

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

Auditor's Report and Consolidated Financial Statements

December 31, 2013 and 2012

# Reid Hospital and Health Care Services, Inc.

December 31, 2013 and 2012

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## Independent Auditor's Report on Consolidated Financial Statements and Other Information

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, 2013 and 2012, 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 financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Reid Hospital and Health Care Services, Inc. as of December 31, 2013 and 2012, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Disclaimer of Opinion on Other Information***

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

*BKD, LLP*

Indianapolis, Indiana  
April 18, 2014

# Reid Hospital and Health Care Services, Inc.

## Consolidated Balance Sheets December 31, 2013 and 2012

### Assets

	2013	2012
<b>Current Assets</b>		
Cash and cash equivalents	\$ 11,720,359	\$ 22,297,844
Assets limited as to use - current	3,255,000	2,975,000
Patient accounts receivable, net of allowance; 2013 - \$35,600,000, 2012 - \$32,700,000	51,552,380	50,582,461
Supplies	3,189,303	2,878,280
Prepaid expenses and other	14,136,512	9,222,388
Total current assets	83,853,554	87,955,973
<b>Investments Limited As To Use</b>		
Internally designated	227,047,636	188,736,359
Internally designated - alternative investments carried at fair value	13,258,618	12,037,263
Held by trustee	8,204,459	8,209,094
	248,510,713	208,982,716
Less amounts required to meet current obligations	3,255,000	2,975,000
	245,255,713	206,007,716
<b>Property and Equipment, net</b>	277,481,163	285,706,862
<b>Other Assets</b>		
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	27,335,123	23,695,530
Deferred financing costs	1,558,425	1,617,321
Other	4,849,893	4,874,572
	33,743,441	30,187,423
Total assets	\$ 640,333,871	\$ 609,857,974

**Reid Hospital and Health Care Services, Inc.**  
**Consolidated Balance Sheets (Continued)**  
**December 31, 2013 and 2012**

**Liabilities and Net Assets**

	<b>2013</b>	<b>2012</b>
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 15,717,126	\$ 16,619,591
Salaries, wages and related liabilities	15,359,632	14,199,892
Estimated amounts due to third-party payers	3,195,436	3,551,618
Current maturities of long-term debt	3,255,000	2,975,000
Total current liabilities	37,527,194	37,346,101
<b>Long-Term Debt</b>	167,224,585	170,350,230
<b>Interest Rate Swap Agreement</b>	12,366,490	22,802,799
<b>Pension Plan and Postretirement Benefits</b>	17,831,840	21,800,891
Total liabilities	234,950,109	252,300,021
<b>Net Assets</b>		
Unrestricted		
Reid Hospital and Health Care Services, Inc.	375,992,171	332,640,549
Noncontrolling interest	2,056,468	1,221,874
Total unrestricted net assets	378,048,639	333,862,423
Temporarily restricted	27,169,330	23,529,737
Permanently restricted	165,793	165,793
Total net assets	405,383,762	357,557,953
Total liabilities and net assets	\$ 640,333,871	\$ 609,857,974

**Reid Hospital and Health Care Services, Inc.**  
**Consolidated Statements of Operations**  
**Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Patient service revenue, net of contractual allowance	\$ 364,050,709	\$ 373,010,440
Provision for uncollectible accounts	(36,550,213)	(30,773,075)
Net patient service revenue less provision for uncollectible accounts	327,500,496	342,237,365
Other	11,394,261	9,027,223
Net assets released from restrictions used for operations	562,211	512,672
Total unrestricted revenues, gains and other support	339,456,968	351,777,260
<b>Expenses and Losses</b>		
Salaries, wages and benefits	178,804,803	165,084,933
Purchased services and professional fees	18,031,834	22,009,957
Supplies and other	103,643,417	97,980,741
Depreciation and amortization	31,398,070	33,899,751
Interest and amortization of financing costs	8,043,279	10,361,756
Loss on disposal of property and equipment	97,347	988,849
Hospital assessment fee	6,399,122	15,297,367
Total expenses and losses	346,417,872	345,623,354
<b>Operating Income (Loss)</b>	(6,960,904)	6,153,906
<b>Other Income (Expense)</b>		
Investment return	33,236,343	18,217,262
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	10,436,309	(10,224,654)
Loss on bond refunding	-	(1,359,307)
Total other income	43,672,652	6,633,301
<b>Excess of Revenues Over Expenses</b>	\$ 36,711,748	\$ 12,787,207

**Reid Hospital and Health Care Services, Inc.**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Unrestricted Net Assets</b>		
Excess of revenues over expenses	\$ 36,711,748	\$ 12,787,207
Change in fair value of interest rate swap agreement	-	845,245
Amortization of 2005 interest rate swap agreement	-	10,467,738
Net assets released from restriction used for purchase of property and equipment	97,250	381,689
Net benefit (loss) arising during the period related to defined-benefit plans	8,683,422	(567,126)
Distributions	(1,327,254)	(4,194,882)
Other	21,050	(21,050)
Increase in unrestricted net assets	<u>44,186,216</u>	<u>19,698,821</u>
<b>Temporarily Restricted Net Assets</b>		
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	4,299,054	3,612,360
Net assets released from restriction	(659,461)	(894,361)
Increase in temporarily restricted net assets	<u>3,639,593</u>	<u>2,717,999</u>
<b>Permanently Restricted Net Assets</b>		
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	-	5,803
<b>Change in Net Assets</b>	47,825,809	22,422,623
<b>Net Assets, Beginning of Year</b>	<u>357,557,953</u>	<u>335,135,330</u>
<b>Net Assets, End of Year</b>	<u>\$ 405,383,762</u>	<u>\$ 357,557,953</u>

**Reid Hospital and Health Care Services, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Change in net assets	\$ 47,825,809	\$ 22,422,623
Change in net assets attributable to noncontrolling interest	(834,594)	883,710
Change in net assets attributable to Reid Hospital and Health Care Services, Inc.	46,991,215	23,306,333
Items not requiring (providing) cash		
Loss on sale of property and equipment	97,347	988,849
Depreciation and amortization	31,586,321	34,125,167
Loss on bond refunding	-	1,359,307
Provision for uncollectible accounts	36,550,213	30,773,075
Unrealized gain on investments	(24,873,210)	(6,510,286)
Realized gain on investments	(3,912,639)	(3,469,557)
Investment gains on investments carried under equity method	(1,313,156)	(4,393,952)
Change in fair value of interest rate swap agreement	(10,436,309)	(1,088,329)
Undistributed portion of change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	(3,639,593)	(2,723,802)
Change in pension obligations	(3,969,051)	(183,253)
Changes in		
Patient accounts receivable	(37,520,132)	(34,313,247)
Estimated amounts due from and to third-party payers	(356,182)	(1,257,377)
Accounts payable and accrued expenses	257,275	6,831,555
Other current assets and liabilities	(5,200,468)	(5,348,962)
Noncontrolling interest in net income of equity investees	834,594	(883,710)
Net cash provided by operating activities	25,096,225	37,211,811
<b>Investing Activities</b>		
Purchase of investments	(78,834,184)	(95,061,687)
Proceeds from disposition of investments	69,405,192	80,457,743
Purchase of property and equipment	(23,284,337)	(17,493,844)
Proceeds from sale of property and equipment	14,619	90,200
Net cash used in investing activities	(32,698,710)	(32,007,588)
<b>Financing Activities</b>		
Payment of deferred financing costs	-	(200,000)
Proceeds from issuance of long-term debt	-	80,130,000
Principal payments on long-term debt	(2,975,000)	(3,060,000)
Redemptions of long-term debt	-	(80,130,000)
Net cash used in financing activities	(2,975,000)	(3,260,000)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(10,577,485)	1,944,223
<b>Cash and Cash Equivalents, Beginning of Year</b>	22,297,844	20,353,621
<b>Cash and Cash Equivalents, End of Year</b>	\$ 11,720,359	\$ 22,297,844
<b>Supplemental Cash Flows Information</b>		
Interest paid (net of amount capitalized)	\$ 7,768,641	\$ 9,010,048

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

### 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.

As of December 31, 2013 and 2012, the Hospital owned 65% of Reid MOB, LLC (Reid MOB). The purpose of Reid MOB is to own, operate and serve as landlord for a medical office building and outpatient care center located on the new campus of Reid Hospital and Health Care Services, Inc.

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

The Hospital owns 100% of Reid Physician Associates, Inc. (RPA) and Reid Anesthesia, LLC (RA, LLC), which are not-for-profit corporations as described in Section 501(c)(3) of the Code. As such, RPA and RA, LLC are exempt from income taxes on related income pursuant to Section 501(a) of the Code. RPA provides physician services and RA, LLC provides anesthesia and management services. Reid MOB, ROSE, RPA and RA, LLC are included in the accompanying consolidated financial statements.

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

The consolidated financial statements include the accounts of the Hospital and its controlled subsidiaries, Reid MOB, ROSE, RPA and RA, LLC. All material intercompany accounts and transactions have been eliminated in consolidation. Investments in organizations in which the Hospital's ownership percentage is 50% or less are accounted for under the equity method and are included with other assets on the consolidated balance sheets.

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

***Noncontrolling Interest***

Noncontrolling interest represents the following amounts not owned by the Hospital - 35% interest in Reid MOB at December 31, 2013 and 2012 and a 45% interest in ROSE at December 31, 2013 and 2012.

	<b>Total</b>	<b>Controlling Interest</b>	<b>Noncontrolling Interest</b>
Balance, January 1, 2012	\$ 314,163,602	\$ 312,058,018	\$ 2,105,584
Excess of revenues over expenses	12,787,207	9,284,194	3,503,013
Change in fair value of interest rate swap agreement	845,245	845,245	-
Amortization of 2005 interest rate swap agreement	10,467,738	10,467,738	-
Net assets released from restriction used for purchase of property and equipment	381,689	381,689	-
Net loss arising during the period related to defined-benefit plan	(567,126)	(567,126)	-
Distributions to noncontrolling interest	(4,194,882)	-	(4,194,882)
Other	(21,050)	170,791	(191,841)
Increase (decrease) in unrestricted net assets	<u>19,698,821</u>	<u>20,582,531</u>	<u>(883,710)</u>
Balance, December 31, 2012	333,862,423	332,640,549	1,221,874
Excess of revenues over expenses	36,711,748	34,169,037	2,542,711
Net assets released from restriction used for purchase of property and equipment	97,250	97,250	-
Net benefit arising during the period related to defined-benefit plans	8,683,422	8,683,422	-
Distributions to noncontrolling interest	(1,327,254)	-	(1,327,254)
Other	21,050	401,913	(380,863)
Increase in unrestricted net assets	<u>44,186,216</u>	<u>43,351,622</u>	<u>834,594</u>
Balance, December 31, 2013	<u>\$ 378,048,639</u>	<u>\$ 375,992,171</u>	<u>\$ 2,056,468</u>

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

***Use of Estimates***

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

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

## **Notes to Consolidated Financial Statements December 31, 2013 and 2012**

### ***Cash and Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposits.

At December 31, 2013, the Company's cash accounts exceeded federally insured limits by approximately \$11,600,000.

### ***Investments and Investment Return***

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

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

Assets limited as to use include assets held by trustees and assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

### ***Patient Accounts Receivable***

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

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

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

## **Notes to Consolidated Financial Statements December 31, 2013 and 2012**

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

### ***Supplies***

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out (FIFO) method, or market.

### ***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.

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

### ***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, 2013 and 2012.

### ***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, 2013 and 2012**

### ***Deferred Financing Costs***

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

### ***Temporarily and Permanently Restricted Net Assets***

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

### ***Net Patient Service Revenue***

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

### ***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$28,487,886 and \$22,866,539 for 2013 and 2012, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately \$13,180,793 and \$10,163,634 for 2013 and 2012, respectively.

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

### ***Professional Liability Claims***

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

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements

### December 31, 2013 and 2012

#### ***Excess of Revenues Over Expenses***

The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include the change in fair value of the effective portion of interest rate swap agreements, permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

#### ***Self-Insurance***

The Hospital has elected to self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to expense when incurred. The Hospital has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$250,000.

#### ***Income Taxes***

The Hospital and RPA 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.

The Hospital and its controlled subsidiaries file tax returns in the U.S. federal jurisdiction. With a few exceptions, the Hospital and its controlled subsidiaries are no longer subject to U.S. federal examinations by tax authorities for years before 2010.

#### ***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.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

In 2012, the Hospital completed the first-year requirements under the Medicaid program and recorded revenue of approximately \$671,000. In 2013, the Hospital met the first-year requirements under the Medicare program and the second-year requirements for Medicaid. As a result, the Hospital recorded revenue of approximately \$2,483,000 under the Medicare program and \$537,000 under Medicaid in 2013. All 2013 and 2012 meaningful use revenue is included in other operating revenue within the consolidated statements of operations.

In 2012, various physicians of RPA completed the first-year requirements under the Medicare program and RPA recorded revenue of approximately \$821,000, which also is included in other operating revenue within the consolidated statements of operations. In 2013, various physicians of RPA completed the second-year requirements under the Medicare program and RPA recorded approximately \$793,000, which is also included in the other operating revenue within the consolidated statements of operations.

### ***Reclassifications***

Certain reclassifications have been made to the 2012 consolidated financial statements to conform to the 2013 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

### ***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

The Hospital has entered into construction agreements totaling \$7,700,000 related to the construction of a new Medical Office Building in Greenville, Ohio. As of December 31, 2013, no costs have been incurred under the construction agreements. In March 2014, the Hospital broke ground on this facility with an expected completion date of July 2015.

### **Note 2: Net Patient Service Revenue**

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

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

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

*Medicare.* Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

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

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

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

The Hospital received additional Medicaid payments approximating \$9 million and \$24.6 during 2013 and 2012, respectively, due to the enactment of a state specific provider assessment program. This revenue is recorded within net patient service revenue. The Hospital paid approximately \$6.4 million and \$15.3 million of fees to the program in 2012 and 2013, respectively, which is recorded as an operating expense. There is no assurance this program will continue in the future and as of December 31, 2013, the provider assessment fee program was awaiting federal approval to continue beyond June 30, 2013. As a result, no revenues or expenses have been recorded related to the provider assessment fee program since June 30, 2013.

In March 2014, the Centers for Medicare and Medicaid Services approved the provider assessment fee program retroactively to July 1, 2013. Had approval been received prior to December 31, 2013, the Hospital would have recognized an estimated \$9 million of Medicaid reimbursement and \$6.4 million of provider assessment fees pertaining to the period July 1, 2013 to December 31, 2013. The net estimated benefit of \$2.6 million will be reported in the Hospital's 2014 financial statements.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

The aforementioned provider assessment fee program is subject to retroactive rate setting by the state of Indiana and its Medicaid program. Management has recorded an accrual for an anticipated provider assessment expense approximating \$1,300,000 pertaining to the state fiscal period ending June 30, 2013.

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

The mix of net patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the years ended December 31, 2013 and 2012 is:

	<b>2013</b>	<b>2012</b>
Medicare	\$ 146,155,988	\$ 151,300,793
Medicaid	18,010,008	31,921,806
Other third-party payers	159,660,180	150,024,986
Uninsured patients, including coinsurance and deductibles	40,224,533	39,762,855
	\$ 364,050,709	\$ 373,010,440

### 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 net receivables from patients and third-party payers at December 31, 2013 and 2012 is:

	<b>2013</b>	<b>2012</b>
Medicare	29%	31%
Medicaid	2%	9%
Other third-party payers	51%	54%
Uninsured patients, including coinsurance and deductibles	18%	6%
	100%	100%

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

### Note 4: Investments and Investment Return

#### *Assets Limited as to Use*

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

	<b>2013</b>	<b>2012</b>
Internally designated by Board		
Trading		
Cash and cash equivalents	\$ 18,891,180	\$ 8,721,251
Domestic equity securities	72,556,794	-
Non-U.S. equity securities	6,931,645	-
Domestic equity mutual funds	59,973,884	97,699,211
Non-U.S. equity mutual funds	-	2,438,908
Domestic fixed income mutual funds	46,440,541	52,654,075
Non-U.S. fixed income mutual funds	14,632,875	9,756,827
Other than trading		
Alternative investments - private equity	541,290	-
Alternative investments - corporate hedge funds	13,258,618	20,708,330
Alternative investments - real estate hedge funds	7,079,427	8,795,020
	\$ 240,306,254	\$ 200,773,622
Held by trustee under indenture agreement		
Cash and cash equivalents	\$ 8,204,459	\$ 8,209,094

Total investment return is comprised of the following:

	<b>2013</b>	<b>2012</b>
Interest and dividend income (net of interest paid on derivative investment instrument)	\$ 1,687,721	\$ 3,843,467
Realized gains on trading securities	3,912,639	3,469,557
Unrealized gains on trading securities	23,651,856	5,810,389
Unrealized gains on other investments carried at fair value	1,221,354	699,897
Investment gains on investments carried under equity method	1,313,156	4,393,952
Proceeds from investment manager settlement	1,449,617	-
	\$ 33,236,343	\$ 18,217,262

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

Included in investment return are proceeds totaling \$1,449,617 from a settlement of claim against the former investment manager resulting from investment losses by the manager. The proceeds are net of legal fees and were awarded to compensate the Hospital for previous investment losses.

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

### **Alternative Investments Carried at Fair Value**

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

	<b>December 31, 2013</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Corporate hedge funds	\$ 13,258,618	\$ -	Quarterly - Yearly	95 days
Private equity	541,290	4,141,094	N/A	N/A
	<b>December 31, 2012</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Corporate hedge funds	\$ 12,037,263	\$ -	Quarterly - Yearly	95 days

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

### ***Alternative Investments Carried Under Equity Method***

The six alternative investments reported on the equity method consist of various real estate and corporate hedge funds. These funds invest in other limited partnerships in equity and real estate sectors. One of the funds has an initial lock-up period of 1 year with a 70-day redemption notice period and no redemption fees. The remaining five funds have lock-up periods of the life of the investment. Outstanding commitments for these funds approximate \$1.4 million. The financial position and results of operations of the more significant investment positions of which the Hospital owns a portion of, are summarized below on a combined basis for the most recent period in which audited consolidated financial statements are available.

	<b>December 31, 2013</b>
Current assets	\$ 7,138,794
Noncurrent assets	106,901,634
	<u>\$ 114,040,428</u>
Liabilities	<u>\$ 7,713,070</u>
Equity	<u>\$ 106,327,358</u>
Investment return	<u>\$ 8,408,727</u>
Net income	<u>\$ (8,167,777)</u>

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

The Foundation was organized to support the activities of the Hospital in Richmond, Indiana. Funds are distributed to the Hospital as determined by the Foundation's Board of Directors. The Hospital's interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the interest in the net assets of the Foundation, with corresponding decreases or increases in the assets transferred, and have no effect on change in net assets. The Hospital's interest in the net assets of the Foundation is reported in the consolidated balance sheets and was \$27,335,123 and \$23,695,530 at December 31, 2013 and 2012, respectively.

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, 2013 and 2012

### Note 6: Medical Malpractice Claims

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

Reserves for professional liability claims were \$524,425 and \$346,515 at December 31, 2013 and 2012, 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, 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 comprised \$524,425 and \$346,515 included in prepaid expenses and other at December 31, 2013 and 2012, respectively.

### Note 7: Long-Term Debt

	<u>2013</u>	<u>2012</u>
Hospital Revenue Bonds, Series 2009A	\$ 95,420,000	\$ 96,580,000
Hospital Revenue Bonds, Series 2012A	78,315,000	80,130,000
	<u>173,735,000</u>	<u>176,710,000</u>
Less unamortized discount	(3,255,415)	(3,384,770)
Less current maturities	<u>(3,255,000)</u>	<u>(2,975,000)</u>
	<u>\$ 167,224,585</u>	<u>\$ 170,350,230</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 current obligations 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.

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

## **Notes to Consolidated Financial Statements December 31, 2013 and 2012**

### **Hospital Revenue Bonds Series 2009A**

The Authority issued Revenue Bonds Series 2009A pursuant to a Trust Indenture dated as of March 1, 2009 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 March 1, 2009, between the Authority and the Corporation.

Proceeds from the bond issue were to refund the Series 2005B and 2005C bonds and also to fund a debt service reserve fund.

The fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2010 in amounts ranging from \$1,015,000 to \$7,940,000. Interest payments are due on January 1 and July 1, and rates vary from 3.0% to 6.6% at final maturity.

### **Hospital Revenue Bonds Series 2012**

The Authority issued Revenue Bonds Series 2012 pursuant to a Trust Indenture dated as of December 1, 2012 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 December 1, 2012, between the Authority and the Corporation.

Proceeds from the bond issue were primarily to refund the Series 2005A bonds.

The fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2013 in amounts ranging from \$1,815,000 to \$3,990,000 and are due in full in December 2019. Interest payments are due on January 1 and July 1, at a fixed rate of 2.15%.

### **Annual Maturities**

The bonds listed above are subject to mandatory sinking fund requirements and are required to maintain a debt service reserve fund with the Trustee. Amounts on deposit with the Trustee at December 31, 2013 totaled \$8,204,459.

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

Aggregate annual maturities and sinking fund requirements of bonds payable at December 31, 2013, are:

2014	\$ 3,255,000
2015	3,450,000
2016	3,600,000
2017	3,760,000
2018	3,925,000
Thereafter	<u>155,745,000</u>
	<u><u>\$ 173,735,000</u></u>

Interest expense for the years ended December 31, 2013 and 2012 was \$7,826,799 and \$9,041,135, respectively.

**Note 8: Interest Rate Swap Agreement**

***Cash Flow Hedge***

In March 2005, the Hospital entered into two interest rate swaps (the 2005 Swaps) for notional amounts totaling \$87,500,000. The 2005 Swaps are fixed rate payer swaps that terminate in January 2045 and prior to April 1, 2008, amortized in coordination with the 2005 B and C Series Bonds. Under this agreement, the Hospital pays a fixed rate of 3.702% and receives a floating rate equal to 3.10% + .25% of USD-LIBOR (.35% and .38% at December 31, 2013 and 2012, respectively). The original objective of the 2005 Swaps was to hedge the risk of overall changes in the variable interest payments on the 2005 Series B and C Bonds. The fair value of the 2005 Swaps represents a payable to the counterparty and is recorded as a liability of \$12,366,490 and \$22,802,799 at December 31, 2013 and 2012, respectively.

The 2005 Swaps qualified as an effective hedge through March 31, 2008, and changes in fair value of the 2005 Swaps were recorded as other changes in net assets through that date.

Beginning on April 1, 2008, the 2005 Swaps no longer qualified as an effective hedge due to volatility in the variable interest rate market. Changes in fair value of the 2005 Swaps since this date up to the date of re-election of the 2005 Swaps to the 2005A bond, as discussed below, have been recorded in other income (expense). The fair value of the agreement at March 31, 2008 of \$7,185,735 was being amortized from other changes in unrestricted net assets into other income (expense) over the remaining term of the 2005 A Series Bonds through January 2045. During the years ended 2013 and 2012, \$0 and \$187,383, respectively, of the March 31, 2008 fair value was amortized from other changes in unrestricted net assets into other income (expense).

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements

### December 31, 2013 and 2012

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

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

	<b>2013</b>	<b>2012</b>
Fair value of interest rate swap agreement	\$ (12,366,490)	\$ (22,802,799)
Balance sheet location of fair value amount	Interest Rate Swap Agreement Liability	Interest Rate Swap Agreement Liability
Gain recognized in unrestricted net assets (effective portion)	\$ -	\$ 845,245
Loss reclassified from unrestricted net assets into excess revenues over expenses (effective portion)	\$ -	\$ (10,467,738)
Location of loss reclassified from unrestricted net assets into deficiency of revenues over expenses	N/A	Other Income (Expense) - Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement
Gain recognized in excess revenues over expenses (ineffective portion)	\$ 10,436,309	\$ 243,084
Location of gain recognized in excess revenues over expenses (ineffective portion)	Other Income (Expense) - Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	Other Income (Expense) - Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

**Note 9: Property and Equipment**

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

	<b>2013</b>	<b>2012</b>
Land and land improvements	\$ 45,318,826	\$ 43,791,393
Buildings and improvements	126,433,209	125,332,567
Building equipment	158,694,829	156,135,258
Moveable equipment	142,081,151	133,732,471
Construction in progress	12,476,387	3,685,837
	<u>485,004,402</u>	<u>462,677,526</u>
Accumulated depreciation	<u>(207,523,239)</u>	<u>(176,970,664)</u>
	<u>\$ 277,481,163</u>	<u>\$ 285,706,862</u>

**Note 10: Temporarily and Permanently Restricted Net Assets**

Temporarily and permanently restricted net assets are restricted for the interest in net assets of the Foundation. Temporarily restricted net assets totaled \$27,169,330 and \$23,529,737 at December 31, 2013 and 2012, respectively. Permanently restricted net assets totaled \$165,793 and \$165,793 at December 31, 2013 and 2012, respectively.

Net assets of \$659,461 and \$894,361 were released for use in operations for 2013 and 2012, respectively.

**Note 11: Functional Expenses**

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

	<b>2013</b>	<b>2012</b>
Health care services	\$ 322,820,281	\$ 320,205,904
General and administrative	<u>23,597,591</u>	<u>25,417,450</u>
	<u>\$ 346,417,872</u>	<u>\$ 345,623,354</u>

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

### Note 12: Pension Plans

#### *Defined-Contribution Plan*

Effective April 1, 2008, the Hospital implemented a defined-contribution pension plan covering substantially all employees hired after April 1, 2008. Employees hired prior to April 1, 2008 who met the eligibility requirements participate in the defined-benefit plan. Substantially all employees are eligible to participate in the Hospital's 403b plan. The Board of Directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$3,400,699 and \$3,011,973 for 2013 and 2012, respectively.

#### *Defined-Benefit Plan*

The Hospital has a noncontributory defined-benefit pension plan covering all employees who meet the eligibility requirements. The Hospital's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Hospital may determine to be appropriate from time to time. The Hospital does not expect to contribute to the plan in 2014.

The defined-benefit pension plan was frozen to all new participants effective April 1, 2008. Effective December 31, 2011, management elected to freeze the plan to all participants. As a result of this freeze, participants will receive no additional credit for service or future wage adjustments. During 2011, as a result of an outsourcing agreement, approximately 145 participants were terminated from the Hospital and subsequently hired by the third-party processor. This termination led to additional benefit payments for terminated employees. Settlement costs in 2013 and 2012 represent the recognition of net periodic benefit costs related to benefit payments made to the terminated employees.

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

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

	<b>2013</b>	<b>2012</b>
Changes in projected benefit obligation		
Beginning balance	\$ 63,194,896	\$ 60,564,366
Interest cost	2,605,901	2,797,362
Benefits paid	(7,844,115)	(5,738,021)
Actuarial loss/(gain)	(4,529,156)	5,571,189
Effect of settlement/curtailment	722,757	-
Ending balance	54,150,283	63,194,896
Changes in fair value of assets		
Fair value at beginning of year	41,394,005	38,580,222
Actual return on plan assets	2,768,553	3,251,804
Employer contributions	-	5,300,000
Benefits paid	(7,844,115)	(5,738,021)
Ending balance	36,318,443	41,394,005
Funded status	\$ (17,831,840)	\$ (21,800,891)

Liabilities recognized in the consolidated balance sheets:

	<b>2013</b>	<b>2012</b>
Noncurrent liabilities	\$ (17,831,840)	\$ (21,800,891)

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

	<b>2013</b>	<b>2012</b>
Net loss	\$ 22,437,248	\$ 31,309,509

The accumulated benefit obligation for the defined-benefit pension plan was \$54,150,283 and \$63,194,896 at December 31, 2013 and 2012, respectively.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

Information for the pension plan which has an accumulated benefit obligation in excess of plan assets follows:

	<b>2013</b>	<b>2012</b>
Projected benefit obligation	\$ 54,150,283	\$ 63,194,896
Accumulated benefit obligation	54,150,283	63,194,896
Fair value of plan assets	36,318,443	41,394,005

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

	<b>2013</b>	<b>2012</b>
Interest cost	\$ 2,605,901	\$ 2,797,362
Expected return on assets	(2,766,010)	(2,828,539)
Recognition of net loss	1,922,309	1,902,001
Net period benefit cost	1,762,200	1,870,824
Settlement cost	3,141,010	2,718,868
Net benefit cost	\$ 4,903,210	\$ 4,589,692

Other changes in plan assets and benefit obligations recognized in other changes in unrestricted net assets at December 31, 2013:

	<b>2013</b>	<b>2012</b>
Gain recognized in current year	\$ (5,063,319)	\$ (4,620,869)
(Gain) loss incurred in current year	(3,808,942)	5,147,924
Other changes in net assets in current year	\$ (8,872,261)	\$ 527,055

The estimated net loss for the defined-benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$1,309,402.

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

Significant assumptions include:

	<b>Pension Benefits</b>	
	<b>2013</b>	<b>2012</b>
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	4.75%	4.25%
Rate of compensation increase	0.00%	0.00%
Weighted-average assumptions used to determine benefit costs:		
Discount rate	4.25%	4.75%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	0.00%	0.00%

The Hospital has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2013:

2014	\$ 2,784,057
2015	4,734,261
2016	3,964,049
2017	4,657,707
2018	4,919,647
2019 - 2023	21,198,747

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common stocks, corporate bonds and debentures, U.S. Government securities, certain insurance contracts, real estate and other specified investments, based on certain target allocation percentages.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plans to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages for 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Equity securities	15 - 35%	15 - 35%
Debt securities	45 - 65%	45 - 65%
Other	0 - 40%	0 - 40%

Plan assets are re-balanced quarterly. At December 31, 2013 and 2012, plan assets by category are as follows:

	<b>2013</b>	<b>2012</b>
Equity securities	38%	37%
Debt securities	57%	57%
Other	5%	6%
	<u>100%</u>	<u>100%</u>

### ***Pension Plan Assets***

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include money market funds, equity securities and debt securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include certain alternative investments. As a practical expedient, the fair value of alternative investments without quoted market prices is determined using the net asset value (or its equivalent) provided by the fund given the Plan can redeem its investment at the net asset value per share at December 31 or within a reasonable period of time. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. The Plan does not have any Level 3 assets at December 31, 2013 or 2012.

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

The fair values of the Hospital's pension plan assets at December 31, 2013 and 2012, by asset class, are as follows:

	<b>2013</b>			
	<b>Fair Value Measurements Using</b>			
<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	
Money market funds	\$ 796,296	\$ 796,296	\$ -	\$ -
Domestic equity mutual funds	11,209,111	11,209,111	-	-
Non-U.S. equity mutual funds	2,620,722	2,620,722	-	-
Domestic fixed income mutual funds	17,468,687	17,468,687	-	-
Non-U.S. fixed income mutual funds	3,173,997	3,173,997	-	-
Alternative investments - hedge funds	1,049,630	-	1,049,630	-
	<u>\$ 36,318,443</u>	<u>\$ 35,268,813</u>	<u>\$ 1,049,630</u>	<u>\$ -</u>

	<b>2012</b>			
	<b>Fair Value Measurements Using</b>			
<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	
Money market funds	\$ 949,838	\$ 949,838	\$ -	\$ -
Domestic equity mutual funds	11,243,139	11,243,139	-	-
Non-U.S. equity mutual funds	3,824,860	3,824,860	-	-
Domestic fixed income mutual funds	20,174,555	20,174,555	-	-
Non-U.S. fixed income mutual funds	3,549,571	3,549,571	-	-
Alternative investments - hedge funds	1,652,042	-	1,652,042	-
	<u>\$ 41,394,005</u>	<u>\$ 39,741,963</u>	<u>\$ 1,652,042</u>	<u>\$ -</u>

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

### Note 13: 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

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. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described yet.

#### ***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.

#### ***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities, equity mutual funds and fixed income mutual funds. Level 2 securities include private equity and corporate hedge funds.

#### ***Alternative Investments***

The fair value of alternative investments is determined using net asset value (or its equivalent) supplied by the respective fund managers, as a practical expedient. Investments for which the Hospital expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the Hospital does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3. Hedge funds and private equity are classified as either Level 2 or Level 3 based upon this determination.

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

Fair value determinations for Level 3 measurements of investments are the responsibility of the Management's office. Management's office utilizes the valuations provided by fund managers to generate fair value estimates on a monthly or quarterly basis and challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting principles generally accepted in the United States of America.

### **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.

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, 2013 and 2012:

	Fair Value	2013 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				
Money market funds	\$ 35,300,098	\$ 35,300,098	\$ -	\$ -
Domestic equity securities	72,556,794	72,556,794	-	-
Non-U.S. equity securities	6,931,645	6,931,645	-	-
Domestic equity mutual funds	59,973,884	59,973,884	-	-
Domestic fixed income mutual funds	46,440,541	46,440,541	-	-
Non-U.S. fixed income mutual funds	14,632,875	14,632,875	-	-
Alternative investments - private equity	541,290	-	-	541,290
Alternative investments - corporate hedge funds	13,258,618	-	13,258,618	-
	<u>\$ 249,635,745</u>	<u>\$ 235,835,837</u>	<u>\$ 13,258,618</u>	<u>\$ 541,290</u>
Interest rate swap agreement liability	<u>\$ 12,366,490</u>	<u>\$ -</u>	<u>\$ 12,366,490</u>	<u>\$ -</u>

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

	2012			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Money market funds	\$ 25,439,439	\$ 25,439,439	\$ -	\$ -
Domestic equity mutual funds	97,699,211	97,699,211	-	-
Non-U.S. equity mutual funds	2,438,908	2,438,908	-	-
Domestic fixed income mutual funds	52,654,075	52,654,075	-	-
Non-U.S. fixed income mutual funds	9,756,827	9,756,827	-	-
Alternative investments - corporate hedge funds	12,037,263	-	12,037,263	-
	<u>\$ 200,025,723</u>	<u>\$ 187,988,460</u>	<u>\$ 12,037,263</u>	<u>\$ -</u>
Interest rate swap agreement liability	<u>\$ 22,802,799</u>	<u>\$ -</u>	<u>\$ 22,802,799</u>	<u>\$ -</u>

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	<b>Private Equity</b>
Balance, January 1, 2013	\$ -
Contributions	875,000
Change in value of private equity fund	(266,787)
Distributions	(66,923)
Balance, December 31, 2013	<u>\$ 541,290</u>

**Unobservable (Level 3) Inputs**

As previously noted, the Hospital's alternative investments are valued at NAV or its equivalent and classified within the fair value hierarchy based on the Hospital's ability to redeem the fund within a reasonable period of time. Therefore, the valuation of alternative investments is considered to be based on unobservable inputs. There are no quantitative measurements (i.e. discount rates, market return rates, etc.) used to adjust NAV.

**Reid Hospital and Health Care Services, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

***Fair Value of Financial Instruments***

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

**Cash and Cash Equivalents**

The carrying amount approximates fair value.

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

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

**Notes Payable and Long-Term Debt**

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

The following table presents estimated fair values of the Hospital's financial instruments at December 31, 2013 and 2012.

	<b>2013</b>		<b>2012</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Financial assets				
Cash and cash equivalents	\$ 38,815,998	\$ 38,815,998	\$ 39,228,189	\$ 39,228,189
Debt securities	61,073,416	61,073,416	62,410,902	62,410,902
Equity securities	139,462,323	139,462,323	112,175,382	112,175,382
Alternative Investments	13,799,908	13,799,908	12,037,263	-
Interest in net assets of the Foundation	27,335,123	27,335,123	23,695,530	23,695,530
Financial liabilities				
Long-term debt	170,479,585	171,148,955	173,325,230	211,352,802
Interest rate swap agreement	12,366,490	12,366,490	22,802,799	22,802,799

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

### **Note 14: 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 nine alternative investments of which three are reported at fair value of \$13,258,618 and \$12,037,263 at December 31, 2013 and 2012, respectively; the other six are reported on the equity method at \$7,079,428 and \$17,466,087 at December 31, 2013 and 2012, respectively. Unrealized gains (losses) on investments elected to be measured at fair value were \$1,221,354 and \$699,897 at December 31, 2013 and 2012, respectively. These gains and losses are reported as a component of investment return on the consolidated statements of operations and changes in net assets. The fair value option was not elected for all of the alternative investments due to a portion being reported on the equity method and not having readily determinable fair value.

### **Note 15: Significant Estimates and Concentrations**

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

#### ***Allowance for Net Patient Service Revenue Adjustments***

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

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

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

#### ***Litigation***

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

#### ***Self Insurance***

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

# Reid Hospital and Health Care Services, Inc.

## Notes to Consolidated Financial Statements December 31, 2013 and 2012

### ***Pension and Other Postretirement Benefit Obligations***

The Hospital has a noncontributory defined-benefit pension plan whereby it agrees to provide certain postretirement benefits to eligible employees. As previously described in these footnotes, the noncontributory defined-benefit pension plan was frozen as of December 31, 2011. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

### ***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.

### **Note 16: Patient Protection and Affordable Care Act**

The Patient Protection and Affordable Care Act (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Indiana has not affirmatively indicated whether or not it will participate in the expansion of the Medicaid program. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

## **Other Information**

# Reid Hospital and Health Care Services, Inc.

## Consolidating Schedule - Balance Sheet Information

### December 31, 2013

#### Assets

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
<b>Current Assets</b>							
Cash and cash equivalents	\$ 9,654,066	\$ 565,814	\$ 1,448,102	\$ (134,226)	\$ 186,603	\$ -	\$ 11,720,359
Assets limited as to use - current	3,255,000	-	-	-	-	-	3,255,000
Patient accounts receivable, net of allowance; 2013 - \$35,600,000	45,630,748	-	-	5,921,632	-	-	51,552,380
Supplies	3,189,303	-	-	-	-	-	3,189,303
Prepaid expenses and other	167,394,059	402,054	1,287,958	4,272,228	673,035	(159,892,822)	14,136,512
Total current assets	<u>229,123,176</u>	<u>967,868</u>	<u>2,736,060</u>	<u>10,059,634</u>	<u>859,638</u>	<u>(159,892,822)</u>	<u>83,853,554</u>
<b>Assets Limited As To Use</b>							
Internally designated	227,047,636	-	-	-	-	-	227,047,636
Internally designated - fair value option	13,258,618	-	-	-	-	-	13,258,618
Held by trustee	8,204,459	-	-	-	-	-	8,204,459
	<u>248,510,713</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>248,510,713</u>
Less amounts required to meet current obligations	3,255,000	-	-	-	-	-	3,255,000
	<u>245,255,713</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>245,255,713</u>
<b>Property and Equipment, at cost</b>							
	436,658,598	30,019,100	7,324,213	12,783,158	-	(1,780,667)	485,004,402
Less accumulated depreciation	193,780,381	5,057,581	4,671,035	5,794,909	-	(1,780,667)	207,523,239
	<u>242,878,217</u>	<u>24,961,519</u>	<u>2,653,178</u>	<u>6,988,249</u>	<u>-</u>	<u>-</u>	<u>277,481,163</u>
<b>Other Assets</b>							
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	27,335,123	-	-	-	-	-	27,335,123
Deferred financing costs	1,558,425	-	-	-	-	-	1,558,425
Other	7,699,493	-	-	-	-	(2,849,600)	4,849,893
	<u>36,593,041</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,849,600)</u>	<u>33,743,441</u>
Total assets	<u>\$ 753,850,147</u>	<u>\$ 25,929,387</u>	<u>\$ 5,389,238</u>	<u>\$ 17,047,883</u>	<u>\$ 859,638</u>	<u>\$ (162,742,422)</u>	<u>\$ 640,333,871</u>
<b>Liabilities and Net Assets</b>							
<b>Current Liabilities</b>							
Accounts payable and accrued expenses	\$ 14,643,406	\$ 846,597	\$ 508,698	\$ 133,614,916	\$ 514,188	\$ (134,410,679)	\$ 15,717,126
Salaries, wages and related liabilities	10,704,894	-	-	4,654,738	-	-	15,359,632
Estimated amounts due to third-party payers	3,195,436	-	-	-	-	-	3,195,436
Current maturities of long-term debt	3,255,000	-	-	-	-	-	3,255,000
Total current liabilities	<u>31,798,736</u>	<u>846,597</u>	<u>508,698</u>	<u>138,269,654</u>	<u>514,188</u>	<u>(134,410,679)</u>	<u>37,527,194</u>
<b>Long-Term Debt</b>	167,224,585	25,482,147	-	-	-	(25,482,147)	167,224,585
<b>Interest Rate Swap Agreement Liability</b>	12,366,490	-	-	-	-	-	12,366,490
<b>Pension Plan and Postretirement Benefits</b>	17,831,840	-	-	-	-	-	17,831,840
Total liabilities	<u>229,221,651</u>	<u>26,328,744</u>	<u>508,698</u>	<u>138,269,654</u>	<u>514,188</u>	<u>(159,892,826)</u>	<u>234,950,109</u>
<b>Net Assets</b>							
Unrestricted							
Reid Hospital and Health Care Services, Inc.	497,293,373	(399,357)	4,880,540	(121,221,771)	345,450	(4,906,064)	375,992,171
Noncontrolling interest	-	-	-	-	-	2,056,468	2,056,468
Total unrestricted net assets	<u>497,293,373</u>	<u>(399,357)</u>	<u>4,880,540</u>	<u>(121,221,771)</u>	<u>345,450</u>	<u>(2,849,596)</u>	<u>378,048,639</u>
Temporarily restricted	27,169,330	-	-	-	-	-	27,169,330
Permanently restricted	165,793	-	-	-	-	-	165,793
Total net assets	<u>524,628,496</u>	<u>(399,357)</u>	<u>4,880,540</u>	<u>(121,221,771)</u>	<u>345,450</u>	<u>(2,849,596)</u>	<u>405,383,762</u>
Total liabilities and net assets	<u>\$ 753,850,147</u>	<u>\$ 25,929,387</u>	<u>\$ 5,389,238</u>	<u>\$ 17,047,883</u>	<u>\$ 859,638</u>	<u>\$ (162,742,422)</u>	<u>\$ 640,333,871</u>

# Reid Hospital and Health Care Services, Inc.

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

### Year Ended December 31, 2013

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
<b>Unrestricted Revenues, Gains and Other Support</b>							
Net patient service revenue	\$ 320,085,614	\$ -	\$ -	\$ 43,965,095	\$ -	\$ -	\$ 364,050,709
Provision for uncollectible accounts	(31,202,506)	-	-	(5,347,707)	-	-	(36,550,213)
Net patient service revenue less provision for uncollectible accounts	288,883,108	-	-	38,617,388	-	-	327,500,496
Other	12,807,149	4,975,719	21,026,028	1,379,505	5,937,580	(34,731,720)	11,394,261
Net assets released from restrictions used for operations	562,211	-	-	-	-	-	562,211
Total unrestricted revenues, gains and other support	302,252,468	4,975,719	21,026,028	39,996,893	5,937,580	(34,731,720)	339,456,968
<b>Expenses and Losses</b>							
Salaries, wages and benefits	114,329,285	74,754	9,495,208	59,860,275	48,867	(5,003,586)	178,804,803
Purchased services and professional fees	12,139,192	7,272	320,384	6,436,825	5,772,283	(6,644,122)	18,031,834
Supplies and other	104,480,061	1,892,264	5,527,776	14,827,328	-	(23,084,012)	103,643,417
Depreciation and amortization	28,636,446	764,478	422,122	1,575,024	-	-	31,398,070
Interest and amortization of financing costs	8,043,279	1,742,037	-	-	-	(1,742,037)	8,043,279
Loss on disposal of property and equipment	64,961	-	-	32,386	-	-	97,347
Provider hospital assessment fee	6,399,122	-	-	-	-	-	6,399,122
Total expenses and losses	274,092,346	4,480,805	15,765,490	82,731,838	5,821,150	(36,473,757)	346,417,872
<b>Operating Income (Loss)</b>	<b>28,160,122</b>	<b>494,914</b>	<b>5,260,538</b>	<b>(42,734,945)</b>	<b>116,430</b>	<b>1,742,037</b>	<b>(6,960,904)</b>
<b>Other Income (Expense)</b>							
Investment return	38,114,234	4,635	1,393	-	-	(4,883,919)	33,236,343
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	10,436,309	-	-	-	-	-	10,436,309
Total other income (expense)	48,550,543	4,635	1,393	-	-	(4,883,919)	43,672,652
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<b>76,710,665</b>	<b>499,549</b>	<b>5,261,931</b>	<b>(42,734,945)</b>	<b>116,430</b>	<b>(3,141,882)</b>	<b>36,711,748</b>
<b>Other Changes in Unrestricted Net Assets</b>							
Net assets released from restriction used for purchase of property and equipment	97,250	-	-	-	-	-	97,250
Net gain arising during the period related to defined-benefit plans	8,683,422	-	-	-	-	-	8,683,422
Distributions	-	(334,849)	(3,535,376)	-	(47,917)	2,590,888	(1,327,254)
Other	-	-	-	-	-	21,050	21,050
Increase (decrease) in unrestricted net assets	85,491,337	164,700	1,726,555	(42,734,945)	68,513	(529,944)	44,186,216
<b>Temporarily Restricted Net Assets</b>							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	4,299,054	-	-	-	-	-	4,299,054
Net assets released from restriction	(659,461)	-	-	-	-	-	(659,461)
Increase in temporarily restricted net assets	3,639,593	-	-	-	-	-	3,639,593
<b>Change in Net Assets</b>	<b>89,130,930</b>	<b>164,700</b>	<b>1,726,555</b>	<b>(42,734,945)</b>	<b>68,513</b>	<b>(529,944)</b>	<b>47,825,809</b>
<b>Net Assets, Beginning of Year</b>	<b>435,497,566</b>	<b>(564,057)</b>	<b>3,153,985</b>	<b>(78,486,826)</b>	<b>276,937</b>	<b>(2,319,652)</b>	<b>357,557,953</b>
<b>Net Assets, End of Year</b>	<b>\$ 524,628,496</b>	<b>\$ (399,357)</b>	<b>\$ 4,880,540</b>	<b>\$ (121,221,771)</b>	<b>\$ 345,450</b>	<b>\$ (2,849,596)</b>	<b>\$ 405,383,762</b>

**Reid Hospital and Health Care Services, Inc.**  
**Consolidating Schedule - Balance Sheet Information**  
**December 31, 2012**

**Assets**

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
<b>Current Assets</b>							
Cash and cash equivalents	\$ 21,088,460	\$ 468,021	\$ 796,088	\$ (54,825)	\$ 100	\$ -	\$ 22,297,844
Assets limited as to use - current	2,975,000	-	-	-	-	-	2,975,000
Patient accounts receivable, net of allowance; 2012 - \$32,700,000	44,678,287	-	-	5,904,174	-	-	50,582,461
Supplies	2,878,280	-	-	-	-	-	2,878,280
Prepaid expenses and other	120,858,781	38,868	636,483	3,858,032	278,837	(116,448,613)	9,222,388
Total current assets	<u>192,478,808</u>	<u>506,889</u>	<u>1,432,571</u>	<u>9,707,381</u>	<u>278,937</u>	<u>(116,448,613)</u>	<u>87,955,973</u>
<b>Assets Limited As To Use</b>							
Internally designated	188,736,359	-	-	-	-	-	188,736,359
Internally designated - fair value option	12,037,263	-	-	-	-	-	12,037,263
Held by trustee	8,209,094	-	-	-	-	-	8,209,094
	<u>208,982,716</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>208,982,716</u>
Less amount required to meet current obligations	2,975,000	-	-	-	-	-	2,975,000
	<u>206,007,716</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206,007,716</u>
<b>Property and Equipment, at cost</b>							
	417,807,669	30,019,100	6,489,596	10,141,828	-	(1,780,667)	462,677,526
Less accumulated depreciation	165,975,082	4,293,103	4,248,913	4,234,233	-	(1,780,667)	176,970,664
	<u>251,832,587</u>	<u>25,725,997</u>	<u>2,240,683</u>	<u>5,907,595</u>	<u>-</u>	<u>-</u>	<u>285,706,862</u>
<b>Other Assets</b>							
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	23,695,530	-	-	-	-	-	23,695,530
Deferred financing costs	1,617,321	-	-	-	-	-	1,617,321
Other	7,194,226	-	-	-	-	(2,319,654)	4,874,572
	<u>32,507,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,319,654)</u>	<u>30,187,423</u>
Total assets	<u>\$ 682,826,188</u>	<u>\$ 26,232,886</u>	<u>\$ 3,673,254</u>	<u>\$ 15,614,976</u>	<u>\$ 278,937</u>	<u>\$ (118,768,267)</u>	<u>\$ 609,857,974</u>
<b>Liabilities and Net Assets</b>							
<b>Current Liabilities</b>							
Accounts payable and accrued expenses	\$ 15,530,780	\$ 719,431	\$ 519,269	\$ 90,219,214	\$ 2,000	\$ (90,371,103)	\$ 16,619,591
Salaries, wages and related liabilities	10,317,304	-	-	3,882,588	-	-	14,199,892
Estimated amounts due to third-party payers	3,551,618	-	-	-	-	-	3,551,618
Current maturities of long-term debt	2,975,000	-	-	-	-	-	2,975,000
Total current liabilities	<u>32,374,702</u>	<u>719,431</u>	<u>519,269</u>	<u>94,101,802</u>	<u>2,000</u>	<u>(90,371,103)</u>	<u>37,346,101</u>
<b>Long-Term Debt</b>	170,350,230	26,077,512	-	-	-	(26,077,512)	170,350,230
<b>Interest Rate Swap Agreement Liability</b>	22,802,799	-	-	-	-	-	22,802,799
<b>Pension Plan and Postretirement Benefits</b>	21,800,891	-	-	-	-	-	21,800,891
Total liabilities	<u>247,328,622</u>	<u>26,796,943</u>	<u>519,269</u>	<u>94,101,802</u>	<u>2,000</u>	<u>(116,448,615)</u>	<u>252,300,021</u>
<b>Net Assets</b>							
Unrestricted							
Reid Hospital and Health Care Services, Inc.	411,802,036	(564,057)	3,153,985	(78,486,826)	276,937	(3,541,526)	332,640,549
Noncontrolling interest	-	-	-	-	-	1,221,874	1,221,874
Total unrestricted net assets	<u>411,802,036</u>	<u>(564,057)</u>	<u>3,153,985</u>	<u>(78,486,826)</u>	<u>276,937</u>	<u>(2,319,652)</u>	<u>333,862,423</u>
Temporarily restricted	23,529,737	-	-	-	-	-	23,529,737
Permanently restricted	165,793	-	-	-	-	-	165,793
Total net assets	<u>435,497,566</u>	<u>(564,057)</u>	<u>3,153,985</u>	<u>(78,486,826)</u>	<u>276,937</u>	<u>(2,319,652)</u>	<u>357,557,953</u>
Total liabilities and net assets	<u>\$ 682,826,188</u>	<u>\$ 26,232,886</u>	<u>\$ 3,673,254</u>	<u>\$ 15,614,976</u>	<u>\$ 278,937</u>	<u>\$ (118,768,267)</u>	<u>\$ 609,857,974</u>

# Reid Hospital and Health Care Services, Inc.

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

### Year Ended December 31, 2012

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
<b>Unrestricted Revenues, Gains and Other Support</b>							
Net patient service revenue	\$ 332,364,168	\$ -	\$ -	\$ 40,646,272	\$ -	\$ -	\$ 373,010,440
Provision for uncollectible accounts	(26,000,176)	-	-	(4,772,899)	-	-	(30,773,075)
Net patient service revenue less provision for uncollectible accounts	306,363,992	-	-	35,873,373	-	-	342,237,365
Other	9,865,310	4,499,491	24,070,252	1,550,839	5,813,954	(36,772,623)	9,027,223
Net assets released from restrictions used for operations	512,672	-	-	-	-	-	512,672
Total unrestricted revenues, gains and other support	316,741,974	4,499,491	24,070,252	37,424,212	5,813,954	(36,772,623)	351,777,260
<b>Expenses and Losses</b>							
Salaries, wages and benefits	109,146,933	74,587	9,094,931	51,235,358	28,848	(4,495,724)	165,084,933
Purchased services and professional fees	15,532,500	9,871	290,418	5,803,686	6,875,320	(6,501,838)	22,009,957
Supplies and other	102,942,452	1,941,762	5,563,009	13,302,889	5,690	(25,775,061)	97,980,741
Depreciation and amortization	31,498,314	775,763	503,214	1,478,595	-	(356,135)	33,899,751
Interest and amortization of financing costs	10,361,756	1,780,792	-	-	-	(1,780,792)	10,361,756
Loss on disposal of property and equipment	197,214	-	776,885	14,750	-	-	988,849
Provider hospital assessment fee	15,297,367	-	-	-	-	-	15,297,367
Total expenses and losses	284,976,536	4,582,775	16,228,457	71,835,278	6,909,858	(38,909,550)	345,623,354
<b>Operating Income (Loss)</b>	31,765,438	(83,284)	7,841,795	(34,411,066)	(1,095,904)	2,136,927	6,153,906
<b>Other Income (Expense)</b>							
Investment return	24,798,453	4,657	3,832	-	-	(6,589,680)	18,217,262
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	(10,224,654)	-	-	-	-	-	(10,224,654)
Loss on bond refunding	(1,359,307)	-	-	-	-	-	(1,359,307)
Total other income	13,214,492	4,657	3,832	-	-	(6,589,680)	6,633,301
<b>Excess (Deficiency) of Revenues Over Expenses</b>	44,979,930	(78,627)	7,845,627	(34,411,066)	(1,095,904)	(4,452,753)	12,787,207
<b>Other Changes in Unrestricted Net Assets</b>							
Change in fair value of interest rate swap agreement	845,245	-	-	-	-	-	845,245
Amortization of 2005 interest rate swap agreement	10,467,738	-	-	-	-	-	10,467,738
Net assets released from restriction used for purchase of property and equipment	381,689	-	-	-	-	-	381,689
Net loss arising during the period related to defined-benefit plans	(567,126)	-	-	-	-	-	(567,126)
Distributions	-	(425,990)	(9,440,724)	-	(50,000)	5,721,832	(4,194,882)
Other	-	-	-	-	-	(21,050)	(21,050)
Increase (decrease) in unrestricted net assets	56,107,476	(504,617)	(1,595,097)	(34,411,066)	(1,145,904)	1,248,029	19,698,821
<b>Temporarily Restricted Net Assets</b>							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	3,612,360	-	-	-	-	-	3,612,360
Net assets released from restriction	(894,361)	-	-	-	-	-	(894,361)
Decrease in temporarily restricted net assets	2,717,999	-	-	-	-	-	2,717,999
<b>Permanently Restricted Net Assets</b>							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	5,803	-	-	-	-	-	5,803
<b>Change in Net Assets</b>	58,831,278	(504,617)	(1,595,097)	(34,411,066)	(1,145,904)	1,248,029	22,422,623
<b>Net Assets, Beginning of Year</b>	376,666,288	(59,440)	4,749,082	(44,075,760)	1,422,841	(3,567,681)	335,135,330
<b>Net Assets, End of Year</b>	\$ 435,497,566	\$ (564,057)	\$ 3,153,985	\$ (78,486,826)	\$ 276,937	\$ (2,319,652)	\$ 357,557,953