

Reid Hospital and Health Care Services, Inc.

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2020 and 2019

Reid Hospital and Health Care Services, Inc.

December 31, 2020 and 2019

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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, 2020 and 2019, 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 consolidated financial position of Reid Hospital and Health Care Services, Inc. as of December 31, 2020 and 2019, 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.

BKD, LLP

Indianapolis, Indiana

April 16, 2021

Reid Hospital and Health Care Services, Inc.

Consolidated Balance Sheets December 31, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash and cash equivalents	\$ 39,828,355	\$ 47,063,002
Short-term investments	80,035,075	-
Patient accounts receivable	63,254,838	64,683,360
Estimated amounts due from third-party payers	9,269,791	4,196,825
Supplies	8,624,902	7,747,868
Prepaid expenses and other	18,190,980	16,981,484
Total current assets	219,203,941	140,672,539
Assets Limited As To Use		
Internally designated	358,959,019	318,544,274
Held by trustee	8,425,709	16,959,245
	367,384,728	335,503,519
Property and Equipment, net	265,091,035	253,622,932
Other Assets		
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	21,719,442	20,306,241
Right-of-use assets - operating leases	2,070,724	2,390,748
Intangible assets, net	17,315,806	19,185,239
Goodwill	3,932,500	3,932,500
Other	6,136,985	4,013,630
	51,175,457	49,828,358
Total assets	\$ 902,855,161	\$ 779,627,348

Reid Hospital and Health Care Services, Inc.
Consolidated Balance Sheets (Continued)
December 31, 2020 and 2019

Liabilities and Net Assets

	<u>2020</u>	<u>2019</u>
Current Liabilities		
Accounts payable and accrued expenses	\$ 61,976,346	\$ 22,296,751
Accrued salaries, wages and related liabilities	22,305,602	28,212,566
Estimated amounts due to third-party payers	3,904,973	3,250,124
Current maturities of long-term debt	11,618,488	9,843,148
Current portion of lease liabilities - operating leases	368,266	234,377
Current portion of lease liabilities - finance leases	515,902	741,337
Total current liabilities	<u>100,689,577</u>	<u>64,578,303</u>
Other Liabilities		
Long-term debt, net	222,775,214	233,600,678
Lease liabilities - operating leases, net	1,702,458	2,156,369
Lease liabilities - finance leases, net	2,582,684	1,169,174
Interest rate swap agreements	23,919,714	19,288,843
Other	34,684,969	-
Total noncurrent liabilities	<u>285,665,039</u>	<u>256,215,064</u>
Total liabilities	<u>386,354,616</u>	<u>320,793,367</u>
Net Assets		
Without Donor Restriction		
Reid Hospital and Health Care Services, Inc.	494,340,827	437,258,552
Noncontrolling interest	440,276	1,269,188
Total net assets without donor restrictions	<u>494,781,103</u>	<u>438,527,740</u>
With Donor Restriction	<u>21,719,442</u>	<u>20,306,241</u>
Total net assets	<u>516,500,545</u>	<u>458,833,981</u>
Total liabilities and net assets	<u>\$ 902,855,161</u>	<u>\$ 779,627,348</u>

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2020 and 2019

	2020	2019
Revenues, Gains and Other Support Without Donor Restriction		
Patient service revenue	\$ 520,440,344	\$ 495,672,291
Other	51,748,591	11,579,754
Net assets released from restrictions used for operations	2,020,000	2,637,554
Total revenues, gains and other support without donor restrictions	574,208,935	509,889,599
 Expenses and Losses		
Salaries, wages and benefits	322,811,074	289,119,971
Purchased services and professional fees	16,807,986	15,717,349
Supplies and other	150,618,030	140,209,486
Depreciation and amortization	35,575,188	33,075,240
Interest and amortization of financing costs	8,366,523	8,963,090
Loss on disposal of property and equipment	-	852,916
Provider hospital assessment fee	14,052,483	14,904,737
Total expenses and losses	548,231,284	502,842,789
 Operating Income	 25,977,651	 7,046,810
 Other Income (Expense)		
Investment return, net	38,392,036	52,048,345
Change in fair value of interest rate swap agreements	(4,630,871)	(4,346,145)
Total other income	33,761,165	47,702,200
 Excess of Revenues Over Expenses	 \$ 59,738,816	 \$ 54,749,010

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net Assets Without Donor Restrictions		
Excess of revenues over expense	\$ 59,738,816	\$ 54,749,010
Distributions to noncontrolling interest	(3,485,453)	(2,165,264)
Other	-	(10,570)
Increase in net assets without donor restrictions	<u>56,253,363</u>	<u>52,573,176</u>
Net Assets With Donor Restrictions		
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	3,433,201	3,854,577
Net assets released from restriction	(2,020,000)	(2,637,554)
Increase in net assets with donor restrictions	<u>1,413,201</u>	<u>1,217,023</u>
Change in Net Assets	57,666,564	53,790,199
Net Assets, Beginning of Year	<u>458,833,981</u>	<u>405,043,782</u>
Net Assets, End of Year	<u>\$ 516,500,545</u>	<u>\$ 458,833,981</u>

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ 57,666,564	\$ 53,790,199
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	35,575,188	33,075,240
(Gain) loss on disposal of property and equipment	(26,334)	852,916
Amortization of deferred financing fees and bond premium	(604,704)	(719,733)
Realized and unrealized gain on investments	(29,400,352)	(40,110,003)
Realized and unrealized gains on alternative investments carried at fair value	(4,679,452)	(4,394,472)
Investment gain on investments carried under equity method	(970,183)	(1,157,663)
Change in fair value of interest rate swap agreements	4,630,871	4,346,145
Undistributed portion of change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	(1,413,201)	(1,217,023)
Distributions to noncontrolling interest	3,485,453	2,165,264
Changes in		
Patient accounts receivable	1,428,522	(13,237,184)
Estimated amounts due from and to third-party payers	(4,418,117)	1,800,769
Accounts payable, accrued expenses and accrued salaries, wages and related liabilities, and other long-term liabilities	71,122,310	4,186,754
Other current and noncurrent assets	(4,209,883)	(5,916,536)
Net cash provided by operating activities	128,186,682	33,464,673
Investing Activities		
Purchase of investments	(230,168,010)	(61,256,851)
Proceeds from disposition of investments	149,568,177	78,489,122
Purchase of property and equipment	(44,827,403)	(43,525,286)
Purchase of intangible assets	(1,088,442)	(1,237,266)
Net cash used in investing activities	(126,515,678)	(27,530,281)
Financing Activities		
Principal payments on long-term debt	(10,385,120)	(7,067,235)
Proceeds from issuance of long-term debt	1,939,700	30,000,000
Finance lease payments	(708,314)	(941,757)
Distributions to noncontrolling interest	(3,485,453)	(2,165,264)
Net cash provided by (used in) financing activities	(12,639,187)	19,825,744
Increase (Decrease) in Cash and Cash Equivalents	(10,968,183)	25,760,136
Cash and Cash Equivalents, Beginning of Year	59,222,247	33,462,111
Cash and Cash Equivalents, End of Year	\$ 48,254,064	\$ 59,222,247

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019

	2020	2019
Reconciliation of Cash and Cash Equivalents to the Consolidated		
Balance Sheets		
Cash and cash equivalents	\$ 39,828,355	\$ 47,063,002
Cash and cash equivalents included in assets limited as to use - held by trustee	8,425,709	12,159,245
Cash and cash equivalents, end of year	\$ 48,254,064	\$ 59,222,247
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 9,344,387	\$ 7,905,845
Property and equipment included in accounts payable and accrued expenses	2,238,101	4,902,811
Operating lease liabilities incurred for right-of-use assets	308,399	364,388
Finance lease liabilities incurred for right-of-use assets	2,823,278	1,328,003

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2020 and 2019

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). RHPA is exempt from income taxes on related income pursuant to Section 501(a) of the Code. RHPA provides physician services and RA 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).

The Hospital owns 100% of Reid Health Properties, LLC (RHP) and Reid Health Ambulance, Inc. (RHA). RHP was formed to own and manage real estate utilized in ancillary hospital services. RHA was formed to provide ambulance services in the Hospital's service area.

The Hospital previously owned 100% of Connersville Pharmacy, LLC (CPH), which was created to own and operate a retail pharmacy in the Hospital's service area and surrounding communities. In June 2020, operations of CPH ceased and the Hospital contributed cash for a noncontrolling interest in a pharmacy joint venture.

In 2020, the Hospital formed and is 100% owner of South 37th Street Properties, LLC (Properties), which was created to own and manage real estate utilized in ancillary hospital services. Properties has no activity as of December 31, 2020.

The consolidated financial statements include the accounts of the Hospital and its controlled subsidiaries, RHPA, RA, ROSE, CPH, RHP, and RHA. 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, 2020 and 2019

Noncontrolling Interest

Noncontrolling interest represents a 45% interest in ROSE that the Hospital does not own. For the years ended December 31, 2020 and 2019, changes in consolidated net assets without donor restrictions attributable to the controlling financial interest of the Hospital and the noncontrolling interest are:

	Total	Controlling Interest	Noncontrolling Interest
Balance, January 1, 2019	\$ 385,954,564	\$ 384,698,640	\$ 1,255,924
Excess of revenues over expenses	54,749,010	52,570,482	2,178,528
Distributions to noncontrolling interest	(2,165,264)	-	(2,165,264)
Other	(10,570)	(10,570)	-
Increase in net assets without donor restrictions	<u>52,573,176</u>	<u>52,559,912</u>	<u>13,264</u>
Balance, December 31, 2019	438,527,740	437,258,552	1,269,188
Excess of revenues over expenses	59,738,816	57,154,408	2,584,408
Distributions to noncontrolling interest	(3,485,453)	-	(3,485,453)
Other	-	(72,133)	72,133
Increase (decrease) in net assets without donor restrictions	<u>56,253,363</u>	<u>57,082,275</u>	<u>(828,912)</u>
Balance, December 31, 2020	<u>\$ 494,781,103</u>	<u>\$ 494,340,827</u>	<u>\$ 440,276</u>

The change in net assets with donor restrictions is attributable solely 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.

Cash and Cash Equivalents

The Hospital considers liquid investments with original maturities of three months or less, except for those held for investment purposes which are classified as short-term investments or assets limited as to use, to be cash equivalents. At December 31, 2020 and 2019, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At December 31, 2020, the Hospital's cash accounts exceeded federally insured limits by approximately \$47,000,000.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Assets Limited as to Use

Assets limited as to use include assets held by trustees for debt service and those 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.

Patient Accounts Receivable

Patient accounts receivable reflects the outstanding amount of consideration to which the Hospital 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. As a service to the patient, the Hospital bills third-party payors directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

Contract Assets and Liabilities

Amounts related to health care services provided to patients which have not been billed and 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 Hospital at the end of the year. Contract asset balances are included in patient accounts receivable.

Amounts received related to health care services that have not yet been provided to patients are contract liabilities. Contract liabilities consist of payments made by patients and third-party payors for services not yet performed. The Hospital had no contract liabilities within the consolidated balance sheets at December 31, 2020 and 2019.

Supplies

The Hospital records supply inventories at the lower of cost, determined using the first-in, first-out (FIFO) method, or net realizable value.

Investments

The Hospital measures equity securities, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in excess of revenues over expenses. Debt securities held by the Hospital are classified and recorded as trading. These investments are recorded at fair value, with changes in fair value included in excess of revenues over expenses. 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 recorded at net asset value (NAV), as a practical expedient, to determine fair value of investments. Certificates of deposit are stated at cost, plus accrued interest, which approximates fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2020 and 2019

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. Amounts totaling \$3,107,014 and \$1,074,833 as of December 31, 2020 and 2019, respectively, are included with other assets on the consolidated balance sheets.

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 totaling \$1,592,558 and \$1,401,061 at December 31, 2020 and 2019, respectively, are reported in other assets on the consolidated balance sheets.

Net Investment Return

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, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restriction. Other investment return is reflected in the consolidated statements of operations and changes in net assets as without donor restriction or with donor restriction based upon the existence and nature of any donor or legally imposed restrictions.

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 finance lease and leasehold improvements are depreciated over the shorter of the estimated useful life or lease term.

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as an increase in net assets with donor restrictions. The expiration of such restrictions is reported as an increase in net assets without donor restrictions 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.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2020 and 2019

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

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 2020 or 2019.

Goodwill and Intangible Assets

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of the reporting unit, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Intangible assets with finite lives represent software licensing agreements and capitalized implementation costs for software accessed through hosting arrangements. Amounts are amortized on the straight-line basis over the term of the license or hosting agreement. Such assets are periodically evaluated as to the recoverability of their carrying values.

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, 2020 and 2019.

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.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Leases

The Hospital determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of right-of-use (ROU) assets and lease liabilities on the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Hospital determines lease classification as operating or finance at the lease commencement date. ROU assets related to finance leases are included in property and equipment in our consolidated balance sheets.

Under certain agreements, the Hospital directs the use of specific equipment and therefore, controls the assets, in arrangements where the Hospital also purchases supplies from the vendor. The equipment provided in these agreements is considered an embedded lease. The Hospital accounts for the lease and nonlease components separately. The lease components consist of the equipment provided. The nonlease components consist of supply purchases and other services, as applicable. The Hospital allocates the consideration to the lease and nonlease components using their relative standalone values.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Hospital uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Hospital uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. Incremental borrowing rates used to determine the present value of lease payments were derived by reference to the Hospital's most recent borrowings adjusted to correspond to lease commencement dates.

The lease term may include options to extend or to terminate the lease that the Hospital is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Hospital has elected not to record leases with an initial term of 12 months or less on the consolidated balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Debt Issuance Costs

Debt issuance 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, which approximates the effective interest method.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and future capital requirements.

Net assets with donor restrictions are those whose use by the Hospital has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Hospital in perpetuity.

Patient Service Revenue

Patient care service revenue is recognized as the Hospital satisfies performance obligations under its contracts with patients. Patient care service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. The Hospital 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 Hospital's policies and implicit price concessions provided to uninsured patients.

The Hospital determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. The Hospital determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

Charity Care and Community Benefit

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 patient care service revenue. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately \$5,326,000 and \$6,771,000 for 2020 and 2019, 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.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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 income when incurred. The Hospital has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$275,000.

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 Note 7.

Excess of Revenues Over Expenses

Substantially all resources of the Hospital are derived from providing health care services, similar to that provided by a business enterprise. Therefore, the consolidated statements of operations include the excess of revenues over expenses (performance indicator). Changes in net assets without donor restrictions which are excluded from the excess of revenues over expenses, consistent with industry practice, include net assets released from restriction used for the purchase of property and equipment, distributions to noncontrolling interests and other.

Income Taxes

The Hospital, RHPA and RHA have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, these entities are subject to federal income tax on any unrelated business taxable income. ROSE, RA, CPH and RHP 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.

Revisions

The 2019 financial statements have been revised for immaterial errors in the presentation of investment return. The revisions decreased reported interest and dividends by approximately \$2.1 million, which were previously reported as realized and unrealized gains on other investments carried at fair value (\$900,000) and investments gains (losses) on investments carried under equity method (\$1.2 million). Total investment return was not changed as a result of this revision. The revisions also decreased net cash provided by operating activities and decreased net cash used in investing activities by approximately \$2.1 million. Increase in cash and cash equivalents was not changed as a result of this revision. These revisions had no effect on the change in net assets.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Change in Accounting Principle

In 2020, the Hospital adopted Accounting Standards Update (ASU) 2018-15, *Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Hospital adopted this guidance on a prospective basis, which resulted in the capitalization of certain implementation costs described further in Note 13.

Note 2: Patient Service Revenue

Patient care service revenue is reported at the amount that reflects the consideration to which the Hospital 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 Hospital bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services or patients receiving services in its outpatient centers. The Hospital measures the performance obligation from inpatient admission, 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. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Hospital does not believe it is required to provide additional goods related to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above 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.

Reid Hospital and Health Care Services, Inc.

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Transaction Price

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

Third-Party Payors

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. Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. 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 administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2016. The Hospital is a Medicare Designated Sole Community Hospital. Special Medicare payments under this designation approximated \$14.0 million and \$12.0 million for the years December 31, 2020 and 2019, respectively.

Medicaid. Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service or per covered member.

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment based on Hospital-established charges and prospectively determined rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. The Hospital believes it is in compliance with applicable laws and regulations governing Medicare, Medicaid, and other governmental programs. Compliance with such laws and regulations may be subject to future government review and interpretation, as well as significant regulatory action. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. In addition, the Hospital is subject to retroactive audit and claim review by commercial payors.

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The Hospital has qualified as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law, as its Medicaid Inpatient Utilization Rate (MIUR) exceeded state-wide thresholds, as defined by state regulation, during its most recent measurement period. The Hospital is eligible to receive supplemental Medicaid payments and has qualified for the period beginning July 1, 2015 through June 30, 2019. 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 are made on an interim basis 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 \$7,798,000 and \$9,975,000 within patient care service revenue related to this supplemental payment program in 2020 and 2019, respectively. Of the amounts recognized in 2020 and 2019, \$7,372,000 and \$7,428,000, respectively, represent adjustments arising from a change in the transaction price for periods falling outside of the fiscal year as a result of newly available information and payments received by the State of Indiana. Amounts outstanding totaled \$9,270,000 and \$4,197,000 at December 31, 2020 and 2019, respectively, and are included in estimated amounts due from third-party payors. These amounts represent funds due to the Hospital and are management's best estimate of DSH funds due to the Hospital, which are typically paid in arrears.

The Hospital participates in a state-specific provider assessment program to increase Medicaid payments to hospitals. The Hospital incurred approximately \$14,052,000 and \$14,904,000 of fees related to the program in 2020 and 2019, 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. 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, 2020.

The State measures MIUR percentages no less than every four years and no more than every two 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. The State's most recent measurement is for the period ending June 30, 2019. Management has recorded revenue which represents the amount management has estimated and believes will best predict the amount of consideration to which it will be entitled in accordance with ASC 606-10-32-8. The cumulative benefit from the 25% reduction in the provider assessment fee for the period July 1, 2019 through December 31, 2020 approximated \$7,044,000. 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.

Reid Hospital and Health Care Services, Inc.

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Settlements with third-party payors for retroactive adjustments due to cost report or audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price for Medicaid DSH revenues related to newly available information and payments received by the State of Indiana approximated \$6,947,000 and \$7,428,000 in 2020 and 2019. Other settlements of prior fiscal years' cost reports and the disposition of other payor audits were not significant in 2020 or 2019.

Patient and Uninsured Payors

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital 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 based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care service revenue in the period of the change. For the years ended December 31, 2020 and 2019, additional revenue recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years was not significant. 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 Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as 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 Hospital expects to collect based on its collection history with those patients. For the years ended December 31, 2020 and 2019, implicit price concessions were approximately \$30,187,000 and \$28,177,000, respectively.

Patients who meet the Hospital'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.

Reid Hospital and Health Care Services, Inc.

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Refund Liabilities

From time to time, the Hospital will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are reflected as refunds due until they are refunded. As of December 31, 2020 and 2019, the Hospital has a liability for refunds to third-party payors and patients recorded of approximately \$3,543,000 and \$3,680,000, respectively.

Revenue Composition

The Hospital has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by payors and service lines. Tables providing details of these factors are presented below.

The composition of patient care service revenue by primary payor for the years ended December 31 is as follows:

	<u>2020</u>	<u>2019</u>
Medicare	\$ 194,305,317	\$ 191,636,333
Medicaid	72,504,936	58,598,343
Commercial insurers	200,039,457	200,509,305
Uninsured	21,695,479	19,066,356
Other	31,895,155	25,861,954
	<u>\$ 520,440,344</u>	<u>\$ 495,672,291</u>

Revenue from patients' deductibles and coinsurance are included in the categories presented above based on the primary payor.

The composition of patient care service revenue based on service lines for the years ended December 31 is as follows:

	<u>2020</u>	<u>2019</u>
Hospital - inpatient	\$ 186,459,183	\$ 175,113,200
Hospital - outpatient	258,143,560	246,539,783
Physician services	75,837,601	74,019,308
	<u>\$ 520,440,344</u>	<u>\$ 495,672,291</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Contract Balances

Contract assets consist primarily of health care services provided to patients who are still receiving inpatient care in the Hospital at the end of the year. Contract assets are included within patient accounts receivable and billed when the rights become unconditional. Contract liabilities represent the Hospital's obligation to provide services to patients when consideration has already been received from the patient or a third-party payor. The Hospital had no contract liabilities within the consolidated balance sheets at December 31, 2020 and 2019.

Significant changes in contract assets are as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 3,030,000	\$ 2,586,000
Effects of		
Transferred to receivables from contract assets recognized at the beginning of the period	(3,030,000)	(2,586,000)
Revenue recognized on contracts in process as of the end of the year	<u>2,656,000</u>	<u>3,030,000</u>
Balance, end of year	<u>\$ 2,656,000</u>	<u>\$ 3,030,000</u>

The following table provides information about the Hospital's receivables from contracts with patients:

	<u>2020</u>	<u>2019</u>
Accounts receivable, net of contract assets, beginning of year	\$ 61,653,360	\$ 48,860,176
Accounts receivable, net of contract assets, end of year	60,598,838	61,653,360

Financing Component

The Hospital has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Hospital's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Hospital does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2020 and 2019

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 payor agreements. The mix of receivables from patients and third-party payors at December 31, 2020 and 2019 is:

	2020	2019
Medicare	22%	29%
Medicaid	9%	9%
Other third-party payors	68%	56%
Uninsured patients, including coinsurance and deductibles	1%	6%
	100%	100%

Note 4: Investments and Investment Return

Short-term investments and assets limited as to use at December 31 are as follows:

	2020	2019
Short-term investments		
Money market funds	\$ 80,035,075	\$ -
Assets Limited as to Use		
Internally designated by Board		
Money market funds	9,154,707	20,184,426
Domestic equity securities	51,156,903	30,369,432
Domestic equity mutual funds	154,781,382	137,626,783
Domestic fixed income mutual funds	11,055,599	16,414,564
Non-U.S. equity mutual funds	15,967,731	7,268,488
Domestic fixed income	47,597,955	40,016,741
Other	1,736,357	753,541
Alternative investments		
Private equity	7,707,299	5,813,132
Corporate hedge funds	26,758,006	23,670,223
Real estate hedge funds	31,225,144	36,426,944
Securitized asset funds	1,817,936	-
Held by trustee		
Money market funds	8,425,709	12,159,245
Certificates of deposit	-	4,800,000
	\$ 447,419,803	\$ 335,503,519

Reid Hospital and Health Care Services, Inc.
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Total investment return is comprised of the following:

	2020	2019
Interest and dividend income (net of interest paid on derivative investment instrument and management fees)	\$ 3,342,049	\$ 6,386,207
Realized and unrealized gains on trading securities	29,400,352	40,110,003
Realized and unrealized gains on other investments carried at fair value	4,679,452	4,394,472
Investment gains on investments carried under equity method	970,183	1,157,663
	\$ 38,392,036	\$ 52,048,345

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 (losses) in the consolidated statements of operations.

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:

2020				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity	\$ 7,707,299	\$ 7,219,701	N/A	N/A
Corporate hedge funds	25,938,008	566,323	Quarterly - Yearly	95 days
Real estate hedge funds	31,142,896	-	Quarterly - Yearly	45 - 90 days
Securitized asset funds	1,817,936	3,250,000	N/A	N/A
2019				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity	\$ 5,813,132	\$ 3,993,806	N/A	N/A
Corporate hedge funds	22,822,629	566,323	Quarterly - Yearly	95 days
Real estate hedge funds	36,321,434	-	Quarterly - Yearly	45 - 90 days

Reid Hospital and Health Care Services, Inc.
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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. There are no material outstanding commitments for these funds at December 31, 2020. 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.

	December 31, 2019
Current assets	\$ 1,083,924
Noncurrent assets	14,211,470
	\$ 15,295,394
Liabilities	\$ 54,685
Equity	\$ 15,240,709
Investment return	\$ 1,420,938
Net income	\$ 1,338,233

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 \$21,719,442 and \$20,306,241 at December 31, 2020 and 2019, respectively. During 2020 and 2019, the Foundation made \$2,020,000 and \$2,638,000, respectively, in unrestricted donations to the Hospital which are included in unrestricted revenues, gains and other support in the consolidated statements of operations.

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

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Note 6: Property and Equipment

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

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 58,936,572	\$ 56,919,958
Buildings and improvements	162,619,596	160,272,156
Building equipment	204,892,225	196,300,986
Moveable equipment	212,261,151	194,136,017
Construction in progress	14,375,254	6,092,281
	<u>653,084,798</u>	<u>613,721,398</u>
Accumulated depreciation	<u>(387,993,763)</u>	<u>(360,098,466)</u>
	<u>\$ 265,091,035</u>	<u>\$ 253,622,932</u>

For the years ended December 31, 2020 and 2019, net right-of-use assets under finance leases approximating \$2,924,000 and \$2,141,000 are included as part of property and equipment.

Note 7: Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act (the Act) and is fully insured under a claims-made policy on a fixed premium basis up to the limits set forth in the Act. The Act limits a qualified provider's liability for an occurrence to the amount of required insurance. For claims on or after July 1, 2017, the maximum recovery is \$1,650,000 per occurrence, \$400,000 of which would be paid through malpractice insurance coverage, with the remainder due from the State of Indiana Patient Compensation Fund (the Fund). For claims on or after July 1, 2019, the maximum recovery is \$1,800,000 per occurrence, \$500,000 of which would be paid through malpractice insurance coverage, with the remainder due from the Fund.

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 organized to cover malpractice claims below those to be paid for by the Fund. The Hospital's capital contribution is reported in other assets.

Reserves for professional liability claims were \$716,000 and \$577,500 at December 31, 2020 and 2019, 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 \$716,000 and \$577,500 at December 31, 2020 and 2019, respectively, and is included within prepaid expenses and other on the consolidated balance sheets.

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Note 8: Long-Term Debt

	2020	2019
Hospital Revenue Bonds, Series 2015A	\$ 82,005,000	\$ 84,215,000
Hospital Revenue Bonds, Series 2016A	28,635,000	30,677,000
Hospital Revenue Bonds, Series 2016B	33,040,000	33,040,000
Hospital Revenue Bonds, Series 2018A	7,970,524	9,846,438
Hospital Revenue Bonds, Series 2019A	20,426,000	21,000,000
Hospital Revenue Bonds, Series 2019B	8,754,000	9,000,000
Series 2016 Term Loan, Bank	41,375,000	43,600,000
Small Business Administration PPP Loan	1,939,700	-
Other Promissory Notes, Bank	310,941	1,523,147
	<u>224,456,165</u>	<u>232,901,585</u>
Plus unamortized premium	11,191,433	11,829,123
Less unamortized deferred financing costs	(1,253,896)	(1,286,882)
Less current maturities	<u>(11,618,488)</u>	<u>(9,843,148)</u>
	<u>\$ 222,775,214</u>	<u>\$ 233,600,678</u>

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 at fixed amounts from 2.0% to 5.0%.

Reid Hospital and Health Care Services, Inc.

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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%.

Hospital Revenue Bonds, Series 2018A

The Authority issued Revenue Bonds Series 2018A pursuant to a Trust Indenture dated as of November 1, 2018 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, 2018, between the Authority and the Hospital.

Proceeds from the bond issue were used primarily for the acquisition of certain property and equipment.

The 2018A fixed rate serial bonds bear interest at 3.29% and require monthly interest-only payments through November 2019. The Hospital must pay monthly principal and interest payments of \$181,000 beginning December 2019 through maturity in November 2024.

Hospital Revenue Bonds, Series 2019A and 2019B

The Authority issued Revenue Bonds Series 2019A and 2019B pursuant to a Trust Indenture dated as of June 1, 2019 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 June 1, 2019, between the Authority and the Hospital.

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Proceeds from the bond issue were used primarily for the acquisition of certain property and equipment of Fayette Regional Hospital (see Note 12).

The 2019A fixed rate serial bonds require biannual principal payments on January 1 and July 1 of each year beginning in July 2020 in amounts ranging from \$574,000 to \$1,175,000 and are due in full in June 2044. The bonds may be subject to mandatory tender for purchase by the Hospital at the end of the direct purchase conversion period which is July 1, 2029. Interest payments are due on January 1 and July 1 at a fixed rate of 3.03%.

The 2016B fixed rate serial bonds require biannual principal payments on January 1 and July 1 of each year beginning in July 2020 in amounts ranging from \$246,000 to \$505,000 and are due in full in June of 2044. The bonds may be subject to mandatory tender for purchase by the Hospital at the end of the direct purchase conversion period which is July 1, 2029. Interest payments are due on January 1 and July 1 at a fixed rate of 3.03%.

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, 2020 was 2.01%. The loan is secured exclusively by payments, revenues and other amounts pledged under the Trust Indenture.

Other Promissory Notes, Bank

The Hospital has entered into multiple promissory notes at various dates in 2017 and 2018. The single remaining note requires monthly payments, including principal and interest approximating \$8,000 through maturity in September 2023. The fixed interest rate on the note is 4.25%. The note is secured by certain equipment of the Hospital.

Small Business Administration Paycheck Protection Program (PPP) Loan

ROSE received a PPP loan established by the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) and has elected to account for the funding as a loan in accordance with ASC Topic 470, *Debt*. Interest is accrued in accordance with the loan agreement at 1%. Any forgiveness of the loan is recognized as a gain in the consolidated financial statements in the period the debt is legally released. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to any gain recognized.

Reid Hospital and Health Care Services, Inc.
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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 payable at December 31, 2020 are:

2021	\$ 9,678,788
2022	9,915,042
2023	10,143,232
2024	10,326,401
2025	8,645,000
Thereafter	<u>173,808,002</u>
	<u>\$ 222,516,465</u>

Excluded from maturities above is the PPP loan amount totaling \$1,939,700 classified within current maturities of long-term debt. Subsequent to year end, ROSE received forgiveness of the full principal and accrued interest amounts outstanding.

Interest expense for the years ended December 31, 2020 and 2019 was \$8,366,523 and \$8,963,090, respectively.

Note 9: Line of Credit

In June 2020, the Hospital entered into a \$25,000,000 revolving line of credit agreement expiring in June 2021. At December 31, 2020, there were no amounts borrowed against this line. The line is collateralized by substantially all investment accounts of the Hospital. Interest varies with LIBOR plus 1.25%, which was 1.40% at December 31, 2020, and is payable monthly.

Note 10: 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 payor swaps that terminate in January 2045 and prior to April 1, 2008, were 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% (0.3% and 1.84% at December 31, 2020 and 2019, respectively). The fair value of the 2005 Swaps represents a payable to the counterparty and is recorded as a liability of \$23,919,714 and \$19,288,843 at December 31, 2020 and 2019, respectively. Changes in fair value of the 2005 Swaps are recorded in other income (expense).

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

	2020	2019
Fair value of interest rate swap agreements	\$ (23,919,714)	\$ (19,288,843)
Balance sheet location of fair value amount	Interest Rate Swap Agreements	Interest Rate Swap Agreements
Change in fair value recognized in excess (deficiency) of revenues over expenses	\$ (4,630,871)	\$ (4,346,145)
Location of change in fair value recognized in excess of revenues over expenses	Other Income (Expense) - Change in fair value of interest rate swap agreements	Other Income (Expense) - Change in fair value of interest rate swap agreements

Note 11: Leases

The Hospital has entered into the following lease arrangements:

Finance Leases - These leases mainly consist of clinical and administrative equipment for the use in Hospital operations. Termination of the leases generally are prohibited unless there is a violation under the lease agreement.

Operating Leases - The Hospital leases equipment and real estate that expire in various years through 2029. Certain leases contain renewal options for periods and require the Hospital to pay all executory costs (property taxes, maintenance and insurance). Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

Short-Term Leases - The Hospital leases certain equipment on a seasonal basis or as needed based on operating activities. The expected lease terms are less than 12 months.

The Hospital has no material related party leases. The Hospital's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

The lease cost and other required information for the years ended December 31 are as follows:

	2020	2019
	<u> </u>	<u> </u>
Lease cost		
Finance lease cost		
Amortization of right-of-use asset	\$ 1,139,021	\$ 1,257,624
Interest on lease liabilities	37,278	53,591
Operating lease cost	466,668	395,970
Short-term lease cost	<u>1,504,903</u>	<u>659,060</u>
Total lease cost	<u>\$ 3,147,870</u>	<u>\$ 2,366,245</u>
	2020	2019
	<u> </u>	<u> </u>
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ 37,278	\$ 53,591
Financing cash flows from finance leases	\$ 708,314	\$ 941,757
Operating cash flows from operating leases	\$ 466,668	\$ 395,970
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 2,823,278	\$ 1,328,003
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 308,399	\$ 364,388
Weighted-average remaining lease term		
Finance leases	5.8 years	3.4 years
Operating leases	7.6 years	7.7 years
Weighted-average discount rate		
Finance leases	3.1%	3.3%
Operating leases	3.0%	3.3%

Reid Hospital and Health Care Services, Inc.
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Future minimum lease payments as of December 31, 2020, are as follows:

	2020	
	Finance Leases	Operating Leases
2021	\$ 606,416	\$ 427,239
2022	612,199	305,937
2023	580,941	258,871
2024	491,445	216,915
2025	491,445	222,246
Thereafter	584,154	909,096
Total future undiscounted lease payments	3,366,600	2,340,304
Less interest	268,014	269,580
Lease liabilities	\$ 3,098,586	\$ 2,070,724

Note 12: Asset Acquisition

On July 15, 2019, the Hospital acquired substantially all assets of Fayette Regional Health System, in Connersville, Indiana, out of bankruptcy through a qualifying bid and transaction costs approximating \$14,139,000 which was approved by the United States Bankruptcy Court on July 3, 2019. The Hospital accounted for the acquisition in accordance with ASU 2017-01 and concluded that the fair value of assets acquired were concentrated in property and equipment and did not meet the definition of a business. Therefore, the assets were capitalized as property and equipment at the acquisition cost.

Note 13: 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 approximated \$17.5 million which were paid or accrued as of the implementation date in March 2018. In association with the system implementation, the Hospital has also incurred \$6.9 million of other costs related to consulting, labor and capitalized interest. These amounts are recorded as intangible assets and are amortized straight-line over the ten year term of the original agreement through May 2026.

During 2020, the counterparty to the license agreement provided a twelve month notice to terminate the contract effective May 2021. Under the terms of the agreement, the Hospital has contracted directly with the software manufacturer to host the same platform of the information system and electronic medical record software. The Hospital entered into new license and hosting contracts with the software manufacturer where the Hospital will incur development fees to implement the new instance of the software and is credited the unused fees under the original license agreement. The Hospital continues to use the existing software under the original license agreement during the development and implementation of the new instance of the software.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
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The Hospital has accounted for these agreements under ASU 2018-15 and capitalized external development costs as well as internal labor and other fees approximating \$1,088,000. These capitalized costs, along with unamortized costs from the original license agreement, will be amortized over the term of the hosting agreement from implementation in 2021 through May 2026, which is consistent with the original license agreement.

The carrying basis and accumulated amortization of the recognized intangible asset at December 31, 2020 and 2019 were:

	2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized intangible assets			
Licensing agreements	\$ 25,438,626	\$ (8,122,820)	\$ 17,315,806
	\$ 25,438,626	\$ (8,122,820)	\$ 17,315,806
	2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized intangible assets			
Licensing agreements	\$ 24,350,184	\$ (5,164,945)	\$ 19,185,239
	\$ 24,350,184	\$ (5,164,945)	\$ 19,185,239

Future amortization expense for each of the following five years is dependent on final project implementation costs and is estimated to approximate \$3,025,000 based on costs incurred as of December 31, 2020.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
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Note 14: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods:

	<u>2020</u>	<u>2019</u>
Not subject to appropriation or expenditure		
Interests in net assets held by Reid Hospital and Health Care Services Foundation, Inc.	\$ 21,719,442	\$ 20,306,241
	<u>\$ 21,719,442</u>	<u>\$ 20,306,241</u>

Net assets approximating \$2,020,000 and \$2,638,000 were released from donor restrictions for use in operations for 2020 and 2019, respectively.

Note 15: Liquidity and Availability

The Hospital's financial assets available within one year of the balance sheet date for general expenditure are:

	<u>2020</u>	<u>2019</u>
Financial assets at year end		
Cash and cash equivalents	\$ 39,828,355	\$ 47,063,002
Short-term investments	80,035,075	-
Patient accounts receivable	63,254,838	64,683,360
Estimated amounts due from third-party payors	9,269,791	4,196,825
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	21,719,442	20,306,241
Assets limited as to use	<u>367,384,728</u>	<u>335,503,519</u>
Total financial assets	<u>581,492,229</u>	<u>471,752,947</u>
Less amounts not available to be used within one year		
Assets limited as to use - board designated with liquidity horizons greater than one year	358,959,019	318,544,274
Assets limited as to use - held by trustee	8,425,709	16,959,245
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	21,719,442	20,306,241
Financial assets not available to be used within one year	<u>389,104,170</u>	<u>355,809,760</u>
Financial assets available to meet general expenditures within one year	<u>\$ 192,388,059</u>	<u>\$ 115,943,187</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2020 and 2019

The Hospital has certain board-designated assets limited to use which are designated for an operating reserve and future capital expenditures. These assets limited to use, which are more fully described in Note 1, are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

As part of the Hospital's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Note 16: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. The following schedule presents the natural classification of expenses by function as follows:

	2020			
	Health Care Services	Support Services		Total
		General and Administrative	Fundraising	
Salaries, wages and benefits	\$ 263,548,135	\$ 58,977,211	\$ 285,728	\$ 322,811,074
Purchased services and professional fees	12,233,533	4,533,194	41,259	16,807,986
Supplies and other	139,524,574	10,884,655	208,801	150,618,030
Depreciation and amortization	35,378,018	195,304	1,866	35,575,188
Interest and amortization of financing costs	8,366,523	-	-	8,366,523
Provider hospital assessment fee	14,052,483	-	-	14,052,483
Total expense	\$ 473,103,266	\$ 74,590,364	\$ 537,654	\$ 548,231,284

	2019			
	Health Care Services	Support Services		Total
		General and Administrative	Fundraising	
Salaries, wages and benefits	\$ 233,693,837	\$ 55,112,733	\$ 313,401	\$ 289,119,971
Purchased services and professional fees	11,959,468	3,724,770	33,111	15,717,349
Supplies and other	131,321,991	8,549,731	337,764	140,209,486
Depreciation and amortization	32,886,069	187,869	1,302	33,075,240
Interest and amortization of financing costs	8,963,090	-	-	8,963,090
Loss on disposal of property and equipment	852,916	-	-	852,916
Provider hospital assessment fee	14,904,737	-	-	14,904,737
Total expense	\$ 434,582,108	\$ 67,575,103	\$ 685,578	\$ 502,842,789

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 17: Pension Plans

The Hospital has a defined-contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense approximated \$6,205,000 and \$5,457,000 for 2020 and 2019, respectively.

Note 18: 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

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, 2020 and 2019:

	2020							
	Fair Value Measurements Using				Total Fair Value	Equity Method	Cost Method	Total Carrying Value
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								
Cash and cash equivalents	\$ 39,828,355	\$ -	\$ -	\$ -	\$ 39,828,355	\$ -	\$ -	\$ 39,828,355
Short-term investments								
Money market funds	80,035,075	-	-	-	80,035,075	-	-	80,035,075
Assets limited as to use								
Money market funds	17,580,416	-	-	-	17,580,416	-	-	17,580,416
Domestic equity securities	51,156,903	-	-	-	51,156,903	-	-	51,156,903
Domestic equity mutual funds	154,781,382	-	-	-	154,781,382	-	-	154,781,382
Domestic fixed income mutual funds	11,055,599	-	-	-	11,055,599	-	-	11,055,599
Non-U.S. equity mutual funds	15,967,731	-	-	-	15,967,731	-	-	15,967,731
Domestic fixed income	-	47,597,955	-	-	47,597,955	-	-	47,597,955
Other	1,736,357	-	-	-	1,736,357	-	-	1,736,357
Alternative investments								
Private equity	-	-	-	7,707,299	7,707,299	-	-	7,707,299
Corporate hedge funds	-	-	-	25,938,008	25,938,008	819,998	-	26,758,006
Real estate hedge funds	-	-	-	31,142,896	31,142,896	82,248	-	31,225,144
Securitized asset funds	-	-	-	1,817,936	1,817,936	-	-	1,817,936
Interest in net assets of the Foundation	-	21,719,442	-	-	21,719,442	-	-	21,719,442
	<u>\$ 372,141,818</u>	<u>\$ 69,317,397</u>	<u>\$ -</u>	<u>\$ 66,606,139</u>	<u>\$ 508,065,354</u>	<u>\$ 902,246</u>	<u>\$ -</u>	<u>\$ 508,967,600</u>
Liabilities								
Interest rate swap agreements liability	\$ -	\$ 23,919,714	\$ -	\$ -	\$ 23,919,714	\$ -	\$ -	\$ 23,919,714

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

		2019							
		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)	Total Fair Value	Equity Method	Cost Method	Total Carrying Value
Assets									
Cash and cash equivalents	\$	47,063,002	\$ -	\$ -	\$ -	\$ 47,063,002	\$ -	\$ -	\$ 47,063,002
Assets limited as to use									
Money market funds		32,343,671	-	-	-	32,343,671	-	-	32,343,671
Certificates of Deposit		-	-	-	-	-	-	4,800,000	4,800,000
Domestic equity securities		30,369,432	-	-	-	30,369,432	-	-	30,369,432
Domestic equity mutual funds		137,626,783	-	-	-	137,626,783	-	-	137,626,783
Domestic fixed income mutual funds		16,414,564	-	-	-	16,414,564	-	-	16,414,564
Non-U.S. equity mutual funds		7,268,488	-	-	-	7,268,488	-	-	7,268,488
Domestic fixed income		-	40,016,741	-	-	40,016,741	-	-	40,016,741
Other		753,541	-	-	-	753,541	-	-	753,541
Alternative investments									
Private equity		-	-	-	5,813,132	5,813,132	-	-	5,813,132
Corporate hedge funds		-	-	-	22,822,629	22,822,629	847,594	-	23,670,223
Real estate hedge funds		-	-	-	36,321,434	36,321,434	105,510	-	36,426,944
Interest in net assets of the Foundation		-	20,306,241	-	-	20,306,241	-	-	20,306,241
		\$ 271,839,481	\$ 60,322,982	\$ -	\$ 64,957,195	\$ 397,119,658	\$ 953,104	\$ 4,800,000	\$ 402,872,762
Liabilities									
Interest rate swap agreements liability	\$	-	\$ 19,288,843	\$ -	\$ -	\$ 19,288,843	\$ -	\$ -	\$ 19,288,843

(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, 2020.

Cash and Cash Equivalents

The carrying amount approximates fair value.

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.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
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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 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.

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.

Note 19: 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 fifteen alternative investments of which ten are reported at fair values of \$66,601,139 and \$64,957,195 at December 31, 2020 and 2019, respectively. The other funds are reported on the equity method at \$902,246 and \$953,104 at December 31, 2020 and 2019, respectively. Unrealized and realized gains on investments elected to be measured at fair value were \$4,679,452 and \$4,394,472 at December 31, 2020 and 2019, 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.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Note 20: Related Party Transactions

Effective December 2017, the Hospital entered into an Affiliation Agreement with Neighborhood Health Center, Inc. (NHC) to provide financial and operating support to NHC, which is an independent nonprofit corporation organized to provide primary care in the combined service area and pursue Federally Qualified Health Center Lookalike (FQHC LAL) status. As part of this affiliation, the Hospital has entered into other agreements with NHC including:

Physician and Staff Services Agreement - Allows for the Hospital to provide clinical staffing to NHC and be reimbursed cost plus an administrative fee. Effective for an original term of two years with automatic annual renewals. The Hospital has incurred and billed approximately \$1,955,000 and \$1,776,000 related to this agreement in 2020 and 2019, respectively.

Lease Agreement - Provides facility operating space to NHC for a period of twelve years with automatic two year renewals. Annual rents approximate \$54,000 and are to be paid in equal monthly installments. Total rentals for 2020 and 2019 approximated \$54,000. The agreement also calls for reimbursement of certain capital costs totaling \$840,000 to be repaid over 60 months beginning February 2019. Total amounts due for repayment of capital expenses approximated \$746,000 and \$796,300 at December 31, 2020 and 2019, respectively.

Loan and Security Agreement - Allows for the Hospital to advance working capital needs of NHC up to \$560,000 at an interest rate of 6.5%. Amounts funded under this agreement approximate \$273,000. Repayment is to be made over sixty months beginning August 2019. The loan is secured by substantially all assets of NHC. The outstanding balance approximated \$204,000 and \$253,000 at December 31, 2020 and 2019, respectively.

Trade amounts outstanding from NHC under the physician and staff services agreement, lease agreement and unpaid past due loan payments outlined above approximated \$3,303,906 and \$2,924,000 at December 31, 2020 and 2019, respectively, and are included in prepaid expenses and other. The Hospital has evaluated collectability based on expected future collections and recorded a valuation reserve of approximately \$2,630,000 and \$1,685,000 at December 31, 2020 and 2019, respectively. Long-term balances due under the lease and loan and security agreements above approximated \$950,000 and \$1,049,300 at December 31, 2020 and 2019, respectively, and are included in other long-term assets.

Note 21: 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:

Variable Consideration

Estimates of variable consideration in determining the transaction price for patient care service revenue are described in Notes 1 and 2.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 7.

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.

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, 2020 and 2019, 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*.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Note 22: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments re-imposed certain restrictions due to increasing rates of COVID-19 cases prior to the widespread availability of a vaccine.

The Hospital's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Hospital has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to its business, including the following:

- Implementation of targeted cost reduction initiatives;
- Reduction or delay of certain planned projects and capital expenditures; and
- Execution of a new \$25,000,000 line of credit to supplement existing liquidity.

In addition, the Hospital received approximately \$61,510,000 of accelerated Medicare payments and approximately \$60,539,000 in general and targeted Provider Relief Fund distributions in the year ended December 31, 2020, both as provided for under the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act).

The extent of the COVID-19 pandemic's adverse effect on the Hospital's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Hospital's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated implicit price concessions related to uninsured patient accounts, and potential impairments of goodwill and long-lived assets.

Reid Hospital and Health Care Services, Inc.

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Provider Relief Fund

During the year ended December 31, 2020, the Hospital received \$60,539,000 of distributions from the CARES Act Provider Relief Fund (collectively, the Provider Relief Fund). Administered from the Department of Health and Human Services (HHS), these distributions from the Provider Relief Fund are not subject to repayment provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS.

Subsequent to year-end, the Hospital received an additional \$3,789,000 in Provider Relief Fund distributions.

The Hospital accounts for such payments as conditional contributions in accordance with ASC Topic 958-605 – *Revenue Recognition*. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses through December 31, 2020, the Hospital recognized \$42,837,000 related to the distributions from the Provider Relief Fund, and these payments are recorded as other revenue in the accompanying consolidated statements of operations. The unrecognized amount of distributions from the Provider Relief Fund approximating \$17,702,000 are recorded within accounts payable and accrued expenses in the accompanying consolidated balance sheets. The amounts remaining are conditional on the Hospital being able to attest to the terms and conditions and demonstrating use of the funds for qualifying expenses or lost revenue attributable to COVID-19 from the period January 1, 2021 to June 30, 2021. Any amounts for which the Hospital does not meet such conditions will be required to be returned to HHS.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, the Hospital's ability to retain some or all of the distributions received may be affected.

Additionally, the amounts recorded in the consolidated financial statements compared to the Hospital's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Medicare Accelerated and Advanced Payment Program

During the year ended December 31, 2020, the Hospital requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

Reid Hospital and Health Care Services, Inc.

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Effective September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25 percent of the remittance advice payment followed by a six-month payback period at 50 percent of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 months at a rate of 4 percent.

During the year ended December 31, 2020, the Hospital received approximately \$61,510,000 from these accelerated Medicare payment requests. The amount of accelerated Medicare payment requests totaling \$26,825,000, which are payable within one year of the balance sheet are recorded under the caption, accounts payable and accrued expenses in the accompanying consolidated balance sheets. Amounts expected to be paid back subsequent to December 31, 2021 totaling \$34,685,000 are recorded as other long-term liabilities.

Note 23: Subsequent Events

In January of 2021, the Authority issued Revenue Bonds Series 2021A pursuant to a Trust Indenture dated as of January 27, 2021 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 January 27, 2021, between the Authority and the Hospital.

Proceeds from the bond issue totaled \$15,000,000 and were used primarily for the acquisition of certain property and equipment.

The 2021A fixed rate serial bonds require biannual principal payments on January 1 of each year beginning in January 2022 in amounts ranging from \$2,825,000 to \$3,181,000 and are due in full in January 2026. Interest payments are due on January 1 and July 1 at a fixed rate of 2.42%.

Subsequent events have been evaluated through April 16, 2021, which is the date the consolidated financial statements were issued.