

Reid Hospital and Health Care Services, Inc.

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2017 and 2016

Reid Hospital and Health Care Services, Inc.

December 31, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Reid Hospital and Health Care Services, Inc.
Richmond, Indiana

We have audited the accompanying consolidated financial statements of Reid Hospital and Health Care Services, Inc., which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Reid Hospital and Health Care Services, Inc. as of December 31, 2017 and 2016, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Indianapolis, Indiana
April 23, 2018

Reid Hospital and Health Care Services, Inc.

Consolidated Balance Sheets December 31, 2017 and 2016

Assets

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 29,902,985	\$ 31,386,513
Patient accounts receivable, net of allowance; 2017 - \$31,000,000, 2016 - \$30,000,000	44,974,147	45,429,927
Estimated amounts due from third-party payers	5,801,577	-
Supplies	6,826,866	7,240,891
Prepaid expenses and other	15,879,203	16,833,549
Total current assets	103,384,778	100,890,880
Investments Limited As To Use		
Internally designated	268,557,811	231,997,382
Internally designated - alternative investments carried at fair value	50,747,524	49,103,599
	319,305,335	281,100,981
Property and Equipment, net	250,395,194	262,541,205
Other Assets		
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	20,978,752	23,380,561
Intangible assets, net	17,987,590	4,089,110
Other	5,245,841	4,829,855
	44,212,183	32,299,526
Total assets	\$ 717,297,490	\$ 676,832,592

Liabilities and Net Assets

Current Liabilities		
Accounts payable and accrued expenses	\$ 16,848,703	\$ 13,697,308
Accrued salaries, wages and related liabilities	24,736,259	23,048,360
Estimated amounts due to third-party payers	2,830,000	2,980,018
Current maturities of long-term debt	6,913,765	6,528,503
Total current liabilities	51,328,727	46,254,189
Long-Term Debt	211,482,221	218,107,873
Interest Rate Swap Agreements	17,524,498	18,778,571
Total liabilities	280,335,446	283,140,633
Net Assets		
Unrestricted		
Reid Hospital and Health Care Services, Inc.	414,036,868	368,085,459
Noncontrolling interest	1,946,424	2,225,939
Total unrestricted net assets	415,983,292	370,311,398
Temporarily restricted	20,812,959	23,214,768
Permanently restricted	165,793	165,793
Total net assets	436,962,044	393,691,959
Total liabilities and net assets	\$ 717,297,490	\$ 676,832,592

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Revenues, Gains and Other Support		
Patient service revenue, net of contractual allowance	\$ 442,325,143	\$ 420,340,981
Provision for uncollectible accounts	(27,017,965)	(29,960,308)
Net patient service revenue, less provision for uncollectible accounts	415,307,178	390,380,673
Other	10,811,633	10,169,025
Net assets released from restrictions used for operations	4,274,025	8,043,589
Total unrestricted revenues, gains and other support	430,392,836	408,593,287
Expenses and Losses		
Salaries, wages and benefits	232,345,526	219,083,150
Purchased services and professional fees	15,284,198	15,564,024
Supplies and other	124,457,383	123,793,107
Depreciation and amortization	31,405,335	30,138,330
Interest and amortization of financing costs	7,558,166	6,030,613
Loss on disposal of property and equipment	454,741	872,329
Hospital assessment fee	9,340,057	6,561,611
Total expenses and losses	420,845,406	402,043,164
Operating Income	9,547,430	6,550,123
Other Income (Expense)		
Investment return	34,666,043	15,584,826
Change in fair value of interest rate swap agreements	1,254,073	1,734,374
Loss on bond refunding	-	(373,093)
Pension net loss not previously recognized in excess of revenues over expenses	-	(22,162,262)
Pension termination costs	-	(460,481)
Total other income (expense)	35,920,116	(5,676,636)
Excess of Revenues Over Expenses	\$ 45,467,546	\$ 873,487

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 45,467,546	\$ 873,487
Net benefit arising during the period related to defined-benefit plans	-	2,817,353
Net loss not previously recognized in excess of revenues over expenses	-	22,162,262
Purchase of shares from noncontrolling interest	-	(1,577,472)
Distributions to noncontrolling interest	(2,715,750)	(2,823,935)
Net assets released from restriction used for purchase of property and equipment	2,925,975	-
Other	(5,877)	-
Increase in unrestricted net assets	45,671,894	21,451,695
Temporarily Restricted Net Assets		
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	4,798,191	2,993,292
Net assets released from restriction	(7,200,000)	(8,043,589)
Decrease in temporarily restricted net assets	(2,401,809)	(5,050,297)
Change in Net Assets	43,270,085	16,401,398
Net Assets, Beginning of Year	393,691,959	377,290,561
Net Assets, End of Year	\$ 436,962,044	\$ 393,691,959

Reid Hospital and Health Care Services, Inc.

Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	\$ 43,270,085	\$ 16,401,398
Change in net assets attributable to noncontrolling interest	(279,515)	(717,912)
Change in net assets attributable to Reid Hospital and Health Care Services, Inc.	42,990,570	15,683,486
Items not requiring (providing) cash		
Depreciation and amortization	31,405,335	30,138,330
Loss on disposal of property and equipment	454,741	872,329
Amortization of deferred financing fees and bond premium	(576,111)	(476,252)
Provision for uncollectible accounts	27,017,965	29,960,308
Unrealized gain on investments	(26,011,960)	(9,834,429)
Realized gain on investments	(1,409,388)	(2,679,418)
Realized and unrealized (gains) losses on other investments carried at fair value	(2,358,014)	91,226
Investment gain on investments carried under equity method	(262,112)	(284,353)
Change in fair value of interest rate swap agreements	(1,254,073)	(1,734,374)
Undistributed portion of change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	2,401,809	5,050,297
Change in pension obligations	-	(695,892)
Loss on bond refunding	-	171,693
Changes in		
Patient accounts receivable	(26,562,185)	(11,500,226)
Estimated amounts due from and to third-party payers	(5,951,595)	(1,399,746)
Accounts payable, accrued expenses and accrued salaries, wages and related liabilities	4,067,077	1,354,424
Other current and noncurrent assets	952,385	(2,918,925)
Pension plan and postretirement benefits obligation	-	(22,562,326)
Noncontrolling interest in net income of equity investees	279,515	717,912
Net cash provided by operating activities	<u>45,183,959</u>	<u>29,954,064</u>
Investing Activities		
Purchase of investments	(18,618,687)	(71,085,728)
Proceeds from disposition of investments	10,455,807	35,185,208
Purchase of property and equipment	(18,941,848)	(20,050,299)
Purchase of intangible assets	(13,898,480)	(4,089,110)
Net cash used in investing activities	<u>(41,003,208)</u>	<u>(60,039,929)</u>
Financing Activities		
Principal payments on long-term debt	(5,956,313)	(3,950,000)
Proceeds from issuance of long-term debt	948,118	122,071,194
Redemption of long-term debt	-	(72,075,000)
Financing costs paid	-	(368,956)
Capital lease payments	(656,084)	(503,241)
Net cash provided by (used in) financing activities	<u>(5,664,279)</u>	<u>45,173,997</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,483,528)	15,088,132
Cash and Cash Equivalents, Beginning of Year	<u>31,386,513</u>	<u>16,298,381</u>
Cash and Cash Equivalents, End of Year	<u>\$ 29,902,985</u>	<u>\$ 31,386,513</u>
Supplemental Cash Flows Information		
Property and equipment acquired through capital lease	\$ -	\$ 624,412
Property and equipment included in accounts payable and accrued expenses	772,217	-
Interest paid (net of amount capitalized)	7,138,205	6,065,239
Premium paid for bond refunding	-	201,400

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

Reid Hospital and Health Care Services, Inc. (Hospital), located in Richmond, Indiana, is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital provides short-term acute inpatient, outpatient and emergency care to residents of Wayne county and surrounding counties. Admitting physicians are primarily practitioners in the local area.

The Hospital owns 100% of Reid Physician Associates, Inc. (RHPA), which is a not-for-profit corporation as described in Section 501(c)(3) of the Code. The Hospital also owns 100% of Reid Anesthesia, LLC (RA, LLC). RHPA is exempt from income taxes on related income pursuant to Section 501(a) of the Code. RHPA provides physician services and RA, LLC provides anesthesia and management services.

The Hospital owns 55% and holds a controlling interest in an ambulatory surgery center, Reid Outpatient Surgery and Endoscopy, LLC (ROSE).

During 2016, the Hospital formed Connerville Pharmacy, LLC (CPH) and holds 100% ownership. CPH was created to own and operate a retail pharmacy in the Hospital's service area and surrounding communities.

During 2016, the Hospital acquired the remaining shares from noncontrolling interests and owns 100% of Reid MOB, which was dissolved and its remaining assets transferred to the Hospital as of December 31, 2016. The purpose of Reid MOB was to own, operate and serve as landlord for a medical office building and outpatient care center located on the campus of Reid Hospital and Health Care Services, Inc.

The consolidated financial statements include the accounts of the Hospital and its controlled subsidiaries, Reid MOB, ROSE, RHPA, RA, LLC and CPH. All material intercompany accounts and transactions have been eliminated in consolidation.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Noncontrolling Interest

Noncontrolling interest represents a 45% interest in ROSE at December 31, 2017 and 2016. During 2016, the Hospital acquired the remaining shares of Reid MOB from noncontrolling interests.

	Total	Controlling Interest	Noncontrolling Interest
Balance, January 1, 2016	\$ 348,859,703	\$ 347,351,676	\$ 1,508,027
Excess (deficiency) of revenues over expenses	873,487	(2,319,965)	3,193,452
Net benefit arising during the period related to defined-benefit plans	2,817,353	2,817,353	-
Net loss not previously recognized in excess of revenues over expenses	22,162,262	22,162,262	-
Purchase of shares from noncontrolling interest	(1,577,472)	(1,591,427)	13,955
Distributions to noncontrolling interest	(2,823,935)	-	(2,823,935)
Other	-	(334,440)	334,440
Increase in unrestricted net assets	<u>21,451,695</u>	<u>20,733,783</u>	<u>717,912</u>
Balance, December 31, 2016	370,311,398	368,085,459	2,225,939
Excess of revenues over expenses	45,467,546	43,031,311	2,436,235
Distributions	(2,715,750)	-	(2,715,750)
Net assets released from restriction used for purchase of property and equipment	2,925,975	2,925,975	-
Other	(5,877)	(5,877)	-
Increase (decrease) in unrestricted net assets	<u>45,671,894</u>	<u>45,951,409</u>	<u>(279,515)</u>
Balance, December 31, 2017	<u>\$ 415,983,292</u>	<u>\$ 414,036,868</u>	<u>\$ 1,946,424</u>

The change in temporarily restricted and permanently restricted net assets related only to the controlling interest.

Use of Estimates

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

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

Cash and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At December 31, 2017, the Hospital's cash accounts exceeded federally insured limits by approximately \$29,900,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Certain alternative investments are reported on the equity method of accounting. Other investments include investments in limited partnerships valued on the income tax basis of accounting, which approximates the equity method of accounting, and investments in limited partnerships carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Investments - Equity Method

Investments in organizations in which the Hospital's ownership percentage is 50% or less where the Hospital exercises significant influence are accounted for under the equity method and are included with other assets on the consolidated balance sheets.

The Hospital holds a 50% equity ownership interest in Reid-ANC Home Care Services, LLC, which is accounted for under the equity method.

The Hospital formed DASCO-Reid Home Medical Equipment, LLC (DASCO) and holds 50% ownership. DASCO was created as a joint venture to provide home medical equipment in the Hospital's service area and surrounding communities.

The Hospital is a subscriber in the Crossroads Health Services Reciprocal, which was organized to provide workers compensation coverage to its subscribers. Undistributed earnings are allocated to subscriber accounts and the Hospital accounts for its interests in a manner similar to the equity method. The Hospital's capital contribution and balance of undistributed earnings is reported in other assets.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out (FIFO) method, or net realizable value for 2017 and at lower of cost or market for 2016.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease are depreciated over the shorter of the asset life or lease term.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	5 - 25 years
Buildings and improvements	5 - 40 years
Building and moveable equipment	2 - 20 years

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. No interest amounts related to property and equipment were capitalized in 2017 or 2016.

Long-Lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value, and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2017 and 2016.

Interest in Net Assets of Reid Hospital and Health Care Services Foundation, Inc.

Reid Hospital and Health Care Services Foundation, Inc. (Foundation) and the Hospital are financially interrelated organizations. The Foundation seeks private support for, and holds net assets on behalf of, the Hospital. The Hospital accounts for its interest in the net assets of the Foundation (Interest) in a manner similar to the equity method. Changes in the Interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the Interest.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are presented as a reduction from long-term debt and are being amortized over the term of the respective debt using the straight-line method.

Temporarily and Permanently Restricted Net Assets

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

Net Patient Service Revenue

The Hospital has agreements with third-party payers which provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$28,112,399 and \$27,037,738 for 2017 and 2016, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately \$8,200,000 and \$8,000,000 for 2017 and 2016, respectively.

The Hospital also provides unreimbursed services to the community, which include free or low cost health screenings, educational programs and information and financial support to, and meeting space for, various community groups. In addition, services to beneficiaries of governmental programs (principally those relating to the Medicare and Medicaid programs) are generally provided at governmentally established rates, which are substantially lower than the Hospital's standard rates and are considered part of the Hospital's benefits to the community. Assistance is also provided to senior citizens and other patients and their families for the submission of forms for insurance, financial counseling and the application to the Medicare and Medicaid programs for health service coverage. The costs of these programs are included in operating expenses.

Professional Liability Claims

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully later in these notes.

Excess of Revenues Over Expenses

The consolidated statements of operations include the excess of revenues over expenses. Changes in unrestricted net assets that are excluded from the excess of revenues over expenses, consistent with industry practice, include net benefit arising during the period related to defined-benefit plans, net losses not previously recognized in the excess of revenues over expenses, purchases of shares from noncontrolling interests, net assets released from restriction used for the purchase of property and equipment, distributions to noncontrolling interests and other.

Self-Insurance

The Hospital has elected to self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to expense when incurred. The Hospital has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$275,000.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Income Taxes

The Hospital and RHPA have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income. Reid MOB, ROSE, RA, LLC and CPH are not directly subject to income taxes under the provisions of the Internal Revenue Code and applicable state laws. Taxable income or loss is allocated to its members in accordance with their respective percentage ownership for inclusion in their respective tax returns.

The Hospital and its controlled subsidiaries file tax returns in the U.S. federal jurisdiction. With a few exceptions, the Hospital and its controlled subsidiaries are no longer subject to U.S. federal examination by tax authorities for years before 2014.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Hospital met the first-year requirements under the Medicare program in 2013 and the Medicaid program in 2012. After continuing to meet additional requirements, the Hospital recorded revenue of approximately \$620,000 under the Medicare program in 2016, its last payment year under the program.

RHPA physicians have completed requirements under the Medicare program at various dates. RHPA recorded revenue of approximately \$137,000 and \$442,000 in 2017 and 2016, respectively, which is also included in other operating revenue within the consolidated statements of operations.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Intangible Assets

Intangible assets with finite lives represent software licensing agreements. Once placed into service, amounts are amortized on the straight-line basis over the lease term, which is a period of ten years. Such assets are periodically evaluated as to the recoverability of their carrying values.

The Hospital capitalizes interest costs related to software licensing as a component of intangible assets, based on the weighted-average rates paid for long-term borrowing. Interest amounts capitalized were \$432,388 in 2017. No amounts were capitalized in 2016.

Note 2: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. This provision for bad debts is presented on the consolidated statements of operations as a component of net patient service revenue.

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital is a Medicare Designated Sole Community Hospital. Special Medicare payments under this designation approximated \$15.0 million and \$15.6 million for the years ended December 31, 2017 and 2016.

Management evaluates program compliance and records a reserve pertaining to certain inpatient and outpatient services that are probable of repayment to the Medicare program.

Medicaid. Inpatient acute care services and substantially all outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

In January 2017, the Hospital received notice that its Medicaid Inpatient Utilization Rate (MIUR) exceeded state-wide thresholds, as defined by state regulation, and qualified as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law for State Fiscal Years 2016 and 2017. With this approval, the Hospital is eligible to receive supplemental Medicaid payments for the period July 1, 2015 through June 30, 2017. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have not been made to the Hospital by the State of Indiana. The Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received.

The Hospital recognized approximately \$1.9 million and \$1.7 million within net patient service revenue related to this supplemental payment program in 2017 and 2016, respectively. Amounts outstanding totaled \$3.6 million and \$1.7 million at December 31, 2017 and 2016, respectively and are included in estimated amounts due from third-party payers. These amounts represent funds due to the Hospital retroactive to June 1, 2015 and are management's best estimate of DSH funds due to the Hospital, which are typically paid in arrears. No estimate of DSH funds has been made for the period July 1, 2017 through December 31, 2017, as the State of Indiana has not surveyed hospitals for eligibility and the Hospital has not been approved for participation in the program.

The Hospital participates in a state-specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$9.3 million and \$6.6 million of fees related to the program in 2017 and 2016, respectively, which is recorded as an operating expense. A benefit of having the Hospital's MIUR over state-wide thresholds includes paying 75% of the provider assessment fee, where nonqualified hospitals must pay 100% of the provider assessment fee. During 2016, the Hospital reduced its recorded expense by approximately \$3.5 million which represents the 25% benefit through December 31, 2016 retroactive to July 1, 2015. The expense reduction for the period January 1, 2017 to June 30, 2017 approximated \$1.3 million. Total amounts due to the Hospital related to the fee reduction were \$2.2 million and \$3.6 million at December 31, 2017 and 2016, respectively. These amounts are included in estimated amounts due from third-party payers and estimated amounts due to third party payers, respectively. The provider assessment fee program is subject to further retroactive rate setting by the State of Indiana and its Medicaid program and the amounts expensed represent the current fees that have been assessed to the Hospital, including the 25% benefit through December 31, 2017.

The State measures MIUR percentages no less than every two years and no more than every four years. At each measurement period, the state-defined MIUR threshold changes, which could affect the Hospital's eligibility status. Any change in eligibility status would affect the Hospital's ability to qualify for Medicaid DSH payments and receive the 25% provider assessment fee reduction. Any changes in the amount of tax due or expected proceeds from the DSH program as a result of eligibility changes will be recorded in the period once the state has made its determination.

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The Hospital also receives payment from other third-party payers such as commercial insurance carriers, health maintenance organizations and preferred organizations. Payments are based on Hospital-established charges and prospectively determined daily rates.

The mix of net patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the years ended December 31, 2017 and 2016 is:

	2017	2016
Medicare	\$ 178,163,226	\$ 172,080,881
Medicaid	51,918,220	47,805,414
Other third-party payers	192,370,458	184,402,440
Uninsured patients, including coinsurance and deductibles	<u>19,873,239</u>	<u>16,052,246</u>
	<u>\$ 442,325,143</u>	<u>\$ 420,340,981</u>

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of which are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at December 31, 2017 and 2016 is:

	2017	2016
Medicare	29%	35%
Medicaid	16%	10%
Other third-party payers	49%	48%
Uninsured patients, including coinsurance and deductibles	<u>6%</u>	<u>7%</u>
	<u>100%</u>	<u>100%</u>

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Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use at December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Internally designated by Board		
Trading		
Money market funds	\$ 32,497,003	\$ 37,277,461
Domestic equity securities	11,534,258	5,687,578
Non-U.S. equity securities	202,944	173,625
Domestic equity mutual funds	151,478,780	128,421,522
Domestic fixed income mutual funds	53,754,841	52,357,433
Non-U.S. equity mutual funds	7,107,648	5,539,352
Domestic fixed income	9,073,427	-
Non-U.S. fixed income	834,070	-
Other	360,544	252,768
Other than trading		
Alternative investments - private equity	4,101,653	3,880,144
Alternative investments - corporate hedge funds	19,438,035	19,909,637
Alternative investments - real estate hedge funds	28,922,132	27,601,461
	<u>\$ 319,305,335</u>	<u>\$ 281,100,981</u>

Total investment return is comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividend income (net of interest paid on derivative investment instrument)	\$ 4,624,569	\$ 2,877,852
Realized gains on trading securities	1,409,388	2,679,418
Unrealized gains on trading securities	26,011,960	9,834,429
Realized and unrealized losses on other investments carried at fair value	2,358,014	(91,226)
Investment gains on investments carried under equity method	262,112	284,353
	<u>\$ 34,666,043</u>	<u>\$ 15,584,826</u>

The Hospital classifies substantially all of its investments in debt and equity securities as trading. This classification requires the Hospital to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as nonoperating gains in the consolidated statements of operations.

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Alternative Investments Carried at Fair Value

The fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at December 31 consist of the following:

	December 31, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity	\$ 4,101,653	\$ 5,000,000	N/A	N/A
Corporate hedge funds	19,438,035	905,234	Quarterly - Yearly	95 days
Real estate hedge funds	27,191,453	-	Quarterly - Yearly	45-90 days

	December 31, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity	\$ 3,880,144	\$ 1,371,978	N/A	N/A
Corporate hedge funds	19,909,637	561,264	Quarterly - Yearly	95 days
Real estate hedge funds	25,313,819	-	Quarterly - Yearly	45-90 days

Alternative Investments Carried Under Equity Method

The five alternative investments reported on the equity method consist of various real estate funds. These funds invest in other limited partnerships in equity and real estate sectors. All funds are locked-up for the life of the investment, with no option for redemption. Outstanding commitments for these funds approximate \$800,000. The financial position and results of operations of the more significant investment positions of which the Hospital owns a portion, are summarized below on a combined basis for the most recent period in which audited consolidated financial statements are available.

Current assets	\$ 4,759,447
Noncurrent assets	29,413,601
	<u>\$ 34,173,048</u>
Liabilities	<u>\$ 115,428</u>
Equity	<u>\$ 34,057,620</u>
Investment return	<u>\$ 915,940</u>
Net income	<u>\$ 795,259</u>

Reid Hospital and Health Care Services, Inc.

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Note 5: Interest in Net Assets of Reid Hospital and Health Services Foundation, Inc.

The Foundation was organized to support the activities of the Hospital in Richmond, Indiana. Funds are distributed to the Hospital as determined by the Foundation's Board of Directors. The Hospital's interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the interest in the net assets of the Foundation, with corresponding decreases or increases in the assets transferred, and have no effect on change in net assets. The Hospital's interest in the net assets of the Foundation is reported in the consolidated balance sheets and was \$20,978,752 and \$23,380,561 at December 31, 2017 and 2016, respectively. During 2017, the Foundation made a \$7,200,000 donation to the Hospital, \$4.3 million of which was unrestricted and is included in unrestricted revenues, gains and other support in the consolidated statements of operations. The remaining \$2.9 million was restricted to the purchase of property and equipment and is included in other changes in unrestricted net assets, which is excluded from the performance indicator in the consolidated statements of operations. During 2016, the Foundation made an unrestricted donation to the Hospital of \$7,500,000, which is included in net assets released from restrictions used for operations.

Certain Hospital officers and board members also serve on the Foundation's board of directors.

Note 6: Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. The Hospital is a subscriber in a Vermont captive insurance company, Tecumseh Health Reciprocal Risk Retention Group (previously named Indiana Healthcare Reciprocal Retention Group), a reciprocal risk retention group. The Hospital's capital contribution is reported in other assets.

Reserves for professional liability claims were \$918,288 and \$525,371 at December 31, 2017 and 2016, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. Although considerable variability is inherent in professional liability reserve estimates, management believes the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible that this estimate could change materially in the near term.

The Hospital's professional liability risks, in excess of certain per claim amounts, are insured through the policies described above. The amount receivable under these insurance contracts was \$918,288 and \$525,371 at December 31, 2017 and 2016, respectively, and is included within prepaid expenses and other on the consolidated balance sheets.

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Note 7: Long-Term Debt

	2017	2016
Hospital Revenue Bonds, Series 2015A	\$ 88,310,000	\$ 90,200,000
Hospital Revenue Bonds, Series 2016A	34,583,000	36,500,000
Hospital Revenue Bonds, Series 2016B	33,040,000	33,040,000
Series 2016 Term Loan, Bank	47,925,000	50,000,000
Promissory Note 2017, Bank	873,805	-
Capital lease obligations	1,743,485	2,399,569
	206,475,290	212,139,569
Plus unamortized premium	13,104,505	13,742,195
Less unamortized deferred financing costs	(1,183,809)	(1,245,388)
Less current maturities	(6,913,765)	(6,528,503)
	\$ 211,482,221	\$ 218,107,873

The Hospital Authority of Richmond (Authority) obligated itself in a trust indenture with U.S. Bank National Association. The Authority loaned the proceeds of the bond issues in various loan agreements, which are more fully described below. The revenue bonds and term loan are secured by the Hospital's revenues and substantially all of the Hospital's assets.

In connection with the bond issues, the Hospital entered into various agreements benefiting the respective bond stakeholders. These agreements require the Hospital to meet certain financial performance ratios, among other covenants. Management believes they are in compliance with all covenants.

Hospital Revenue Bonds, Series 2015A

The Authority issued Revenue Bonds Series 2015A pursuant to a Trust Indenture dated as of February 24, 2015 between the Authority and U.S. Bank National Association, as Trustee. The bonds are special and limited obligations of the Authority and are payable solely from, and secured exclusively by, payments, revenues and other amounts pledged under the Trust Indenture, including payments to be made by the Hospital under a loan agreement dated February 1, 2015, between the Authority and the Hospital.

Proceeds from the bond issue were used primarily to refund the Series 2009A bonds.

The fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2016 in amounts ranging from \$1,790,000 to \$6,895,000 and are due in full in January 2039. Interest payments are due on January 1 and July 1, and rates vary from 2.0% to 5.0% at final maturity.

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Hospital Revenue Bonds, Series 2016A and 2016B

The Authority issued Revenue Bonds Series 2016A and 2016B pursuant to a Trust Indenture dated as of November 1, 2016 between the Authority and U.S. Bank National Association, as Trustee. The bonds are special and limited obligations of the Authority and are payable solely from, and secured exclusively by, payments, revenues and other amounts pledged under the Trust Indenture, including payments to be made by the Hospital under a loan agreement dated November 1, 2016, between the Authority and the Hospital.

Proceeds from the bond issue were used primarily to refund the Series 2012 bonds.

The 2016A fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2017 in amounts ranging from \$1,445,000 to \$2,224,000 and are due in full in January 2036. The bonds may be subject to mandatory tender for purchase by the Hospital at the end of the direct purchase conversion period which is January 1, 2027. Interest payments are due on January 1 and July 1 at a fixed rate of 2.94% through January 1, 2027 at which time the interest rate is subject to adjustment.

The 2016B fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2028 in amounts ranging from \$40,000 to \$7,390,000 and are due in full in January 2036. Interest payments are due on January 1 and July 1 at a fixed rate of 5.00%.

Series 2016 Term Loan, Bank

The Hospital entered into a bank term loan dated October 24, 2016 requiring annual principal payments on January 1 of each year beginning in 2017 in amounts ranging from \$2,075,000 to \$5,700,000 and are due in full in January 2031. Interest payments are due monthly at a LIBOR-based variable rate plus an applicable margin (ranging from 1.767% to 2.167%). The interest rate at December 31, 2017 was 2.94%. The loan is secured exclusively by payments, revenues and other amounts pledged under the Trust Indenture.

Promissory Note 2017, Bank

The Hospital entered into a promissory note dated June 8, 2017, which requires monthly payments, including principal and interest, of \$17,000 from August 2017 through maturity in July 2022. The interest rate on the note is fixed at 1.99%. The note is secured by certain equipment of the Hospital.

Capital Lease Payable

The Hospital entered into capital lease obligations for equipment. The leases, which mature in 2020, have varying rates of imputed interest approximating 2.5% and are collateralized by the equipment being leased. Property and equipment includes moveable equipment under capital lease totaling \$3,172,349 and \$3,172,349, net of accumulated depreciation of \$1,540,876 and \$552,059 at December 31, 2017 and 2016, respectively.

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Annual Maturities

The bonds listed above are subject to mandatory sinking fund requirements. Aggregate annual maturities and sinking fund requirements of bonds and capital lease payable at December 31, 2017, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2018	\$ 6,250,913	\$ 697,815
2019	6,446,607	697,815
2020	6,668,374	404,490
2021	6,896,217	-
2022	7,041,683	-
Thereafter	171,428,011	-
	\$ 204,731,805	1,800,120
Less amount representing interest		56,635
Present value of future minimum lease payments		1,743,485
Less current maturities		662,852
Noncurrent portion		\$ 1,080,633

Interest expense for the years ended December 31, 2017 and 2016 was \$7,558,166 and \$6,030,613, respectively.

Note 8: Interest Rate Swap Agreements

Cash Flow Hedge

In March 2005, the Hospital entered into two interest rate swap agreements (the 2005 Swaps) for notional amounts totaling \$87,500,000. The 2005 Swaps are fixed rate payer swaps that terminate in January 2045 and prior to April 1, 2008, amortized in coordination with the 2005 B and C Series Bonds. Under these agreements, the Hospital pays a fixed rate of 3.702% and receives a floating rate equal to 63.10% of USD-LIBOR + .25% (1.24% and .70% at December 31, 2017 and 2016, respectively). The original objective of the 2005 Swaps was to hedge the risk of overall changes in the variable interest payments on the 2005 Series B and C Bonds. The fair value of the 2005 Swaps represents a payable to the counterparty and is recorded as a liability of \$17,524,498 and \$18,778,571 at December 31, 2017 and 2016, respectively.

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Beginning on April 1, 2009, the 2005 Swaps were re-designated to hedge the 2005A Series Bonds. The hedge qualified as an effective hedge through December 17, 2012, the date the 2005A Series Bonds were refunded, and all changes in the 2005 Swaps subsequent to the accounting election date through the date of refinance were reported in other changes in unrestricted net assets. Beginning December 17, 2012, the 2005 Swaps no longer qualified as an effective hedge due to the refinancing of the 2005A Series Bonds with a fixed rate instrument, the 2012A Bonds described herein. At this time, the Hospital incurred a one-time charge totaling \$10,280,355, which represented the fair value of the Swaps at the refinancing date, less amounts already recognized in earnings during periods of ineffectiveness and the remaining unamortized loss, which was being amortized over the life of the 2005A Series Bonds. Changes in fair value of the 2005 Swaps since this date have been recorded in other income (expense).

The table below presents certain information regarding the Hospital's interest rate swap agreements at December 31:

	2017	2016
Fair value of interest rate swap agreements	\$ (17,524,498)	\$ (18,778,571)
Balance sheet location of fair value amount	Interest Rate Swap Agreement Liability	Interest Rate Swap Agreement Liability
Location of change in fair value reclassified from unrestricted net assets into excess (deficiency) of revenues over expenses	N/A	N/A
Change in fair value recognized in excess (deficiency) of revenues over expenses (ineffective portion)	\$ 1,254,073	\$ 1,734,374
Location of change in fair value recognized in excess of revenues over expenses (ineffective portion)	Other Income (Expense) - Change in fair value of interest rate swap agreements	Other Income (Expense) - Change in fair value of interest rate swap agreements

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Note 9: Property and Equipment

Property and equipment and related accumulated depreciation as of December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 52,701,709	\$ 49,129,150
Buildings and improvements	141,062,205	139,134,554
Building equipment	187,679,272	178,427,408
Moveable equipment	180,415,882	177,840,016
Construction in progress	4,464,645	9,223,790
	<u>566,323,713</u>	<u>553,754,918</u>
Accumulated depreciation	<u>(315,928,519)</u>	<u>(291,213,713)</u>
	<u>\$ 250,395,194</u>	<u>\$ 262,541,205</u>

Note 10: Acquired Intangible Assets

In July 2016, the Hospital entered into a license agreement for the implementation of a new information system and electronic medical record platform. Under the agreement, total contracted implementation fees approximate \$17.5 million. Through December 31, 2017, approximately \$13.3 million has been paid under this agreement. In association with the system implementation, the Hospital has also incurred \$4.7 million of other costs related to consulting, labor and capitalized interest. These amounts are recorded as intangible assets and will be amortized straight-line over the term of the agreement when placed in service, which occurred in March 2018.

The carrying basis and accumulated amortization of the recognized intangible asset at December 31, 2017 and 2016 were:

	Gross	2017	Net
	Carrying	Accumulated	Carrying
	Amount	Amortization	Value
Amortized intangible assets			
Licensing agreements	<u>\$ 17,987,590</u>	<u>\$ -</u>	<u>\$ 17,987,590</u>
	<u>\$ 17,987,590</u>	<u>\$ -</u>	<u>\$ 17,987,590</u>

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	Gross Carrying Amount	2016 Accumulated Amortization	Net Carrying Value
Amortized intangible assets			
Licensing agreements	\$ 4,089,110	\$ -	\$ 4,089,110
	<u>\$ 4,089,110</u>	<u>\$ -</u>	<u>\$ 4,089,110</u>

Note 11: Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are restricted for the interest in net assets of the Foundation. Temporarily restricted net assets totaled \$20,812,959 and \$23,214,768 at December 31, 2017 and 2016, respectively. Permanently restricted net assets totaled \$165,793 at December 31, 2017 and 2016.

Net assets of \$4,274,025 and \$8,043,589 were released for use in operations for 2017 and 2016, respectively. Net assets of \$2,925,975 were released from restriction for purchase of property and equipment in 2017.

Note 12: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2017	2016
Health care services	\$ 383,726,568	\$ 368,030,312
General and administrative	37,118,838	34,012,852
	<u>\$ 420,845,406</u>	<u>\$ 402,043,164</u>

Note 13: Pension Plans

Defined-Contribution Plan

Effective April 1, 2008, the Hospital implemented a defined-contribution pension plan covering substantially all employees hired after April 1, 2008. Employees hired prior to April 1, 2008 who met the eligibility requirements participate in the defined-benefit plan. Substantially all employees are eligible to participate in the Hospital's 403b plan. The Board of Directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$4,536,687 and \$4,265,290 for 2017 and 2016, respectively.

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Defined-Benefit Plan

The Hospital had a noncontributory defined-benefit pension plan covering all employees who met the eligibility requirements. The Hospital terminated the plan in 2016 and all distributions to plan participants were made through the purchase of nonparticipating annuity contracts or direct lump-sum payouts. The Hospital's funding policy was to make the minimum annual contribution that was required by applicable regulations, plus other periodic amounts as the Hospital determined to be appropriate.

The Hospital used a December 31 measurement date for the plan. Information about the plan's funded status follows:

	2016
Changes in projected benefit obligation	
Beginning balance	\$ 55,478,664
Interest cost	2,410,035
Benefits paid	(57,354,354)
Actuarial gain	(534,345)
Ending balance	-
Changes in fair value of assets	
Fair value at beginning of year	32,220,446
Actual return on plan assets	2,571,582
Employer contributions	22,562,326
Benefits paid	(57,354,354)
Ending balance	-
Funded status	\$ -

The following table shows the components of net periodic benefit cost:

	2016
Interest cost	\$ 2,410,035
Expected return on assets	(1,907,886)
Recognition of net loss	1,619,312
Net period benefit cost	2,121,461
Settlement cost	22,162,262
Net benefit cost	\$ 24,283,723

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Other changes in plan assets and benefit obligations recognized in other changes in unrestricted net assets at December 31, 2016:

	2016
Loss recognized in current year	\$ (23,781,574)
Gain incurred in current year	1,198,041
Other changes in net assets in current year	\$ (24,979,615)

Plan assets were held by a bank-administered trust fund, which invested the plan assets in accordance with the provision of the plan agreement. All distributions were made from the plan, which held no assets as of December 31, 2016.

Note 14: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	2017				
	Fair Value Measurements Using				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV ^(A)
Assets					
Investments					
Money market funds	\$ 32,497,003	\$ 32,497,003	\$ -	\$ -	\$ -
Domestic equity securities	11,534,258	11,534,258	-	-	-
Non-U.S. equity securities	202,944	202,944	-	-	-
Domestic equity mutual funds	151,478,780	151,478,780	-	-	-
Domestic fixed income mutual funds	53,754,841	53,754,841	-	-	-
Non-U.S. equity mutual funds	7,107,648	7,107,648	-	-	-
Domestic fixed income	9,073,427	-	9,073,427	-	-
Non-U.S. fixed income	834,070	-	834,070	-	-
Other	360,544	360,544	-	-	-
Alternative investments - private equity measured at net asset value	4,101,653	-	-	-	4,101,653
Alternative investments - corporate hedge funds measured at net asset value	19,438,035	-	-	-	19,438,035
Alternative investments - real estate hedge funds measured at net asset value	27,191,453	-	-	-	27,191,453
	<u>\$ 317,574,656</u>	<u>\$ 256,936,018</u>	<u>\$ 9,907,497</u>	<u>\$ -</u>	<u>\$ 50,731,141</u>
Liabilities					
Interest rate swap agreements liability	<u>\$ 17,524,498</u>	<u>\$ -</u>	<u>\$ 17,524,498</u>	<u>\$ -</u>	<u>\$ -</u>

Reid Hospital and Health Care Services, Inc.
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	2016				
	Fair Value Measurements Using				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV ^(A)
Assets					
Investments					
Money market funds	\$ 37,277,461	\$ 37,277,461	\$ -	\$ -	\$ -
Domestic equity securities	5,687,578	5,687,578	-	-	-
Non-U.S. equity securities	173,625	173,625	-	-	-
Domestic equity mutual funds	128,421,522	128,421,522	-	-	-
Domestic fixed income mutual funds	52,357,433	52,357,433	-	-	-
Non-U.S. equity mutual funds	5,539,352	5,539,352	-	-	-
Other	252,768	252,768	-	-	-
Alternative investments - private equity measured at net asset value	3,880,144	-	-	-	3,880,144
Alternative investments - corporate hedge funds measured at net asset value	19,909,637	-	-	-	19,909,637
Alternative investments - real estate hedge funds measured at net asset value	25,313,819	-	-	-	25,313,819
	<u>\$ 278,813,339</u>	<u>\$ 229,709,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,103,600</u>
Liabilities					
Interest rate swap agreements liability	<u>\$ 18,778,571</u>	<u>\$ -</u>	<u>\$ 18,778,571</u>	<u>\$ -</u>	<u>\$ -</u>

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2017.

Money Market Funds

Where quoted market prices are available in an active market, money market mutual funds are classified within Level 1 of the valuation hierarchy.

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December 31, 2017 and 2016

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. Level 1 securities include equity securities, equity mutual funds and fixed income mutual funds. Level 2 securities include fixed income securities.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Fair Value of Financial Instruments

The following tables present estimated fair values of the Hospital's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Carrying Amount	2017 Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV ^(A)
Financial assets					
Cash and cash equivalents	\$ 62,399,988	\$ 62,399,988	\$ -	\$ -	\$ -
Debt securities	63,662,338	53,754,841	9,907,497	-	-
Equity securities	170,684,174	170,684,174	-	-	-
Alternative investments	50,731,141	-	-	-	50,731,141
Interest in net assets of the Foundation	20,978,752	-	20,978,752	-	-
Financial liabilities					
Long-term debt	218,395,986	-	228,888,894	-	-
Interest rate swap agreements	17,524,498	-	17,524,498	-	-

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

	2016				
	Carrying Amount	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV ^(A)
Financial assets					
Cash and cash equivalents	\$ 68,663,974	\$ 68,663,974	\$ -	\$ -	\$ -
Debt securities	52,357,433	52,357,433	-	-	-
Equity securities	140,074,845	140,074,845	-	-	-
Alternative investments	49,103,600	-	-	-	49,103,600
Interest in net assets of the Foundation	23,380,561	-	23,380,561	-	-
Financial liabilities					
Long-term debt	224,636,376	-	224,636,376	-	-
Interest rate swap agreements	18,778,571	-	18,778,571	-	-

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Interest in Net Assets of Reid Hospital and Health Care Services Foundation, Inc.

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement.

Long-Term Debt

Fair value is estimated based on the borrowing rates currently available to the Hospital for bank loans with similar terms and maturities.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

Note 15: The Fair Value Option

The Hospital has elected to measure certain alternative investments at fair value because it more accurately reflects its financial position. Included in the accompanying consolidated balance sheets are twelve alternative investments of which seven are reported at fair values of \$50,731,141 and \$49,103,600, at December 31, 2017 and 2016, respectively. The other funds are reported on the equity method at \$1,730,679 and \$2,287,642 at December 31, 2017 and 2016, respectively. Unrealized and realized gains (losses) on investments elected to be measured at fair value were \$2,358,014 and (\$91,226) at December 31, 2017 and 2016, respectively. These gains and losses are reported as a component of investment return on the consolidated statements of operations and changes in net assets. The fair value option was not elected for all of the alternative investments due to a portion being reported on the equity method and not having readily determinable fair value.

Note 16: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 6.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's captive insurance program (discussed elsewhere in these notes); for example, allegations regarding performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Self Insurance

The Hospital has elected to self-insure certain costs related to employee health insurance programs. In connection with the self-insurance program, the Hospital purchases reinsurance to protect it from catastrophic losses per occurrence. Costs resulting from noninsured losses are charged to expense when incurred.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Investments

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Environmental Matter

In 2015, the Hospital received notice from the Indiana Department of Environmental Management (IDEM) that IDEM determined the Hospital met the criteria of a Potentially Responsible Person, as defined by Indiana statute, related to potential release of hazardous substances at the former Hospital site. The Hospital has responded to all inquiries and assisted with testing at the site since this time. A liability has not been recognized in the accompanying consolidated financial statements at December 31, 2017 and 2016, as it cannot be reasonably determined whether a liability is both probable and estimable within the guidance in FASB ASC Topic 410, *Asset Retirement and Environmental Obligations*.

Note 17: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). The Hospital is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019 (2018 for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019 (2018 for not-for-profits that are conduit debt obligors). The Hospital is evaluating the impact the standard will have on the consolidated financial statements.

Not-for-Profit Reporting Model

The Financial Accounting Standards Board amended its standard related presentation of financial statements for Not-for-Profit entities. A summary of the changes is as follows:

Statement of Financial Position

- The balance sheet distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the balance sheet.
- Amounts and purposes of Governing Board designations and appropriations as of the end of the period are disclosed.

The new standard is effective for annual periods beginning after December 15, 2017. The Hospital is evaluating the impact the standard will have on the consolidated financial statements.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 18: Subsequent Events

Subsequent events have been evaluated through April 23, 2018, which is the date the consolidated financial statements were issued.

Other Information

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Balance Sheet Information
December 31, 2017

Assets

	Hospital	ROSE	RHPA	RA, LLC	CPH	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ 28,018,893	\$ 1,638,110	\$ (337,432)	\$ 529,431	\$ 53,983	\$ -	\$ 29,902,985
Patient accounts receivable, net of allowance; 2017 - \$31,000,000	40,037,688	-	4,936,459	-	-	-	44,974,147
Estimated amounts due from third-party payers	5,801,577	-	-	-	-	-	5,801,577
Supplies	6,778,888	-	-	-	47,978	-	6,826,866
Prepaid expenses and other	347,825,896	1,290,047	5,409,197	830,065	66,264	(339,542,266)	15,879,203
Total current assets	<u>428,462,942</u>	<u>2,928,157</u>	<u>10,008,224</u>	<u>1,359,496</u>	<u>168,225</u>	<u>(339,542,266)</u>	<u>103,384,778</u>
Assets Limited As To Use							
Internally designated	268,557,811	-	-	-	-	-	268,557,811
Internally designated - fair value option	50,747,524	-	-	-	-	-	50,747,524
	<u>319,305,335</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>319,305,335</u>
Property and Equipment, at cost							
Less accumulated depreciation	537,081,724	8,717,098	20,481,704	-	43,186	-	566,323,712
	<u>297,363,306</u>	<u>6,615,297</u>	<u>11,932,968</u>	<u>-</u>	<u>16,947</u>	<u>-</u>	<u>315,928,518</u>
	<u>239,718,418</u>	<u>2,101,801</u>	<u>8,548,736</u>	<u>-</u>	<u>26,239</u>	<u>-</u>	<u>250,395,194</u>
Other Assets							
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	20,978,752	-	-	-	-	-	20,978,752
Intangible assets, net	17,987,590	-	-	-	-	-	17,987,590
Other	9,101,577	-	-	-	-	(3,855,736)	5,245,841
	<u>48,067,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,855,736)</u>	<u>44,212,183</u>
Total assets	<u>\$ 1,035,554,614</u>	<u>\$ 5,029,958</u>	<u>\$ 18,556,960</u>	<u>\$ 1,359,496</u>	<u>\$ 194,464</u>	<u>\$ (343,398,002)</u>	<u>\$ 717,297,490</u>
Liabilities and Net Assets							
Current Liabilities							
Accounts payable and accrued expenses	\$ 15,741,407	\$ 704,572	\$ 339,263,349	\$ 620,525	\$ 61,116	\$ (339,542,266)	\$ 16,848,703
Salaries, wages and related liabilities	14,516,008	-	10,220,251	-	-	-	24,736,259
Estimated amounts due to third-party payers	2,830,000	-	-	-	-	-	2,830,000
Current maturities of long-term debt	6,913,765	-	-	-	-	-	6,913,765
Total current liabilities	<u>40,001,180</u>	<u>704,572</u>	<u>349,483,600</u>	<u>620,525</u>	<u>61,116</u>	<u>(339,542,266)</u>	<u>51,328,727</u>
Long-Term Debt	211,482,221	-	-	-	-	-	211,482,221
Interest Rate Swap Agreement Liability	17,524,498	-	-	-	-	-	17,524,498
Total liabilities	<u>269,007,899</u>	<u>704,572</u>	<u>349,483,600</u>	<u>620,525</u>	<u>61,116</u>	<u>(339,542,266)</u>	<u>280,335,446</u>
Net Assets							
Unrestricted							
Reid Hospital and Health Care Services, Inc.	745,567,963	4,325,386	(330,926,640)	738,971	133,348	(5,802,160)	414,036,868
Noncontrolling interest	-	-	-	-	-	1,946,424	1,946,424
Total unrestricted net assets	<u>745,567,963</u>	<u>4,325,386</u>	<u>(330,926,640)</u>	<u>738,971</u>	<u>133,348</u>	<u>(3,855,736)</u>	<u>415,983,292</u>
Temporarily restricted	20,812,959	-	-	-	-	-	20,812,959
Permanently restricted	165,793	-	-	-	-	-	165,793
Total net assets	<u>766,546,715</u>	<u>4,325,386</u>	<u>(330,926,640)</u>	<u>738,971</u>	<u>133,348</u>	<u>(3,855,736)</u>	<u>436,962,044</u>
Total liabilities and net assets	<u>\$ 1,035,554,614</u>	<u>\$ 5,029,958</u>	<u>\$ 18,556,960</u>	<u>\$ 1,359,496</u>	<u>\$ 194,464</u>	<u>\$ (343,398,002)</u>	<u>\$ 717,297,490</u>

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Statement of Operations and Changes in Net Assets Information
Year Ended December 31, 2017

	Hospital	ROSE	RHPA	RA, LLC	CPH	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Net patient service revenue	\$ 377,191,586	\$ -	\$ 65,133,557	\$ -	\$ -	\$ -	\$ 442,325,143
Provision for uncollectible accounts	(21,932,535)	-	(5,085,430)	-	-	-	(27,017,965)
Net patient service revenue, less provision for uncollectible accounts	355,259,051	-	60,048,127	-	-	-	415,307,178
Other	14,379,772	24,110,369	764,083	6,370,205	1,179,694	(35,992,490)	10,811,633
Net assets released from restrictions used for operations	4,274,025	-	-	-	-	-	4,274,025
Total unrestricted revenues, gains and other support	373,912,848	24,110,369	60,812,210	6,370,205	1,179,694	(35,992,490)	430,392,836
Expenses and Losses							
Salaries, wages and benefits	134,458,748	10,891,663	91,838,451	56,755	241,915	(5,142,006)	232,345,526
Purchased services and professional fees	15,394,584	398,715	222,209	6,344,842	39,906	(7,116,058)	15,284,198
Supplies and other	123,211,890	6,975,303	16,982,041	-	1,022,575	(23,734,426)	124,457,383
Depreciation and amortization	29,095,479	430,315	1,871,406	-	8,135	-	31,405,335
Interest and amortization of financing costs	7,558,166	-	-	-	-	-	7,558,166
Loss on disposal of property and equipment	445,664	-	9,077	-	-	-	454,741
Provider hospital assessment fee	9,340,057	-	-	-	-	-	9,340,057
Total expenses and losses	319,504,588	18,695,996	110,923,184	6,401,597	1,312,531	(35,992,490)	420,845,406
Operating Income (Loss)	54,408,260	5,414,373	(50,110,974)	(31,392)	(132,837)	-	9,547,430
Other Income (Expense)							
Investment return	38,311,942	(519)	-	-	(4,060)	(3,641,320)	34,666,043
Change in fair value of interest rate swap agreements	1,254,073	-	-	-	-	-	1,254,073
Total other income (expense)	39,566,015	(519)	-	-	(4,060)	(3,641,320)	35,920,116
Excess (Deficiency) of Revenues Over Expenses	93,974,275	5,413,854	(50,110,974)	(31,392)	(136,897)	(3,641,320)	45,467,546
Other Changes in Unrestricted Net Assets							
Contributions	-	-	-	-	95,000	(95,000)	-
Distributions	-	(6,035,000)	-	-	-	3,319,250	(2,715,750)
Net assets released from restriction used for purchase of property and equipment	2,925,975	-	-	-	-	-	2,925,975
Other	(24,923)	-	19,046	-	-	-	(5,877)
Increase (decrease) in unrestricted net assets	96,875,327	(621,146)	(50,091,928)	(31,392)	(41,897)	(417,070)	45,671,894
Temporarily Restricted Net Assets							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	4,798,191	-	-	-	-	-	4,798,191
Net assets released from restriction	(7,200,000)	-	-	-	-	-	(7,200,000)
Decrease in temporarily restricted net assets	(2,401,809)	-	-	-	-	-	(2,401,809)
Change in Net Assets	94,473,518	(621,146)	(50,091,928)	(31,392)	(41,897)	(417,070)	43,270,085
Net Assets, Beginning of Year	672,073,197	4,946,532	(280,834,712)	770,363	175,245	(3,438,666)	393,691,959
Net Assets, End of Year	\$ 766,546,715	\$ 4,325,386	\$ (330,926,640)	\$ 738,971	\$ 133,348	\$ (3,855,736)	\$ 436,962,044

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Balance Sheet Information
December 31, 2016

Assets

	Hospital	Reid MOB	ROSE	RHPA	RA, LLC	CPH	Eliminations	Total
Current Assets								
Cash and cash equivalents	\$ 29,309,967	\$ -	\$ 1,162,323	\$ (116,551)	\$ 989,490	\$ 41,284	\$ -	\$ 31,386,513
Patient accounts receivable, net of allowance; 2016 - \$30,000,000	40,550,496	-	-	4,879,431	-	-	-	45,429,927
Supplies	7,180,351	-	-	-	-	60,540	-	7,240,891
Prepaid expenses and other	300,308,557	-	2,076,781	5,326,061	459,003	44,098	(291,380,951)	16,833,549
Total current assets	<u>377,349,371</u>	<u>-</u>	<u>3,239,104</u>	<u>10,088,941</u>	<u>1,448,493</u>	<u>145,922</u>	<u>(291,380,951)</u>	<u>100,890,880</u>
Assets Limited As To Use								
Internally designated	231,997,382	-	-	-	-	-	-	231,997,382
Internally designated - fair value option	49,103,599	-	-	-	-	-	-	49,103,599
	<u>281,100,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>281,100,981</u>
Property and Equipment, at cost	525,196,018	-	8,469,339	20,046,374	-	43,186	-	553,754,917
Less accumulated depreciation	274,055,957	-	6,176,073	10,972,870	-	8,812	-	291,213,712
	<u>251,140,061</u>	<u>-</u>	<u>2,293,266</u>	<u>9,073,504</u>	<u>-</u>	<u>34,374</u>	<u>-</u>	<u>262,541,205</u>
Other Assets								
Interest in net assets of Reid Hospital and Health Care Services								
Foundation, Inc.	23,380,561	-	-	-	-	-	-	23,380,561
Intangible assets, net	4,089,110	-	-	-	-	-	-	4,089,110
Other	8,238,270	-	-	-	-	-	(3,408,415)	4,829,855
	<u>35,707,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,408,415)</u>	<u>32,299,526</u>
Total assets	<u>\$ 945,298,354</u>	<u>\$ -</u>	<u>\$ 5,532,370</u>	<u>\$ 19,162,445</u>	<u>\$ 1,448,493</u>	<u>\$ 180,296</u>	<u>\$ (294,789,366)</u>	<u>\$ 676,832,592</u>

Liabilities and Net Assets

Current Liabilities								
Accounts payable and accrued expenses	\$ 14,067,222	\$ -	\$ 585,838	\$ 289,711,767	\$ 678,130	\$ 5,051	\$ (291,350,700)	\$ 13,697,308
Salaries, wages and related liabilities	12,762,970	-	-	10,285,390	-	-	-	23,048,360
Estimated amounts due to third-party payers	2,980,018	-	-	-	-	-	-	2,980,018
Current maturities of long-term debt	6,528,503	-	-	-	-	-	-	6,528,503
Total current liabilities	<u>36,338,713</u>	<u>-</u>	<u>585,838</u>	<u>299,997,157</u>	<u>678,130</u>	<u>5,051</u>	<u>(291,350,700)</u>	<u>46,254,189</u>
Long-Term Debt	218,107,873	-	-	-	-	-	-	218,107,873
Interest Rate Swap Agreement Liability	18,778,571	-	-	-	-	-	-	18,778,571
Total liabilities	<u>273,225,157</u>	<u>-</u>	<u>585,838</u>	<u>299,997,157</u>	<u>678,130</u>	<u>5,051</u>	<u>(291,350,700)</u>	<u>283,140,633</u>
Net Assets								
Unrestricted								
Reid Hospital and Health Care Services, Inc.	648,692,636	-	4,946,532	(280,834,712)	770,363	175,245	(5,664,605)	368,085,459
Noncontrolling interest	-	-	-	-	-	-	2,225,939	2,225,939
Total unrestricted net assets	<u>648,692,636</u>	<u>-</u>	<u>4,946,532</u>	<u>(280,834,712)</u>	<u>770,363</u>	<u>175,245</u>	<u>(3,438,666)</u>	<u>370,311,398</u>
Temporarily restricted	23,214,768	-	-	-	-	-	-	23,214,768
Permanently restricted	165,793	-	-	-	-	-	-	165,793
Total net assets	<u>672,073,197</u>	<u>-</u>	<u>4,946,532</u>	<u>(280,834,712)</u>	<u>770,363</u>	<u>175,245</u>	<u>(3,438,666)</u>	<u>393,691,959</u>
Total liabilities and net assets	<u>\$ 945,298,354</u>	<u>\$ -</u>	<u>\$ 5,532,370</u>	<u>\$ 19,162,445</u>	<u>\$ 1,448,493</u>	<u>\$ 180,296</u>	<u>\$ (294,789,366)</u>	<u>\$ 676,832,592</u>

Reid Hospital and Health Care Services, Inc.

Consolidating Schedule - Statement of Operations and Changes in Net Assets Information

Year Ended December 31, 2016

	Hospital	Reid MOB	ROSE	RHPA	RA, LLC	CPH	Eliminations	Total
Unrestricted Revenues, Gains and Other Support								
Net patient service revenue	\$ 357,260,363	\$ -	\$ -	\$ 63,080,618	\$ -	\$ -	\$ -	\$ 420,340,981
Provision for uncollectible accounts	(23,082,854)	-	-	(6,877,454)	-	-	-	(29,960,308)
Net patient service revenue, less provision for uncollectible accounts	334,177,509	-	-	56,203,164	-	-	-	390,380,673
Other	14,606,507	2,322,933	23,523,651	833,297	6,655,746	463,153	(38,236,262)	10,169,025
Net assets released from restrictions used for operations	8,043,589	-	-	-	-	-	-	8,043,589
Total unrestricted revenues, gains and other support	356,827,605	2,322,933	23,523,651	57,036,461	6,655,746	463,153	(38,236,262)	408,593,287
Expenses and Losses								
Salaries, wages and benefits	124,432,765	7,534	10,578,166	88,884,257	295,519	227,411	(5,342,502)	219,083,150
Purchased services and professional fees	15,590,091	2,100	310,408	706,855	6,330,181	21,291	(7,396,902)	15,564,024
Supplies and other	117,918,373	577,882	5,665,306	24,725,560	-	402,844	(25,496,858)	123,793,107
Depreciation and amortization	27,313,363	319,509	437,652	2,058,994	-	8,812	-	30,138,330
Interest and amortization of financing costs	6,015,613	691,288	-	-	-	-	(676,288)	6,030,613
Loss on disposal of property and equipment	872,329	-	-	-	-	-	-	872,329
Provider hospital assessment fee	6,561,611	-	-	-	-	-	-	6,561,611
Total expenses and losses	298,704,145	1,598,313	16,991,532	116,375,666	6,625,700	660,358	(38,912,550)	402,043,164
Operating Income (Loss)	58,123,460	724,620	6,532,119	(59,339,205)	30,046	(197,205)	676,288	6,550,123
Other Income (Expense)								
Investment return	19,280,080	1,700	(475)	-	-	(2,550)	(3,693,929)	15,584,826
Change in fair value of interest rate swap agreements	1,734,374	-	-	-	-	-	-	1,734,374
Loss on bond refunding	(373,093)	-	-	-	-	-	-	(373,093)
Pension net loss not previously recognized in excess of revenues over expenses	(22,162,262)	-	-	-	-	-	-	(22,162,262)
Pension termination costs	(460,481)	-	-	-	-	-	-	(460,481)
Total other income (expense)	(1,981,382)	1,700	(475)	-	-	(2,550)	(3,693,929)	(5,676,636)
Excess (Deficiency) of Revenues Over Expenses	56,142,078	726,320	6,531,644	(59,339,205)	30,046	(199,755)	(3,017,641)	873,487
Other Changes in Unrestricted Net Assets								
Net benefit arising during the period related to defined-benefit plans	2,817,353	-	-	-	-	-	-	2,817,353
Net loss not previously recognized in excess of revenues over expenses	22,162,262	-	-	-	-	-	-	22,162,262
Purchase of shares from noncontrolling interest	(1,577,472)	-	-	-	-	-	-	(1,577,472)
Contributions	-	-	-	-	-	375,000	(375,000)	-
Distributions	-	(604,479)	(5,206,847)	-	-	-	2,987,391	(2,823,935)
Other	(226,027)	226,027	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	79,318,194	347,868	1,324,797	(59,339,205)	30,046	175,245	(405,250)	21,451,695
Temporarily Restricted Net Assets								
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	2,993,292	-	-	-	-	-	-	2,993,292
Net assets released from restriction	(8,043,589)	-	-	-	-	-	-	(8,043,589)
Decrease in temporarily restricted net assets	(5,050,297)	-	-	-	-	-	-	(5,050,297)
Change in Net Assets	74,267,897	347,868	1,324,797	(59,339,205)	30,046	175,245	(405,250)	16,401,398
Net Assets, Beginning of Year	597,805,300	(347,868)	3,621,735	(221,495,507)	740,317	-	(3,033,416)	377,290,561
Net Assets, End of Year	\$ 672,073,197	\$ -	\$ 4,946,532	\$ (280,834,712)	\$ 770,363	\$ 175,245	\$ (3,438,666)	\$ 393,691,959