

**Deaconess Women's Hospital of Southern Indiana, LLC
d/b/a The Women's Hospital**

Independent Auditor's Report and Financial Statements
December 31, 2018 and 2017

**Deaconess Women’s Hospital of Southern Indiana, LLC
d/b/a The Women's Hospital**

December 31, 2018 and 2017

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Independent Auditor's Report

Board of Managers
Deaconess Women's Hospital of
Southern Indiana, LLC
d/b/a The Women's Hospital
Newburgh, Indiana

We have audited the accompanying financial statements of Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital (Hospital), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Evansville, Indiana
February 18, 2019

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Balance Sheets December 31, 2018 and 2017

Assets

	2018	2017
Current Assets		
Accounts receivable, net of allowance for uncollectible accounts; 2018 - \$1,988,000, 2017 - \$2,301,000	\$ 14,989,131	\$ 14,490,965
Supplies	604,086	566,152
Prepaid expenses and other current assets	2,748,089	1,610,532
Total current assets	18,341,306	16,667,649
Deferred Compensation Investments	1,405,677	1,312,960
Property and Equipment, at cost		
Leasehold improvements	4,861,560	4,103,199
Equipment	19,253,086	17,774,008
Construction in progress	2,016	54,428
	24,116,662	21,931,635
Less accumulated depreciation	(15,217,202)	(12,910,015)
	8,899,460	9,021,620
Other Assets		
Other assets	301,064	803,856
Investment in variable interest entity	404,874	346,731
Goodwill	3,112,863	3,662,653
	3,818,801	4,813,240
Total assets	\$ 32,465,244	\$ 31,815,469

Liabilities and Members' Equity

Current Liabilities		
Checks in process of clearing	\$ 2,259,472	\$ 579,812
Lines of credit	-	421,100
Current maturities of long-term debt	3,339,985	2,984,982
Accounts payable	4,200,631	3,810,470
Accrued expenses	4,815,117	5,794,505
Total current liabilities	14,615,205	13,590,869
Long-Term Debt	6,861,833	8,063,719
Deferred Compensation	1,318,274	1,228,576
Members' Equity		
Contributed capital	3,500,000	3,500,000
Accumulated earnings	6,169,932	5,432,305
Total members' equity	9,669,932	8,932,305
Total liabilities and members' equity	\$ 32,465,244	\$ 31,815,469

**Deaconess Women's Hospital of Southern Indiana, LLC
d/b/a The Women's Hospital**

**Statements of Income
Years Ended December 31, 2018 and 2017**

	2018	2017
Revenues		
Patient service revenue (net of contractual discounts and allowances)	\$ 103,676,419	\$ 99,568,297
Provision for uncollectible accounts	(2,534,892)	(2,734,242)
Net patient service revenue less provision for uncollectible accounts	101,141,527	96,834,055
Other operating income	1,518,842	2,349,145
Total revenues	102,660,369	99,183,200
Expenses and Losses		
Salaries and wages	38,629,912	36,390,639
Employee benefits	9,572,738	9,682,774
Medical supplies	6,323,725	6,107,866
General supplies	1,478,118	1,502,993
Purchased services and professional fees	14,967,839	14,664,182
Rent expense	5,014,579	5,113,201
Depreciation and amortization	3,169,963	2,918,389
Interest expense	429,139	385,837
Provider hospital assessment fee	4,237,632	3,775,144
Other	4,453,153	4,332,114
Total expenses and losses	88,276,798	84,873,139
Operating Income	14,383,571	14,310,061
Other Income		
Investment return	87,613	68,113
Net Income	\$ 14,471,184	\$ 14,378,174

**Deaconess Women's Hospital of Southern Indiana, LLC
d/b/a The Women's Hospital**

**Statements of Members' Equity
Years Ended December 31, 2018 and 2017**

	Contributed Capital	Accumulated Earnings	Total
Balance, January 1, 2017	\$ 3,500,000	\$ 7,035,384	\$ 10,535,384
Net income	-	14,378,174	14,378,174
Distributions to members	-	(15,981,253)	(15,981,253)
Balance, December 31, 2017	3,500,000	5,432,305	8,932,305
Net income	-	14,471,184	14,471,184
Distributions to members	-	(13,733,557)	(13,733,557)
Balance, December 31, 2018	\$ 3,500,000	\$ 6,169,932	\$ 9,669,932

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Statements of Cash Flows Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Net income	\$ 14,471,184	\$ 14,378,174
Items not requiring (providing) cash		
Depreciation and amortization	3,169,963	2,918,389
Accrued deferred compensation	89,698	517,648
Provision for uncollectible accounts	2,534,892	2,734,242
Net realized and unrealized (gain) loss on investments	32,951	(37,382)
Undistributed gain on investment in variable interest entity	(52,140)	(36,421)
Changes in		
Patient accounts receivable	(3,033,058)	(4,219,315)
Accounts payable and accrued expenses	(564,195)	613,766
Prepaid expenses and other assets	(674,554)	1,137,990
Net cash provided by operating activities	15,974,741	18,007,091
Investing Activities		
Proceeds from sale of property and equipment	31,656	77,959
Purchase of property and equipment	(357,292)	(629,293)
Investment in variable interest entity	(6,004)	(4,234)
Proceeds from sales of investments	150,612	85,153
Purchase of investments	(276,280)	(564,867)
Net cash used in investing activities	(457,308)	(1,035,282)
Financing Activities		
Increase in checks in process of clearing	1,679,660	409,155
Net payments under line of credit agreement	(421,100)	(431,301)
Distributions to members	(13,733,557)	(15,981,253)
Proceeds from issuance of long-term debt	-	2,125,866
Principal payments on long-term debt and capital leases	(3,042,436)	(3,094,276)
Net cash used in financing activities	(15,517,433)	(16,971,809)
Change in Cash	-	-
Cash, Beginning of Year	-	-
Cash, End of Year	\$ -	\$ -
Supplemental Cash Flows Information		
Interest paid	\$ 439,987	\$ 375,594
Long-term debt incurred for property and equipment	2,195,553	2,553,316
Property and equipment included in accounts payable	25,032	11,930

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Notes to Financial Statements December 31, 2018 and 2017

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

Nature of Operations

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital (Hospital) primarily earns revenues by providing obstetrical, gynecological and nursery care on an inpatient and outpatient basis to women in Evansville, Indiana and surrounding communities. The Hospital is organized as a limited liability company; therefore, taxable income or loss is reported to the individual members of the corporation for inclusion in their respective tax returns.

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Variable Interest Entity

A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

A VIE must be consolidated by the Hospital if it is deemed to be the primary beneficiary of the VIE. The Hospital VIE is not consolidated because the Hospital is not the primary beneficiary.

All facts and circumstances are taken into consideration when determining whether the Hospital has variable interests that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE or otherwise rise to the level where disclosure would provide useful information to the users of the Hospital's financial statements. In some cases, it may be qualitatively clear based on whether the Hospital has the power to direct the activities significant to the VIE and, if so, whether that power is unilateral or shared, and whether the Hospital is obligated to absorb significant losses of or has a right to receive significant benefits from the VIE. In other cases, a more detailed qualitative analysis and possibly a quantitative analysis may be required to make such a determination.

The Hospital monitors the unconsolidated VIE to determine if any reconsideration events have occurred that could cause it to no longer be a VIE. The Hospital reconsiders whether it is the primary beneficiary of the VIE on an ongoing basis.

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Notes to Financial Statements December 31, 2018 and 2017

Risk Management

The Hospital is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters and employee health benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out (FIFO) method or market for 2017, and at the lower of cost or net realizable value for 2018.

Property and Equipment

Property and equipment is stated at cost and depreciated over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the improvements. Annual depreciation is primarily computed using straight-line methods.

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

Leasehold improvements	5-10 years
Equipment	5-10 years

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Charity care is not reported as revenue. Charges excluded from revenue under the Hospital's charity care policy were \$793,820 and \$584,546 for 2018 and 2017, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately \$395,000 and \$241,000 for 2018 and 2017, respectively.

Cash

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018, the Hospital did not have any cash equivalents.

At December 31, 2018, the Hospital's cash accounts did not exceed federally insured limits.

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Notes to Financial Statements December 31, 2018 and 2017

Checks in Process of Clearing

The Hospital has an arrangement with a bank whereby any cash held at the end of each banking day is swept against the outstanding balance of the \$6,000,000 revolving line of credit (see Note 5). The arrangement also directs the bank to transfer cash from the line of credit to the cash accounts to pay checks as they are processed through the bank. The result is a credit amount in the cash account, which represents checks written by the Hospital but not yet processed by the bank.

Patient Accounts Receivable

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

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

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

The Hospital's allowance for doubtful accounts for self-pay patients was approximately 33% and 44% of self-pay accounts receivable at December 31, 2018 and 2017, respectively. This was a result of comparable experience in the collection of amounts from self-pay patients in fiscal year 2018 and 2017.

Deferred Compensation Investments

Investments in securities having a readily determinable fair value are carried at fair value. These investments are held for certain deferred compensation arrangements.

Deaconess Women’s Hospital of Southern Indiana, LLC d/b/a The Women’s Hospital

Notes to Financial Statements December 31, 2018 and 2017

Goodwill

The Hospital elected the accounting alternative provided in *ASU 2014-02, Intangibles - Goodwill and Other (Topic 350): Accounting for Goodwill*. Under this alternative, goodwill is amortized on a straight-line basis over ten years. The Hospital evaluates the recoverability of the carrying value of goodwill at the entity level whenever events or circumstances indicate the carrying amount may not be recoverable.

In testing goodwill for impairment, the Hospital has the option first to perform a qualitative assessment to determine whether it is more likely than not that goodwill is impaired or the Hospital can bypass the qualitative assessment and proceed directly to the quantitative test by comparing the carrying amount, including goodwill, of the entity with its fair value. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of an entity, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

The carrying basis and accumulated amortization of goodwill at December 31, 2018 and 2017, were:

	2018		2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	\$ 5,497,899	\$ 2,385,036	\$ 5,497,899	\$ 1,835,246

Amortization expense for the years ended December 31, 2018 and 2017 was \$549,790. Estimated annual amortization expense will be \$549,793 through 2023 and \$363,892 in 2024.

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 is 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, 2018 and 2017.

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Notes to Financial Statements December 31, 2018 and 2017

Net Patient Service Revenue

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

Limited Liability Company

The Hospital is organized as an Indiana limited liability company and is governed by an eight-member board of managers. The board of managers is generally responsible for the direction and management of the Hospital. The Hospital is owned by two members, each with 50% ownership.

Income Taxes

The Hospital's members have elected to have the Hospital's income taxed as a partnership under provisions of the Internal Revenue Code and a similar section of the state income tax law. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns and no provision for federal and state income taxes is included in these financial statements.

Self-Insurance

The Hospital has elected to self-insure certain costs related to employee health 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 \$100,000.

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.

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Notes to Financial Statements December 31, 2018 and 2017

Electronic Health Records Incentive Program

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

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. During 2018 and 2017, the Hospital recognized approximately \$311,000 and \$1,192,000, respectively, which are included in other operating revenues in the statements of income.

Revisions

Certain immaterial revisions have been made to the 2017 financial statements to correct errors within the amounts reported on the 2017 balance sheet and statement of cash flows. On the balance sheet, the current liability of accrued expenses was revised from \$7,023,081 to \$5,794,505 and a long-term liability of deferred compensation of \$1,228,576 was presented. On the statement of cash flows within the operating activities, the changes in accounts payable and accrued expenses was revised from \$1,131,414 to \$613,766 and an item not requiring cash for accrued deferred compensation of \$517,648 was presented. These revisions had no impact on the 2017 statement of income or statement of members' equity. Certain immaterial revisions were also made to correct the balance sheet references for the deferred compensation liability within Note 9.

Subsequent Events

Subsequent events have been evaluated through February 18, 2019, which is the date the financial statements were available to be issued.

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Notes to Financial Statements December 31, 2018 and 2017

Note 2: Net Patient Service Revenue

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

Managed care. The Hospital has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient reimbursement is based on prospectively established fee schedule allowances and rates for surgery groups. Laws and regulations governing the Medicaid program are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Pursuant to Indiana Code (IC) 16-21-10, the State of Indiana operates a hospital assessment fee (HAF) program. The HAF is assessed by Indiana's Family and Social Services Administration (FSSA), of which proceeds are used to assist with the funding of the Medicaid program. The annual HAF assessment is subject to retroactive rate setting by FSSA. Total fees incurred by the Hospital under the program approximated \$4.2 million and \$3.8 million for the years ended December 31, 2018 and 2017, respectively.

The Hospital also qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized \$605,041 and \$2,578,856 within net patient service revenue related to this supplemental payment program for the years ended December 31, 2018 and 2017, respectively.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2018 and 2017 was:

	2018	2017
Medicare	\$ 5,129,184	\$ 4,849,274
Medicaid	20,757,402	20,136,596
Managed care and other third-party payers	76,015,341	72,998,693
Patients	1,774,492	1,583,734
	\$ 103,676,419	\$ 99,568,297

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Notes to Financial Statements December 31, 2018 and 2017

Note 3: Concentration of Credit Risk

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

	2018	2017
Medicare	2%	2%
Medicaid	13	20
Other third-party payers	70	68
Patients	15	10
	100%	100%

Note 4: Investments and Investment Return

Investments at December 31 consisted of the following:

	2018	2017
Money market funds	\$ 8,809	\$ 9,540
Domestic equity securities	469,343	491,548
Non-U.S. equity securities	104,940	38,425
Domestic guaranteed pooled funds	822,585	773,447
	\$ 1,405,677	\$ 1,312,960

Total investment return is comprised of the following:

	2018	2017
Interest and dividend income	\$ 120,564	\$ 30,731
Net realized and unrealized gains (losses) on investments reported at fair value	(32,951)	37,382
	\$ 87,613	\$ 68,113

Note 5: Lines of Credit

The Hospital has a \$6,000,000 revolving line of credit expiring in June 2019. At December 31, 2018 and 2017, there was \$0 and \$421,100, respectively, borrowed under this line of credit. The line of credit is collateralized by substantially all of the Hospital's assets. Interest varies with the London Interbank Offered Rate (LIBOR) plus 1.9% and is payable monthly. The interest rate was 4.525% on December 31, 2018.

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Notes to Financial Statements December 31, 2018 and 2017

Note 6: Long-Term Debt

	2018	2017
Capital lease obligations (A)	\$ -	\$ 35,592
Note payable, bank (B)	350,794	425,649
Note payable, bank (C)	2,111,259	2,629,837
Note payable, bank (D)	1,532,931	2,140,921
Note payable, bank (E)	642,270	849,709
Note payable (F)	207,663	507,106
Note payable, bank (G)	71,982	132,483
Note payable (H)	62,416	75,277
Note payable, bank (I)	136,174	154,840
Note payable, bank (J)	609,056	688,049
Note payable, bank (K)	1,514,241	2,305,325
Note payable, bank (L)	731,567	927,100
Note payable, bank (M)	93,148	176,813
Note payable, bank (N)	1,489,443	-
Note payable, bank (O)	379,114	-
Note payable, bank (P)	269,760	-
	10,201,818	11,048,701
Less current maturities	3,339,985	2,984,982
	\$ 6,861,833	\$ 8,063,719

- (A) Paid in full during November 2018. Capital lease for equipment for a term of 5 years. The lease assumed an interest rate of 4.66%. The lease was payable in monthly installments of \$2,894 and was secured by the leased equipment.
- (B) Due March 2023; payable \$7,356 monthly, including interest at 3.38%; secured by leasehold improvements. The Hospital is required to comply with certain financial covenants.
- (C) Due November 2022; payable \$49,928 monthly, including interest at 3.375%; secured by assets relating to the leasehold improvements. The Hospital is required to comply with certain financial covenants.
- (D) Due July 2021; payable \$51,481 monthly, including interest at 3.0%; secured by substantially all assets. The Hospital is required to comply with certain financial covenants.
- (E) Due November 2021; payable \$19,200 monthly, including interest at 3.0%; secured by substantially all assets. The Hospital is required to comply with certain financial covenants.
- (F) Due August 2019; payable \$26,422 monthly, including interest at 4.48%; secured by equipment.

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Notes to Financial Statements December 31, 2018 and 2017

- (G) Due March 2020; payable \$4,883 monthly, including interest at 2.6%; secured by substantially all assets.
- (H) Due March 2023 to a related party; payable \$1,361 monthly, including interest at 5.00%; secured by leasehold improvements.
- (I) Due April 2025; payable \$2,019 monthly, including interest at 3.75%; secured by substantially all assets.
- (J) Due October 2025; payable in 60 monthly payments of \$8,235, including interest at 3.00%, 60 monthly payments of principal and interest at a floating rate of the one-year U.S. Treasury index plus 3.25% and one balloon payment equal to the final indebtedness on October 2, 2025; secured by assets relating to the EPIC project.
- (K) Due October 2020; payable \$70,852 monthly, including interest at 3.00%; secured by assets relating to the EPIC project.
- (L) Due June 2022; payable \$18,357 monthly, including interest at 2.95%; secured by substantially all assets.
- (M) Due January 2020; payable in 35 monthly payments of \$9,397, including interest at 2.59% and one balloon payment equal to the final indebtedness on January 22, 2020.
- (N) Due October 2023; payable in 7 monthly interest only payments, payable in 60 monthly payments of \$29,707, including interest at 4.27%; secured by certain assets of the Hospital.
- (O) Due November 2023; payable in 6 monthly interest only payments, payable in 60 monthly payments of \$11,677, including interest at 4.53%; secured by certain assets of the Hospital.
- (P) Due July 2024; payable in 9 monthly interest only payments, payable in 60 monthly payments of \$6,140, including 4.97%; secured by certain assets of the Hospital.

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Notes to Financial Statements December 31, 2018 and 2017

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2018 were:

2019	\$ 3,339,985
2020	3,004,101
2021	2,069,894
2022	1,177,248
2023	401,432
Thereafter	209,158
	\$ 10,201,818

Property and equipment include the following property under capital leases:

	2018	2017
Equipment	\$ -	\$ 88,269
Less accumulated depreciation	-	70,440
	\$ -	\$ 17,829

Note 7: Operating Leases

Noncancellable operating leases for the building and equipment expire at various dates through 2030. The leases require the Hospital to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at December 31, 2018 were:

2019	\$ 4,819,575
2020	4,459,334
2021	4,354,212
2022	4,407,797
2023	4,326,962
Later years	28,361,135
	\$ 50,729,015

Rent expense for all operating leases was \$5,014,579 and \$5,113,201 for the years ended December 31, 2018 and 2017, respectively.

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital

Notes to Financial Statements December 31, 2018 and 2017

Note 8: Profit-Sharing Plan

The Hospital has a 401(k) profit-sharing plan (Plan) covering substantially all employees. The Hospital's contributions to the Plan are determined annually by the board of managers. Contributions to the Plan were \$842,232 and \$831,413 for 2018 and 2017, respectively.

Note 9: Deferred Compensation Agreements

The Hospital has a deferred compensation agreement with the chief executive officer that provides certain benefits upon disability or retirement. The present value of total estimated deferred compensation is being accrued using the straight-line method over the remaining years to the full eligibility date based on vesting rates. Expense for each of the years ended December 31, 2018 and 2017, was \$39,890.

Certain highly compensated employees are eligible to participate in the Hospital's non-qualified deferred compensation plan. The Hospital is not permitted to contribute to the plan.

As of December 31, 2018 and 2017, the investments of these deferred compensation agreements was \$1,405,677 and \$1,312,960, respectively, recorded as deferred compensation investments on the balance sheets of the Hospital.

The related liabilities recorded as deferred compensation on the balance sheets of the Hospital are approximately \$1,318,000 and \$1,229,000, respectively.

Note 10: Related Party Transactions

Deaconess Hospital, Inc. (DHI) owns 50% of the Hospital. The Hospital engages in various transactions with DHI, which are summarized below.

- Operating lease arrangements - The Hospital leases its hospital, education and office space from DHI under noncancellable leases ranging from 10 to 30 years. Total payments under these arrangements were \$3,852,827 and \$3,755,812 in 2018 and 2017, respectively. These leases are also included and described in Note 7.
- Leasehold improvement loan - During 2015, the Hospital received a loan of \$110,223 for renovations relating to an operating lease arrangement for hospital space payable over the remaining life of the lease. Total payments under this arrangement were \$12,860 and \$12,234 in 2018 and 2017, respectively. Amounts owed at December 31, 2018 and 2017 totaled \$62,416 and \$75,277, respectively.

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- Other services - The Hospital contracts with DHI for pharmacy, lab, transcription, coding and other services. Payments made to DHI under these agreements totaled \$4,043,717 and \$3,902,083 in 2018 and 2017, respectively. Amounts included in accounts payable for these services at year end totaled \$1,311,587 and \$1,150,123 at December 31, 2018 and 2017, respectively.

The Hospital owns 50% of Boston IVF Fertility Services at The Women's Hospital, LLC (BIVF at TWH). BIVF at TWH formed as a new entity during 2012 and began operations in 2013 (see Note 14). The Hospital engages in various transactions with BIVF at TWH, which are summarized below:

- Operating lease arrangement - The Hospital subleases to BIVF at TWH the operating and office space under a 10 year operating lease agreement. Total payments received under the sublease agreement by TWH and remitted to the landlord was \$117,063 and \$113,344 in 2018 and 2017, respectively.
- Other services - BIVF at TWH contracts with the Hospital for personnel, accounting and other services. Expenses incurred under these agreements approximated \$2,436,000 and \$2,058,000 in 2018 and 2017, respectively. Amounts included in other assets due from BIVF at TWH at December 31, 2018 and 2017 were approximately \$287,000 and \$593,000, respectively.

Note 11: Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is also fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents occurring during the year by estimating the probable ultimate costs of the incidents.

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Estimated accrued reserves for professional liability claims were approximately \$341,000 and \$169,000 at December 31, 2018 and 2017 and are included in accrued expenses in the accompanying balance sheets. Professional liability reserve estimates represent the estimated ultimate cost of all reported and unreported losses incurred through the respective balance sheet dates. The reserve for unpaid losses and loss expenses are estimated using individual case-basis valuations. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The time period required to resolve these claims can vary depending upon whether the claim is settled or litigated. The estimation of the timing of payments beyond a year can vary significantly. Although considerable variability is inherent in professional liability reserve estimates, we believe 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 and aggregate deductible amounts, are insured through the policies described above. The amounts receivable under these insurance contracts included \$341,000 and \$169,000 included in prepaid expenses and other assets at December 31, 2018 and 2017, respectively.

Note 12: Disclosures About Fair Value of Assets and Liabilities

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

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

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Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying 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, 2018 and 2017:

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Money market funds	\$ 8,809	\$ 8,809	\$ -	\$ -
Domestic equity securities	469,343	469,343	-	-
Non-U.S. equity securities	104,940	104,940	-	-
Domestic guaranteed pooled funds	822,585	-	822,585	-
December 31, 2017				
Money market funds	\$ 9,540	\$ 9,540	\$ -	\$ -
Domestic equity securities	491,548	491,548	-	-
Non-U.S. equity securities	38,425	38,425	-	-
Domestic guaranteed pooled funds	773,447	-	773,447	-

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 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, 2018.

Money Market Funds and Domestic and Non-U.S. Equity Securities

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. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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Domestic Guaranteed Pooled Funds

The fair value of the investment contract is determined by the insurance company, which is a third party, using a proprietary pricing model. The Hospital makes adjustments to that value as determined by an independent third-party valuation obtained by the Hospital.

Note 13: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Admitting Physicians

The Hospital is served by one group of admitting physicians whose patients comprise approximately 42% and 43% of the Hospital's net patient service revenue for 2018 and 2017, respectively.

Deferred Compensation Agreement

As described in Note 9, the amount of annual expense accrued for deferred compensation is based on an estimate of the total amounts payable under the contract over the lifetime of the beneficiary.

Litigation and Disputes

In the normal course of business, the Hospital is subject to allegations that may or do result in litigation. 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.

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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 balance sheets.

Note 14: Unconsolidated Variable Interest Entity (VIE)

During 2012, the Hospital entered into formation and operating agreements with Boston IVF, Inc. to provide reproductive services at the Hospital. The joint venture, named Boston IVF Fertility Services at The Women's Hospital, LLC (BIVF at TWH), began operations in January 2013.

During 2013, the Hospital provided capital contributions of \$1,045,132. Those contributions consisted of a nominal initial cash capitalization and facilities, including leasehold improvements within the Hospital's campus for the operations of the joint venture.

The Hospital is a 50% partner in this joint venture and the Hospital is not the primary beneficiary of BIVF at TWH, as the Hospital does not have the sole power to impact the VIE's economic performance and is not deemed to have controlling interest of the VIE. The Hospital's interest in the VIE is accounted for using the equity method and is reflected in the balance sheets with a carrying amount of \$404,874 and \$346,731 at December 31, 2018 and 2017, respectively. The Hospital's maximum exposure to losses of the VIE is the amount of its investment therein as well as amounts due from the VIE as of year-end (see Note 10). The Hospital is not obligated to make any further capital contributions to the VIE.

In connection with the provisions of facility and leasehold improvements, the Hospital entered into a 10-year lease agreement with Deaconess Hospital for the office space located within the Hospital's campus. Aggregate annual payments for the facility are approximately \$160,000. The Hospital entered into a sublease agreement with the joint venture in 2013, as described in Note 10.

The Hospital is also the guarantor of a line of credit benefitting the joint venture in the amount of \$250,000. The line of credit is scheduled to expire in March 2019 and had approximately \$190,000 and \$120,000 drawn against it as of December 31, 2018 and 2017, respectively.

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Note 15: Future Changes in Accounting Principles

Accounting Standards Update (ASU) 2014-09, Revenue From Contracts With Customers

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Hospital is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2019. The Hospital is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.