Functional Expenses

The Medical Center provides health care services to residents within its geographic locations. Expenses by function and nature consist of the following for the year ended September 30, 2019:

	Year Ended September 30, 2019		
	Health Care Services	General and Administrative	Total
Salaries and wages	\$ 144,943,598	\$ 47,308,830	\$ 192,252,428
Employee benefits	31,278,752	10,619,661	41,898,413
Medical supplies	76,886,972	-	76,886,972
General supplies	2,545,524	3,756,185	6,301,709
Professional fees	29,922,368	3,712,689	33,635,057
Purchased services	27,933,343	11,559,234	39,492,577
Other operating expenses	8,995,531	31,830,241	40,825,772
Depreciation and amortization	25,097,456	13,864,068	38,961,524
Interest expense, net	5,313,345	2,970,059	8,283,404
Total expenses	<u>\$ 352,916,889</u>	<u>\$ 125,620,967</u>	<u>\$ 478,537,856</u>

Operating expenses related to providing these services are as follows for the year ended September 30, 2018:

Health care services	\$ 413,922,485
General and administrative	<u>36,482,831</u>
Total operating expenses	<u>\$ 450,405,316</u>

Note 15 – 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. The costs of providing health care services that are uncompensated are estimated to be approximately \$5,973,000 and \$6,877,000 for the years ended September 30, 2019 and 2018, respectively.

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 16 – 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 totaled approximately \$4,755,000 and \$4,717,000 at September 30, 2019 and 2018, respectively.

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 \$1,322,000 and \$1,040,000 for workers' compensation claims at September 30, 2019 and 2018, 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. Healthcare benefit expense for the years ended September 30, 2019 and 2018, was approximately \$22,079,000 and \$21,530,000, respectively. Accruals for unpaid claims incurred but not reported amounted to approximately \$2,553,000 and \$2,608,000 at September 30, 2019 and 2018, 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 17 – Investments in Affiliates

Encompass Health Yuma Holdings, Inc. – The Medical Center has a joint venture operating agreement with Encompass Health Yuma Holdings, Inc., formerly HealthSouth of Yuma, Inc. ("Encompass") 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, Encompass 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. Encompass 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 Encompass'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.

Yuma Regional Medical Center and Affiliates

Notes to Combined Financial Statements

Note 17 – Investments in Affiliates (continued)

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

Summary of Statements of Operations

	<u>2019</u>	<u>2018</u>
Revenues	\$ 22,334,475	\$ 22,496,114
Net income	3,787,836	4,080,550

Summary of Balance Sheets

	<u>2019</u>	<u>2018</u>
Assets		
Current assets	\$ 7,290,242	\$ 7,825,473
Noncurrent assets	<u>7,747,758</u>	<u>7,353,911</u>
Total assets	<u>\$ 15,038,000</u>	<u>\$ 15,179,384</u>
Liabilities and Equity		
Current liabilities	\$ 2,514,592	\$ 936,661
Noncurrent liabilities	1,040,071	139,735
Equity	<u>11,483,337</u>	<u>14,102,988</u>
Total liabilities and equity	<u>\$ 15,038,000</u>	<u>\$ 15,179,384</u>

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, 2019 and 2018. 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.

	<u>2019</u>	<u>2018</u>
Equity method investments in affiliates, beginning of year	\$ 6,939,057	\$ 7,172,060
Equity in earnings of affiliates	3,637,135	3,849,228
Distribution of earnings affiliates	<u>(4,223,778)</u>	<u>(4,082,231)</u>
Equity method investments in affiliates, end of year	<u>\$ 6,352,414</u>	<u>\$ 6,939,057</u>

Yuma Regional Medical Center and Affiliates Notes to Combined Financial Statements

Note 18 – Net Assets

A portion of the Foundation's net assets were restricted as follows as of September 30:

	2019	2018
Subject to expenditure for specific purpose	\$ 3,104,661	\$ 2,973,331
Subject to endowment spending policy	3,387,793	3,184,005
Endowment funds required to be retained in perpetuity	3,208,097	3,208,097
Total net assets with donor restrictions	\$ 9,700,551	\$ 9,365,433

Note 19 – Availability and Liquidity

As of September 30, 2019, the Medical Center's financial assets available to meet general expenditures over the next twelve months are as follows:

Financial assets	
Cash and cash equivalents	\$ 43,012,636
Patient accounts receivable, net of allowance for doubtful accounts	53,137,959
Short-term investments	17,552,006
Assets limited to use	350,250,899
Equity method investments in affiliates	6,352,414
Total financial assets	470,305,914
Amounts not available for general expenditures	
Assets limited to use	350,250,899
Equity method investments in affiliates	6,352,414
Net assets with donor restrictions	9,700,551
Total amounts not available for general expenditures	366,303,864
Total financial assets available for general expenditures	\$ 104,002,050

As part of the Medical Center's liquidity management, financial assets are structured to be available when general expenditures, liabilities, debt and other obligations come due. In addition, the Medical Center invests cash in excess of daily requirements in investments that can be liquidated within three days. These investments are managed by an external investment manager with oversight by the Medical Center's Finance Committee. The Medical Center has debt covenants that require a minimum of 90 days cash on hand (see Note 10). As of September 30, 2019, the Medical Center had approximately 299 days of cash on hand as calculated per the terms of the debt covenants. The Medical Center's Finance Committee reviews the days cash on hand requirement on a quarterly basis to ensure ongoing covenant compliance.

Other Financial Information

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, 2019 and 2018, and have issued our report thereon dated January 27, 2020, 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

Phoenix, Arizona
January 27, 2020

Yuma Regional Medical Center and Affiliates
Condensed Combining Balance Sheet
September 30, 2019

	YRMC/ District	Foundation	SWHC	YRHSI	Eliminations	Total
ASSETS						
Current assets	\$ 108,480,653	\$ 14,790,805	\$ -	\$ 11,173,002	\$ (2,481,758)	\$ 131,962,702
Assets limited as to use	350,250,899	-	-	-	-	350,250,899
Property and equipment, net	353,630,096	5,373	-	-	-	353,635,469
Equity method investments in affiliates	23,836,706	-	-	-	(17,484,292)	6,352,414
Goodwill	22,037,419	-	-	-	-	22,037,419
Intangible assets, net	757,829	-	-	-	-	757,829
Other assets	3,637,778	-	-	-	-	3,637,778
	<u>3,637,778</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,637,778</u>
Total assets	<u>\$ 862,631,380</u>	<u>\$ 14,796,178</u>	<u>\$ -</u>	<u>\$ 11,173,002</u>	<u>\$ (19,966,050)</u>	<u>\$ 868,634,510</u>
LIABILITIES						
Current liabilities	\$ 60,802,253	\$ 51,690	\$ 1,154,848	\$ 3,312,628	\$ (4,493,016)	\$ 60,828,403
Long-term debt, net	209,233,676	-	-	-	-	209,233,676
Accrued pension costs	55,733,746	-	-	-	-	55,733,746
Interest rate swaps	7,740,132	-	-	-	-	7,740,132
Self-insurance programs liabilities, net	1,321,613	-	-	4,754,645	-	6,076,258
Other liabilities	1,909,112	224,874	-	-	-	2,133,986
	<u>1,909,112</u>	<u>224,874</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,133,986</u>
Total liabilities	<u>336,740,532</u>	<u>276,564</u>	<u>1,154,848</u>	<u>8,067,273</u>	<u>(4,493,016)</u>	<u>341,746,201</u>
NET ASSETS						
Net assets without donor restrictions	525,890,848	4,819,063	(1,154,848)	3,105,729	(15,473,034)	517,187,758
Net assets with donor restrictions	-	9,700,551	-	-	-	9,700,551
	<u>-</u>	<u>9,700,551</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,700,551</u>
Total net assets	<u>525,890,848</u>	<u>14,519,614</u>	<u>(1,154,848)</u>	<u>3,105,729</u>	<u>(15,473,034)</u>	<u>526,888,309</u>
Total liabilities and net assets	<u>\$ 862,631,380</u>	<u>\$ 14,796,178</u>	<u>\$ -</u>	<u>\$ 11,173,002</u>	<u>\$ (19,966,050)</u>	<u>\$ 868,634,510</u>

Yuma Regional Medical Center and Affiliates
Condensed Combining Balance Sheet
September 30, 2018

	YRMC/ District	Foundation	SWHC	YRHSI	Eliminations	Total
ASSETS						
Current assets	\$ 121,521,822	\$ 14,139,931	\$ -	\$ 9,800,184	\$ (7,365,836)	\$ 138,096,101
Assets limited as to use	326,629,895	-	-	-	-	326,629,895
Property and equipment, net	361,779,169	10,391	-	-	-	361,789,560
Equity method investments in affiliates	22,262,660	-	-	-	(15,323,603)	6,939,057
Goodwill	9,714,155	-	-	-	-	9,714,155
Intangible assets, net	40,000	-	-	-	-	40,000
Other assets	3,772,038	-	-	-	-	3,772,038
Total assets	\$ 845,719,739	\$ 14,150,322	\$ -	\$ 9,800,184	\$ (22,689,439)	\$ 846,980,806
LIABILITIES						
Current liabilities	\$ 58,259,064	\$ 22,673	\$ 659,997	\$ 3,673,204	\$ (10,628,601)	\$ 51,986,337
Long-term debt, net	200,420,645	-	-	-	-	200,420,645
Accrued pension costs	46,515,356	-	-	-	-	46,515,356
Interest rate swaps	5,354,973	-	-	-	-	5,354,973
Self-insurance programs liabilities, net	1,040,031	-	-	4,716,758	-	5,756,789
Other liabilities	3,526,579	214,373	-	-	-	3,740,952
Total liabilities	315,116,648	237,046	659,997	8,389,962	(10,628,601)	313,775,052
NET ASSETS						
Net assets without donor restrictions	530,603,091	4,547,843	(659,997)	1,410,222	(12,060,838)	523,840,321
Net assets with donor restrictions	-	9,365,433	-	-	-	9,365,433
Total net assets	530,603,091	13,913,276	(659,997)	1,410,222	(12,060,838)	533,205,754
Total liabilities and net assets	\$ 845,719,739	\$ 14,150,322	\$ -	\$ 9,800,184	\$ (22,689,439)	\$ 846,980,806

Yuma Regional Medical Center and Affiliates
Condensed Combining Statement of Operations
Year Ended September 30, 2019

	YRMC/ YRMC/District	Foundation	SWHC	YRHSI	Eliminations	Total
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS						
OPERATING REVENUES						
Net patient service	\$ 484,231,939	\$ -	\$ -	\$ -	\$ -	\$ 484,231,939
Other revenue	8,205,232	414,460	2,700	3,982,460	(4,300,456)	8,304,396
Total operating revenues without donor restrictions	492,437,171	414,460	2,700	3,982,460	(4,300,456)	492,536,335
OPERATING EXPENSES						
Salaries and wages	191,910,123	278,986	287,868	-	(224,549)	192,252,428
Employee benefits	41,841,768	-	72,866	-	(16,221)	41,898,413
Medical supplies	76,887,480	-	-	-	(508)	76,886,972
General supplies	6,296,699	3,626	9,496	-	(8,112)	6,301,709
Professional fees	33,342,539	43,319	116,949	132,250	-	33,635,057
Purchased services	39,528,201	3,164	3,405	-	(42,193)	39,492,577
Operating and other expenses	41,466,365	74,936	6,967	2,154,703	(2,877,199)	40,825,772
Depreciation and amortization	38,956,507	5,017	-	-	-	38,961,524
Interest, net	8,283,404	-	-	-	-	8,283,404
Total operating expenses	478,513,086	409,048	497,551	2,286,953	(3,168,782)	478,537,856
OPERATING INCOME (LOSS)	13,924,085	5,412	(494,851)	1,695,507	(1,131,674)	13,998,479
NONOPERATING INCOME (EXPENSES)						
Net investment income	9,224,230	265,808	-	-	-	9,490,038
Equity in earnings of unconsolidated affiliates	5,582,540	-	-	-	(1,945,405)	3,637,135
Change in fair value of interest rate swaps	(2,385,159)	-	-	-	-	(2,385,159)
Other nonoperating expenses	(11,957)	-	-	-	-	(11,957)
Total nonoperating income	12,409,654	265,808	-	-	(1,945,405)	10,730,057
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	26,333,739	271,220	(494,851)	1,695,507	(3,077,079)	24,728,536
Actuarial change in pension plan assets and liabilities	(31,252,609)	-	-	-	-	(31,252,609)
Other changes in net assets	206,627	-	-	-	(335,117)	(128,490)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ (4,712,243)	\$ 271,220	\$ (494,851)	\$ 1,695,507	\$ (3,412,196)	\$ (6,652,563)

Yuma Regional Medical Center and Affiliates
Condensed Combining Statement of Operations
Year Ended September 30, 2018

	YRMC/ District	Foundation	SWHC	YRHSI	Eliminations	Total
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS						
OPERATING REVENUES						
Net patient service revenue less provision for doubtful accounts	\$ 479,111,118	\$ -	\$ -	\$ -	\$ -	\$ 479,111,118
Other revenue	4,116,576	443,102	450	5,446,218	(5,926,247)	4,080,099
Total operating revenues without donor restrictions	483,227,694	443,102	450	5,446,218	(5,926,247)	483,191,217
EXPENSES						
Salaries and wages	172,084,196	480,586	187,270	-	(366,391)	172,385,661
Employee benefits	40,455,519	-	53,532	-	(26,197)	40,482,854
Medical supplies	75,007,586	-	-	-	-	75,007,586
General supplies	5,897,173	5,835	7,491	-	(10,692)	5,899,807
Professional fees	32,944,076	38,059	80,835	89,340	-	33,152,310
Purchased services	34,851,842	2,737	-	-	(38,583)	34,815,996
Operating and other expenses	43,100,923	474,299	6,061	4,796,656	(8,087,048)	40,290,891
Depreciation and amortization	40,209,404	5,017	-	-	-	40,214,421
Interest, net	8,155,790	-	-	-	-	8,155,790
Total operating expenses	452,706,509	1,006,533	335,189	4,885,996	(8,528,911)	450,405,316
OPERATING INCOME (LOSS)	30,521,185	(563,431)	(334,739)	560,222	2,602,664	32,785,901
NONOPERATING INCOME (EXPENSES)						
Net investment income	16,390,676	415,802	-	-	-	16,806,478
Equity in earnings of unconsolidated affiliates	3,927,082	-	-	-	(77,854)	3,849,228
Change in fair value of interest rate swaps	3,094,579	-	-	-	-	3,094,579
Other nonoperating expenses	(195,954)	-	-	-	-	(195,954)
Total nonoperating income	23,216,383	415,802	-	-	(77,854)	23,554,331
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	53,737,568	(147,629)	(334,739)	560,222	2,524,810	56,340,232
Actuarial change in pension plan assets and liabilities	10,747,331	-	-	-	-	10,747,331
Other changes in net assets	1,655,710	(1,250)	-	850,000	(2,432,988)	71,472
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 66,140,609	\$ (148,879)	\$ (334,739)	\$ 1,410,222	\$ 91,822	\$ 67,159,035

Yuma Regional Medical Center and Affiliates
Condensed Combining Statement Changes in Net Assets
Year Ended September 30, 2019

	YRMC/ District	Foundation	SWHC	YRHSI	Eliminations	Total
Net assets without donor restrictions						
Excess (deficit) of revenues over expenses	\$ 26,333,739	\$ 271,220	\$ (494,851)	\$ 1,695,507	\$ (3,077,079)	\$ 24,728,536
Actuary change in pension plan assets and liabilities	(31,252,609)	-	-	-	-	(31,252,609)
Other changes in net assets	206,627	-	-	-	(335,117)	(128,490)
Change in net assets without donor restrictions	<u>(4,712,243)</u>	<u>271,220</u>	<u>(494,851)</u>	<u>1,695,507</u>	<u>(3,412,196)</u>	<u>(6,652,563)</u>
Net assets with donor restrictions						
Donations, gifts, and contributions	-	523,944	-	-	-	523,944
Net investment income	-	389,814	-	-	-	389,814
Net assets released from restrictions used for operations	-	(578,640)	-	-	-	(578,640)
Change in net assets with donor restrictions	<u>-</u>	<u>335,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>335,118</u>
Change in net assets	(4,712,243)	606,338	(494,851)	1,695,507	(3,412,196)	(6,317,445)
Net assets, beginning of year	530,603,091	13,913,276	(659,997)	1,410,222	(12,060,838)	533,205,754
Net assets, end of year	<u>\$ 525,890,848</u>	<u>\$ 14,519,614</u>	<u>\$ (1,154,848)</u>	<u>\$ 3,105,729</u>	<u>\$ (15,473,034)</u>	<u>\$ 526,888,309</u>

Yuma Regional Medical Center and Affiliates
Condensed Combining Statement Changes in Net Assets
Year Ended September 30, 2018

	YRMC/ District	Foundation	SWHC	YRHSI	Eliminations	Total
Net assets without donor restrictions						
Excess (deficit) of revenues over expenses	\$ 53,737,568	\$ (147,629)	\$ (334,739)	\$ 560,222	\$ 2,524,810	56,340,232
Actuary change in pension plan assets and liabilities	10,747,331	-	-	-	-	10,747,331
Capital contributions	-	-	-	850,000	(850,000)	-
Other changes in net assets	1,655,710	(1,250)	-	-	(1,582,988)	71,472
Change in net assets without donor restrictions	66,140,609	(148,879)	(334,739)	1,410,222	91,822	67,159,035
Net assets with donor restrictions						
Donations, gifts, and contributions	-	1,479,254	-	-	-	1,479,254
Net investment income	-	619,078	-	-	-	619,078
Net assets released from restrictions used for operations	-	(515,345)	-	-	-	(515,345)
Other changes in net assets	-	1,250	-	-	-	1,250
Change in net assets with donor restrictions	-	1,584,237	-	-	-	1,584,237
Change in net assets	66,140,609	1,435,358	(334,739)	1,410,222	91,822	68,743,272
Net assets, beginning of year	464,462,482	12,477,918	(325,258)	-	(12,152,660)	464,462,482
Net assets, end of year	\$ 530,603,091	\$ 13,913,276	\$ (659,997)	\$ 1,410,222	\$ (12,060,838)	\$ 533,205,754