

# **Reid Hospital and Health Care Services, Inc.**

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2019 and 2018

# Reid Hospital and Health Care Services, Inc.

December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

***Emphasis of Matter***

As described in Note 2 of the consolidated financial statements, in 2019, the entity adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

*BKD, LLP*

Indianapolis, Indiana  
April 28, 2020

# Reid Hospital and Health Care Services, Inc.

## Consolidated Balance Sheets December 31, 2019 and 2018

### Assets

	2019	2018
<b>Current Assets</b>		
Cash and cash equivalents	\$ 47,063,002	\$ 23,462,111
Patient accounts receivable	64,683,360	51,446,176
Estimated amounts due from third-party payers	4,196,825	5,274,328
Supplies	7,747,868	6,617,271
Prepaid expenses and other	16,981,484	13,608,400
Total current assets	140,672,539	100,408,286
<b>Assets Limited As To Use</b>		
Internally designated	318,544,274	294,914,407
Held by trustee	16,959,245	10,000,000
	335,503,519	304,914,407
<b>Property and Equipment, net</b>	253,622,932	236,880,807
<b>Other Assets</b>		
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	20,306,241	19,089,218
Right-of-use assets - operating leases	2,390,748	-
Intangible assets, net	19,185,239	22,136,815
Goodwill	3,932,500	3,932,500
Other	4,013,630	1,818,442
	49,828,358	46,976,975
Total assets	\$ 779,627,348	\$ 689,180,475

**Reid Hospital and Health Care Services, Inc.**  
**Consolidated Balance Sheets (Continued)**  
**December 31, 2019 and 2018**

**Liabilities and Net Assets**

	<u>2019</u>	<u>2018</u>
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 22,296,751	\$ 19,520,553
Accrued salaries, wages and related liabilities	28,212,566	24,391,525
Estimated amounts due to third-party payers	3,250,124	2,526,858
Current maturities of long-term debt	9,843,148	7,818,388
Current portion of lease liabilities - operating leases	234,377	-
Current portion of lease liabilities - finance leases	741,337	-
Total current liabilities	<u>64,578,303</u>	<u>54,257,324</u>
<b>Other Liabilities</b>		
Long-term debt, net	233,600,678	214,936,671
Lease liabilities - operating leases, net	2,156,369	-
Lease liabilities - finance leases, net	1,169,174	-
Interest rate swap agreements	19,288,843	14,942,698
Total noncurrent liabilities	<u>256,215,064</u>	<u>229,879,369</u>
 Total liabilities	 <u>320,793,367</u>	 <u>284,136,693</u>
<b>Net Assets</b>		
Without Donor Restriction		
Reid Hospital and Health Care Services, Inc.	437,258,552	384,698,640
Noncontrolling interest	1,269,188	1,255,924
Total net assets without donor restrictions	<u>438,527,740</u>	<u>385,954,564</u>
With Donor Restriction	<u>20,306,241</u>	<u>19,089,218</u>
 Total net assets	 <u>458,833,981</u>	 <u>405,043,782</u>
 Total liabilities and net assets	 <u>\$ 779,627,348</u>	 <u>\$ 689,180,475</u>

**Reid Hospital and Health Care Services, Inc.**  
**Consolidated Statements of Operations**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Revenues, Gains and Other Support Without Donor Restriction</b>		
Patient service revenue	\$ 495,672,291	\$ 432,155,861
Other	11,579,754	11,724,764
Net assets released from restrictions used for operations	2,637,554	2,760,000
Total revenues, gains and other support without donor restrictions	509,889,599	446,640,625
 <b>Expenses and Losses</b>		
Salaries, wages and benefits	289,119,971	264,789,928
Purchased services and professional fees	15,717,349	15,042,360
Supplies and other	140,209,486	135,604,314
Depreciation and amortization	33,075,240	32,601,097
Interest and amortization of financing costs	8,963,090	8,109,706
Loss on disposal of property and equipment	852,916	41,385
Provider hospital assessment fee	14,904,737	11,421,955
Total expenses and losses	502,842,789	467,610,745
 <b>Operating Income (Loss)</b>	7,046,810	(20,970,120)
 <b>Other Income (Expense)</b>		
Investment return, net	52,048,345	(9,024,558)
Change in fair value of interest rate swap agreements	(4,346,145)	2,581,800
Total other income (expense)	47,702,200	(6,442,758)
 <b>Excess (Deficiency) of Revenues Over Expenses</b>	\$ 54,749,010	\$ (27,412,878)

**Reid Hospital and Health Care Services, Inc.**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Net Assets Without Donor Restrictions</b>		
Excess (deficiency) of revenues over expense	\$ 54,749,010	\$ (27,412,878)
Distributions to noncontrolling interest	(2,165,264)	(2,615,850)
Other	(10,570)	-
Increase (decrease) in net assets without donor restrictions	52,573,176	(30,028,728)
<b>Net Assets With Donor Restrictions</b>		
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	3,854,577	870,466
Net assets released from restriction	(2,637,554)	(2,760,000)
Increase (decrease) in net assets with donor restrictions	1,217,023	(1,889,534)
<b>Change in Net Assets</b>	53,790,199	(31,918,262)
<b>Net Assets, Beginning of Year</b>	405,043,782	436,962,044
<b>Net Assets, End of Year</b>	\$ 458,833,981	\$ 405,043,782



**Reid Hospital and Health Care Services, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Operating Activities</b>		
Change in net assets	\$ 53,790,199	\$ (31,918,262)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	33,075,240	32,601,097
Loss on disposal of property and equipment	852,916	41,385
Amortization of deferred financing fees and bond premium	(719,733)	(658,722)
Net change in unrealized (gains) losses on investments	(39,239,174)	61,396,620
Realized gain on investments	(870,829)	(44,187,340)
Realized and unrealized gains on other investments carried at fair value	(3,453,269)	(2,445,330)
Investment gain on investments carried under equity method	38,728	(77,334)
Change in fair value of interest rate swap agreements	4,346,145	(2,581,800)
Undistributed portion of change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	(1,217,023)	1,889,534
Distributions to noncontrolling interest	2,165,264	2,615,850
Changes in		
Patient accounts receivable	(13,237,184)	(6,472,029)
Estimated amounts due from and to third-party payers	1,800,769	224,107
Accounts payable, accrued expenses and accrued salaries, wages and related liabilities	4,186,754	606,461
Other current and noncurrent assets	(5,916,536)	1,975,297
Net cash provided by operating activities	35,602,267	13,009,534
<b>Investing Activities</b>		
Purchase of investments	(61,256,851)	(129,789,438)
Proceeds from disposition of investments	76,351,528	139,493,750
Purchase of property and equipment	(43,525,286)	(16,431,337)
Purchase of intangible assets	(1,237,266)	(5,125,328)
Net cash used in investing activities	(29,667,875)	(11,852,353)
<b>Financing Activities</b>		
Principal payments on long-term debt	(7,067,235)	(6,362,602)
Proceeds from issuance of long-term debt	30,000,000	11,599,617
Finance lease payments	(941,757)	-
Capital lease payments	-	(219,220)
Distributions to noncontrolling interest	(2,165,264)	(2,615,850)
Net cash provided by financing activities	19,825,744	2,401,945
<b>Increase in Cash and Cash Equivalents</b>	25,760,136	3,559,126
<b>Cash and Cash Equivalents, Beginning of Year</b>	33,462,111	29,902,985
<b>Cash and Cash Equivalents, End of Year</b>	\$ 59,222,247	\$ 33,462,111

**Reid Hospital and Health Care Services, Inc.**  
**Consolidated Statements of Cash Flows (continued)**  
**Years Ended December 31, 2019 and 2018**

	2019	2018
<b>Reconciliation of Cash and Cash Equivalents to the Consolidated Balance Sheets</b>		
Cash and cash equivalents	\$ 47,063,002	\$ 23,462,111
Cash and cash equivalents included in assets limited as to use - held by trustee	12,159,245	10,000,000
Cash and cash equivalents, end of year	\$ 59,222,247	\$ 33,462,111
<b>Supplemental Cash Flows Information</b>		
Interest paid (net of amount capitalized)	\$ 7,905,845	\$ 7,477,316
Property and equipment included in accounts payable and accrued expenses	4,902,811	1,255,606
Intangible assets included in accounts payable and accrued expenses	-	1,237,266
Operating lease liabilities incurred for right-of-use assets	364,388	-
Finance lease liabilities incurred for right-of-use assets	1,328,003	-

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### **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 Connersville Pharmacy, LLC (CPH), which was created to own and operate a retail pharmacy in the Hospital's service area and surrounding communities. The Hospital also owns 100% of Reid Health Properties, LLC (RHP), which was formed to own and manage real estate utilized in ancillary hospital services.

In 2018, the Hospital formed Reid Health Ambulance, Inc. (RHA) and holds 100% ownership. RHA was created to provide ambulance services in the Hospital's service area. RHA commenced services in 2019.

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, 2019 and 2018**

***Noncontrolling Interest***

Noncontrolling interest represents a 45% interest in ROSE that the Hospital does not own. For the years ended December 31, 2019 and 2018, changes in consolidated net assets without donor restrictions attributable to the controlling financial interest of the Hospital and the noncontrolling interest are:

	<b>Total</b>	<b>Controlling Interest</b>	<b>Noncontrolling Interest</b>
<b>Balance, January 1, 2018</b>	\$ 415,983,292	\$ 414,036,868	\$ 1,946,424
Excess (deficiency) of revenues over expenses	(27,412,878)	(29,338,228)	1,925,350
Distributions to noncontrolling interest	(2,615,850)	-	(2,615,850)
Decrease in net assets without donor restrictions	(30,028,728)	(29,338,228)	(690,500)
<b>Balance, December 31, 2018</b>	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	52,573,176	52,559,912	13,264
<b>Balance, December 31, 2019</b>	\$ 438,527,740	\$ 437,258,552	\$ 1,269,188

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 assets limited as to use, to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At December 31, 2019, the Hospital's cash accounts exceeded federally insured limits by approximately \$45,800,000.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements

### December 31, 2019 and 2018

#### ***Assets Limited as to Use***

Assets limited as to use include assets held by trustees 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, 2019 and 2018.

#### ***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 (deficiency) 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 (deficiency) 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, 2019 and 2018

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 \$1,074,833 and \$478,318 as of December 31, 2019 and 2018, 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 \$1,401,061 and \$989,642 at December 31, 2019 and 2018, 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 (formerly capital 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, 2019 and 2018

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 2019 or 2018.

### ***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. Amounts are amortized on the straight-line basis over the license term, which is a period of ten years. 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, 2019 and 2018.

### ***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, 2019 and 2018

#### **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, 2019 and 2018

### ***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. Charges excluded from revenue under the Hospital's charity care policy were \$22,386,258 and \$23,365,336 for 2019 and 2018, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately \$6,771,000 and \$6,700,000 for 2019 and 2018, respectively.

# **Reid Hospital and Health Care Services, Inc.**

## **Notes to Consolidated Financial Statements December 31, 2019 and 2018**

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.

### ***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 8.

### ***Excess (Deficiency) 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 (deficiency) of revenues over expenses (performance indicator). Changes in net assets without donor restrictions which are excluded from the excess (deficiency) 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 and RHPA have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income. RHA has submitted an application to be recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. While RHA's application is being processing by the IRS, it will operate as a tax-exempt organization. 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.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### ***Transfers Between Fair Value Hierarchy Levels***

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

### ***Reclassifications and Revisions***

Certain reclassification have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. The 2018 financial statements have also been revised for immaterial errors in the presentation of assets limited as to use and distributions to noncontrolling interests. The revisions increased amounts held by trustee and decreased amounts internally designated by \$10.0 million. Total assets limited as to use was not changed as a result of this revision. The revisions also increased net cash provided by operating activities and decreased net cash provided by financing activities by approximately \$2.6 million. Increase in cash and cash equivalents was not changed as a result of this revision. These reclassifications and revisions had no effect on the change in net assets.

### ***Future Changes in Accounting Principle***

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU removes and modifies certain disclosure requirements on fair value measurement. This ASU is effective January 1, 2020 and the Hospital is in the process of evaluating the impact the amendment will have on the consolidated financial statements, which is expected to primarily effect disclosures in the notes to the consolidated financial statements.

## **Note 2: Changes in Accounting Principles**

### ***ASU 2016-02, Leases (Topic 842)***

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

The Hospital adopted Topic 842 on January 1, 2019 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Hospital elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. Also, the Hospital elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. The Hospital did not elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2019.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of approximately \$2,253,000 while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. The standard did not significantly affect our consolidated statements of operations, changes in net assets or cash flows.

### ***ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash***

In 2019, the Hospital changed its method of accounting for restricted cash and restricted cash equivalents by adopting the provisions of Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end-of-period balances on the statements of cash flows. This change was applied retrospectively to all periods presented, which resulted in a decrease in purchase of investments and net cash used in investing activities of \$10.0 million and an increase in cash and cash equivalents, end of year of \$10.0 million within the consolidated statement of cash flows.

### ***ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business***

In the 2019, the Hospital adopted the accounting guidance within ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. This ASU provides for a screen to determine when a set of assets and activities constitute a business by first determining if substantially all of the fair value of the assets acquired are concentrated in a single or group of similar identifiable assets. If this criteria is met, the set of assets and activities is not a business and the acquisition should be accounted for as an asset purchase. The Hospital adopted this guidance on a prospective basis in connection with the acquisition outlined in Note 12.

### ***ASU 2018-08, Not-for-Profit Entities: Topic 958 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made***

In 2019, the Hospital adopted the accounting guidance within ASU 2018-08, *Not-for-Profit Entities: Topic 958 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies existing guidance on determining whether a transaction is a contribution or an exchange transaction. The Hospital adopted this guidance on a modified prospective basis, which resulted in no material changes within the consolidated financial statements.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### **Note 3: 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.

#### ***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.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements

### December 31, 2019 and 2018

#### **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, 2015. The Hospital is a Medicare Designated Sole Community Hospital. Special Medicare payments under this designation approximated \$12.0 million and \$14.0 million for the years December 31, 2019 and 2018, 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.

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.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

The Hospital recognized approximately \$9,975,000 and \$800,000 within patient care service revenue related to this supplemental payment program in 2019 and 2018, respectively. Of the amounts recognized in 2019, \$7,428,000 related to periods from July 1, 2016 through December 31, 2018 as a result of newly available information and payments received by the State of Indiana. Amounts outstanding totaled \$4,197,000 and \$4,406,000 at December 31, 2019 and 2018, 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 \$14,904,000 and \$11,422,000 of fees related to the program in 2019 and 2018, 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, 2019.

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 approximating \$850,000 for the period July 1, 2019 through December 31, 2019 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. Similarly, the benefit from the 25% reduction in the provider assessment fee for the period July 1, 2019 through December 31, 2019 approximated \$2,425,000. 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.

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 related to settlements of prior fiscal years' cost reports, Medicaid settlements, and the disposition of other payor audits were not significant in 2019 or 2018, with the exception of the changes related to Medicaid DSH revenue disclosed above.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### ***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, 2019 and 2018, 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, 2019 and 2018, implicit price concessions were approximately \$28,177,000 and \$29,532,000, 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.

### ***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 recorded as liabilities until they are refunded. As of December 31, 2019 and 2018, the Hospital has a liability for refunds to third-party payors and patients recorded of approximately \$3,680,000 and \$2,875,000, respectively.



# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### **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:

	<b>2019</b>	<b>2018</b>
Medicare	\$ 191,636,333	\$ 167,314,874
Medicaid	58,598,343	51,936,385
Commercial insurers	200,509,305	187,219,142
Uninsured	19,066,356	13,672,703
Other	25,861,954	12,012,757
	<u>\$ 495,672,291</u>	<u>\$ 432,155,861</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:

	<b>2019</b>	<b>2018</b>
Hospital - inpatient	\$ 175,113,200	\$ 160,460,996
Hospital - outpatient	246,539,783	208,700,400
Physician services	74,019,308	62,994,465
	<u>\$ 495,672,291</u>	<u>\$ 432,155,861</u>

### **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 not contract liabilities within the consolidated balance sheets at December 31, 2019 and 2018.

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
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Significant changes in contract assets are as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 2,586,000	\$ 1,349,000
Effects of		
Transferred to receivables from contract assets recognized at the beginning of the period	(2,586,000)	(1,349,000)
Revenue recognized on contracts in process as of the end of the year	<u>3,030,000</u>	<u>2,586,000</u>
Balance, end of year	<u>\$ 3,030,000</u>	<u>\$ 2,586,000</u>

The 2018 financial statements have been revised for an immaterial error in the determination of contract asset balances at the end of year. The revision decreased amounts disclosed by \$8,235,000, which represent balances for patients discharged and not final billed and do not meet the definition of a contract assets. The revision also includes the addition of required disclosures of contract balances and accounts receivable balances at the beginning of year. The revision had no effect on the measurement of patient accounts receivable or change in net assets.

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

	<u>2019</u>	<u>2018</u>
Accounts receivable, net of contract assets, beginning of year	\$ 48,860,176	\$ 43,625,147
Accounts receivable, net of contract assets, end of year	61,653,360	48,860,176

***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, 2019 and 2018

### Note 4: 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, 2019 and 2018 is:

	2019	2018
Medicare	29%	29%
Medicaid	9%	13%
Other third-party payers	56%	55%
Uninsured patients, including coinsurance and deductibles	6%	3%
	100%	100%

### Note 5: Investments and Investment Return

#### *Assets Limited as to Use*

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

	2019	2018
Internally designated by Board		
Money market funds	\$ 20,184,426	\$ 16,401,969
Domestic equity securities	30,369,432	23,383,366
Domestic equity mutual funds	137,626,783	119,050,030
Domestic fixed income mutual funds	16,414,564	14,719,523
Non-U.S. equity mutual funds	7,268,488	5,030,267
Domestic fixed income	40,016,741	53,645,897
Other	753,541	684,447
Alternative investments		
Private equity	5,813,132	4,562,451
Corporate hedge funds	23,670,223	22,741,943
Real estate hedge funds	36,426,944	34,694,514
Held by trustee		
Money market funds	12,159,245	-
Certificates of deposit	4,800,000	10,000,000
	\$ 335,503,519	\$ 304,914,407

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
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Total investment return is comprised of the following:

	<b>2019</b>	<b>2018</b>
Interest and dividend income (net of interest paid on derivative investment instrument)	\$ 8,523,801	\$ 5,662,058
Realized gains on trading securities	870,829	44,187,340
Unrealized gains (losses) on trading securities	39,239,174	(61,396,620)
Realized and unrealized gains on other investments carried at fair value	3,453,269	2,445,330
Investment gains (losses) on investments carried under equity method	(38,728)	77,334
	\$ 52,048,345	\$ (9,024,558)

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:

<b>2019</b>				
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
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
<b>2018</b>				
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Private equity	\$ 4,562,451	\$ 647,933	N/A	N/A
Corporate hedge funds	21,721,470	566,323	Quarterly - Yearly	95 days
Real estate hedge funds	34,460,788	-	Quarterly - Yearly	45-90 days

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### ***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, 2019. 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.

	<b>2018</b>
Current assets	\$ 1,496,426
Noncurrent assets	17,570,082
	<u>\$ 19,066,508</u>
Liabilities	<u>\$ 54,032</u>
Equity	<u>\$ 19,012,476</u>
Investment return	<u>\$ 3,602,990</u>
Net income	<u>\$ 3,457,237</u>

### **Note 6: Interest in Net Assets of Reid Hospital and Health Services Foundation, Inc.**

The Foundation was organized to support the activities of the Hospital in Richmond, Indiana. Funds are distributed to the Hospital as determined by the Foundation's Board of Directors. The Hospital's interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the interest in the net assets of the Foundation, with corresponding decreases or increases in the assets transferred, and have no effect on change in net assets. The Hospital's interest in the net assets of the Foundation is reported in the consolidated balance sheets and was \$20,306,241 and \$19,089,218 at December 31, 2019 and 2018, respectively. During 2019 and 2018, the Foundation made \$2,638,000 and \$2,760,000, 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, 2019 and 2018**

**Note 7: Property and Equipment**

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

	<b>2019</b>	<b>2018</b>
Land and land improvements	\$ 56,919,958	\$ 53,567,665
Buildings and improvements	160,272,156	141,040,382
Building equipment	196,300,986	192,439,215
Moveable equipment	194,136,017	189,166,052
Construction in progress	6,092,281	4,292,476
	613,721,398	580,505,790
Accumulated depreciation	(360,098,466)	(343,624,983)
	\$ 253,622,932	\$ 236,880,807

For the year ended December 31, 2019, net right-of-use assets under finance leases of \$2,140,835 are included as part of property and equipment. For the year ended December 31, 2018, net assets under capital leases of \$2,063,098 are included as part of property and equipment.

**Note 8: 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 \$577,500 and \$812,500 at December 31, 2019 and 2018, 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 \$577,500 and \$852,500 at December 31, 2019 and 2018, respectively, and is included within prepaid expenses and other on the consolidated balance sheets.

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**Note 9: Long-Term Debt**

	<b>2019</b>	<b>2018</b>
Hospital Revenue Bonds, Series 2015A	\$ 84,215,000	\$ 86,325,000
Hospital Revenue Bonds, Series 2016A	30,677,000	32,676,000
Hospital Revenue Bonds, Series 2016B	33,040,000	33,040,000
Hospital Revenue Bonds, Series 2018A	9,846,438	10,000,000
Hospital Revenue Bonds, Series 2019A	21,000,000	-
Hospital Revenue Bonds, Series 2019B	9,000,000	-
Series 2016 Term Loan, Bank	43,600,000	45,750,000
Other Promissory Notes, Bank	1,523,147	2,177,820
Capital Lease Obligations	-	1,524,265
	<u>232,901,585</u>	<u>211,493,085</u>
Plus unamortized premium	11,829,123	12,466,814
Less unamortized deferred financing costs	(1,286,882)	(1,204,840)
Less current maturities	<u>(9,843,148)</u>	<u>(7,818,388)</u>
	<u><u>\$ 233,600,678</u></u>	<u><u>\$ 214,936,671</u></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.**

## **Notes to Consolidated Financial Statements**

### **December 31, 2019 and 2018**

#### **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.



# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

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, 2019 was 4.00%. 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, which require monthly payments, including principal and interest ranging from \$8,000 to \$19,000 from August 2017 through various maturity dates in September 2023. The fixed interest rate on the notes range from 1.99% to 4.25%. The notes are secured by certain equipment of the Hospital.

### **Capital Lease Obligations**

The Hospital entered into capital lease obligations for equipment. The leases, which mature in 2020, have varying rates of imputed interest approximating 2.5% and are collateralized by the equipment being leased. With the adoption of ASU 2016-02, these amounts were reclassified as finance lease liabilities on January 1, 2019. See Note 11 for further details.

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**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, 2019 are:

2020	\$ 9,843,148
2021	10,064,468
2022	10,003,092
2023	10,211,838
2024	10,326,401
Thereafter	<u>182,452,638</u>
	<u>\$ 232,901,585</u>

Interest expense for the years ended December 31, 2019 and 2018 was \$8,963,090 and \$8,109,706, respectively.

**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% (1.84% and 1.24% at December 31, 2019 and 2018, respectively). The fair value of the 2005 Swaps represents a payable to the counterparty and is recorded as a liability of \$19,288,843 and \$14,942,698 at December 31, 2019 and 2018, respectively. Changes in fair value of the 2005 Swaps are recorded in other income (expense).

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

	<u>2019</u>	<u>2018</u>
Fair value of interest rate swap agreements	\$ (19,288,843)	\$ (14,942,698)
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	\$ (4,346,145)	\$ 2,581,800
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

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### 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.

The lease cost and other required information for the year ended December 31, 2019, are as follows:

Lease cost	
Finance lease cost	
Amortization of right-of-use asset	\$ 1,257,624
Interest on lease liabilities	53,591
Operating lease cost	395,970
Short-term lease cost	659,060
Total lease cost	\$ 2,366,245
Other information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	\$ 53,591
Financing cash flows from finance leases	\$ 941,757
Operating cash flows from operating leases	\$ 395,970
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 1,328,003
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 364,388
Weighted-average remaining lease term	
Finance leases	3.4 years
Operating leases	7.7 years
Weighted-average discount rate	
Finance leases	3.3%
Operating leases	3.3%

Rental expense for all operating leases for the year ended December 31, 2018 approximated \$1,531,000.

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

Future minimum lease payments as of December 31, 2019, are as follows:

	<b>2019</b>	
	<b>Finance Leases</b>	<b>Operating Leases</b>
2020	\$ 835,675	\$ 466,070
2021	401,576	466,070
2022	330,918	339,890
2023	303,167	290,061
2024	158,591	198,488
Thereafter	-	957,648
Total future undiscounted lease payments	<u>2,029,927</u>	<u>2,718,227</u>
Less interest	<u>119,416</u>	<u>327,481</u>
Lease liabilities	<u><u>\$ 1,910,511</u></u>	<u><u>\$ 2,390,746</u></u>

**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 approximate \$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 agreement beginning March 2018.

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
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The carrying basis and accumulated amortization of the recognized intangible asset at December 31, 2019 and 2018 were:

	<b>2019</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
Amortized intangible assets			
Licensing agreements	\$ 24,350,184	\$ (5,164,945)	\$ 19,185,239
	\$ 24,350,184	\$ (5,164,945)	\$ 19,185,239
	<b>2018</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
Amortized intangible assets			
Licensing agreements	\$ 24,350,184	\$ (2,213,369)	\$ 22,136,815
	\$ 24,350,184	\$ (2,213,369)	\$ 22,136,815

Future amortization expense for each of the following five years is approximately \$2,952,000.

**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:

	<b>2019</b>	<b>2018</b>
Not subject to appropriation or expenditure		
Interests in net assets held by Reid Hospital and Health Care Services Foundation, Inc.	\$ 20,306,241	\$ 19,089,218
	\$ 20,306,241	\$ 19,089,218

Net assets approximating \$2,638,000 and \$2,760,000 were released from donor restrictions for use in operations for 2019 and 2018, respectively.

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**Note 15: Liquidity and Availability**

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

	<u>2019</u>	<u>2018</u>
Financial assets at year end		
Cash and cash equivalents	\$ 47,063,002	\$ 23,462,111
Patient accounts receivable	64,683,360	51,446,176
Estimated amounts due from third-party payers	4,196,825	5,274,328
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	20,306,241	19,089,218
Assets limited as to use	<u>335,503,519</u>	<u>304,914,407</u>
Total financial assets	<u>471,752,947</u>	<u>404,186,240</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	318,544,274	294,914,407
Assets limited as to use - held by trustee	16,959,245	10,000,000
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	20,306,241	19,089,218
Financial assets not available to be used within one year	<u>355,809,760</u>	<u>324,003,625</u>
Financial assets available to meet general expenditures within one year	<u>\$ 115,943,187</u>	<u>\$ 80,182,615</u>

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 Notes 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.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### 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:

	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	132,047,665	8,549,731	337,764	140,935,160
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
	\$ 435,307,782	\$ 67,575,103	\$ 685,578	\$ 503,568,463
Total expense				

  

	2018			
	Health Care Services	Support Services		Total
		General and Administrative	Fundraising	
Salaries, wages and benefits	\$ 218,771,807	\$ 45,679,621	\$ 338,500	\$ 264,789,928
Purchased services and professional fees	12,381,717	2,628,104	32,539	15,042,360
Supplies and other	125,890,651	9,501,169	212,494	135,604,314
Depreciation and amortization	32,344,892	254,773	1,432	32,601,097
Interest and amortization of financing costs	8,109,706	-	-	8,109,706
Loss on disposal of property and equipment	41,385	-	-	41,385
Provider hospital assessment fee	11,421,955	-	-	11,421,955
	\$ 408,962,113	\$ 58,063,667	\$ 584,965	\$ 467,610,745
Total expense				

### 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 was \$5,457,201 and \$4,896,929 for 2019 and 2018, respectively.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements

### December 31, 2019 and 2018

#### 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, 2019 and 2018:

	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 <sup>(A)</sup>	Total Fair Value	Equity Method	Cost Method	Total Carrying Value
<b>Assets</b>								
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
	<u>\$ 271,839,481</u>	<u>\$ 60,322,982</u>	<u>\$ -</u>	<u>\$ 64,957,195</u>	<u>\$ 397,119,658</u>	<u>\$ 953,104</u>	<u>\$ 4,800,000</u>	<u>\$ 402,872,762</u>
<b>Liabilities</b>								
Interest rate swap agreements liability	\$ -	\$ 19,288,843	\$ -	\$ -	\$ 19,288,843	\$ -	\$ -	\$ 19,288,843



# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements

### December 31, 2019 and 2018

2018									
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 <sup>(A)</sup>	Total Fair Value	Equity Method	Cost Method	Total Carrying Value	
<b>Assets</b>									
Cash and cash equivalents	\$ 23,462,111	\$ -	\$ -	\$ -	\$ 23,462,111	\$ -	\$ -	\$ 23,462,111	
<b>Assets limited as to use</b>									
Money market funds	16,401,969	-	-	-	16,401,969	-	-	16,401,969	
Certificates of Deposit	-	-	-	-	-	-	10,000,000	10,000,000	
Domestic equity securities	23,383,366	-	-	-	23,383,366	-	-	23,383,366	
Domestic equity mutual funds	119,050,030	-	-	-	119,050,030	-	-	119,050,030	
Domestic fixed income mutual funds	14,719,523	-	-	-	14,719,523	-	-	14,719,523	
Non-U.S. equity mutual funds	5,030,267	-	-	-	5,030,267	-	-	5,030,267	
Domestic fixed income	-	53,645,897	-	-	53,645,897	-	-	53,645,897	
Other	684,447	-	-	-	684,447	-	-	684,447	
<b>Alternative investments</b>									
Private equity	-	-	-	4,562,451	4,562,451	-	-	4,562,451	
Corporate hedge funds	-	-	-	21,721,470	21,721,470	1,020,473	-	22,741,943	
Real estate hedge funds	-	-	-	34,460,788	34,460,788	233,726	-	34,694,514	
Interest in net assets of the Foundation	-	19,089,218	-	-	19,089,218	-	-	19,089,218	
	<u>\$ 202,731,713</u>	<u>\$ 72,735,115</u>	<u>\$ -</u>	<u>\$ 60,744,709</u>	<u>\$ 336,211,537</u>	<u>\$ 1,254,199</u>	<u>\$ 10,000,000</u>	<u>\$ 347,465,736</u>	
<b>Liabilities</b>									
Interest rate swap agreements liability	\$ -	\$ 14,942,698	\$ -	\$ -	\$ 14,942,698	\$ -	\$ -	\$ 14,942,698	

(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, 2019.

### **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 December 31, 2019 and 2018

### ***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 fourteen alternative investments of which nine are reported at fair values of \$64,957,195 and \$60,744,709 at December 31, 2019 and 2018, respectively. The other funds are reported on the equity method at \$953,104 and \$1,254,199 at December 31, 2019 and 2018, respectively. Unrealized and realized gains on investments elected to be measured at fair value were \$3,453,269 and \$2,445,330 at December 31, 2019 and 2018, 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, 2019 and 2018

#### 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 \$1,776,000 and \$1,855,000 related to this agreement in 2019 and 2018, 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 2019 and 2018 approximated \$54,000 and \$40,000, respectively. 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 \$796,300 at December 31, 2019.

*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 \$422,930. 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 \$403,000 at December 31, 2019.

Trade amounts outstanding from NHC under the physician and staff services and lease agreements above approximated \$2,924,000 and \$1,895,000 at December 31, 2019 and 2018, 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 \$1,685,000 and \$1,441,000 at December 31, 2019 and 2018, respectively. Long-term balances due under the lease and loan and security agreements above approximated \$1,187,000 and \$145,000 at December 31, 2019 and 2018, 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 3.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### ***Medical Malpractice Claims***

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 8.

### ***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, 2019 and 2018, 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, 2019 and 2018

### **Note 22: Subsequent Events**

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. Subsequent to year-end, the spread of COVID-19 began to cause some business disruption through reduced patient revenue, specifically related to elective procedures and physician office visits. Additionally, there has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline in certain market segments which has resulted in a substantial decline in the value of our investment portfolio.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. In 2020, the Hospital applied for and received advance Medicare payments to manage liquidity needs during this disruption. Similarly, the Hospital received approximately \$10.7 million in funding through the Public Health and Social Services Emergency Fund as authorized in the Coronavirus Aid, Relief and Economic Security Act, which was made available to prevent, prepare for and respond to the coronavirus and reimburse providers for eligible expenses and lost revenues. The Hospital expects this matter to negatively impact its financial condition and operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Subsequent events have been evaluated through April 28, 2020, which is the date the consolidated financial statements were issued.