



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

DELIVERED ELECTRONICALLY

July 17, 2019

Betty Kasparie, Vice President
Blessing Hospital
1005 Broadway Street
Quincy IL 62301

Re: Project #19-029 – Additional Information

Dear Betty:

1. Is "*Blessing Hospital ASTC*" a separate legal entity? If so they need to be a co-applicant? An entity entitled "*Blessing Hospital ASTC*" is the licensee that has been provided. Is there an address for the ASTC on the Hospital campus?
A. Blessing is not establishing a separate legal entity. The city has not assigned an address, so I showed proof of ownership documents of the land on Blessing's campus.
2. Page 51 of the Application for Permit Project Uses and Sources of Funds the totals do not agree. There is a \$60,000 difference. We need a new page 51.
A. There was a typo of a number in the sources section, the new page is attached.
3. Page 53 of the Application for Permit Cost Space Requirements the numbers do not foot. We need a new page 53 of the Application for Permit.
A. The numbers do foot. It appears you are adding in the subtotals with the totals as you are reviewing.
- B. Will the proposed ASTC be in an existing building or is a building going to be constructed for the ASTC? If the building is to be constructed is there a basement or more than the two levels identified in the Application for Permit?
A. It will be in new construction, two stories, no basement.
- C. Please complete the tables on pages 48 and 49 of the Application for Permit entitled "*Safety Net Information per PA 96-0031*" AND "*Charity Care.*"
A. This information can be found on page 229 of the application.
- D. Does Blessing intend to accredit the ASTC? And could you please provide Blessing Hospital's accreditation?
A. Yes, it is AAAHC: Accreditation Association for Ambulatory Health Care
- E. Please provide the expected payor mix for the ASTC?
A. We expect the payor mix to remain as it is today transferring to the new location.

Financial Class	% of Total
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Blessing Program	0.4%
Commercial	41.4%
Medicaid	9.8%
Medicare	46.3%
Other	1.4%
Self Pay	0.5%
Grand Total	100.0%

F. Please provide the most recent audited financial statements for Blessing Hospital.

A. **Attached**

G. Application for Permit Page 7: Project Uses and Sources of Funds requires as Attachment 7 itemization of each line item. Please provide this information.

A. **Attached**

Should you have any questions please do not hesitate to contact me at 217.782.3516 or by email at mike.constantino@illinois.gov

Sincerely,

Mike Constantino
Project Reviewer
Health Facilities and Services Review Board

BLESSING HOSPITAL
QUINCY, ILLINOIS
FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

I N D E X

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CERTIFIED PUBLIC ACCOUNTANTS

500 MAINE STREET

QUINCY, ILLINOIS 62301

(217) 222-0304 FAX (217) 222-1691

QUINCY, ILLINOIS
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Independent Auditors' Report

To the Board of Trustees of
Blessing Hospital

We have audited the accompanying financial statements of Blessing Hospital (a nonprofit health care entity), which comprise the balance sheets as of September 30, 2018 and 2017, and the related 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 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.

Auditors' 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 Blessing Hospital as of September 30, 2018 and 2017, 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.


Certified Public Accountants

Dated at Quincy, Illinois
January 9, 2019

**BLESSING HOSPITAL
BALANCE SHEETS
AS AT SEPTEMBER 30, 2018 AND 2017**

	As At September 30	
	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	\$ 95,242,772	\$ 55,716,216
Investments	171,310,915	154,375,650
Patient accounts receivable, net of allowance for doubtful accounts; 2018 - \$16,247,000; 2017 - \$13,983,000	50,362,553	60,536,041
Inventories - at lower of cost or market	7,189,486	6,648,882
Prepaid expenses	6,857,027	6,084,380
Due from related organizations	1,732,811	1,462,575
Other current assets	4,344,496	1,522,567
Total Current Assets	\$ 337,040,060	\$ 286,346,311
Other Assets:		
Interest in net assets of The Blessing Foundation, Inc.	\$ 38,008	\$ 429,139
Assets limited as to use:		
By board of trustees for self-insurance and other	\$ -	\$ 13,997,936
To pay retirement benefits	3,150,927	2,789,817
Other assets	1,935,167	1,788,249
Total assets limited as to use	\$ 5,086,094	\$ 18,576,002
Property, Plant And Equipment - Net	\$ 219,735,077	\$ 212,280,492
Other Noncurrent Assets:		
Receivables - related organizations	\$ -	\$ 644,399
Other notes receivable	8,858,392	7,483,191
Estimated insurance recoveries	1,648,833	2,939,274
Intangible assets	-	9,332,371
Total Other Noncurrent Assets	\$ 10,507,225	\$ 20,399,235
Total Assets	\$ 572,406,464	\$ 538,031,179
Liabilities and Net Assets		
Current Liabilities:		
Current installments of long-term debt	\$ 5,615,984	\$ 5,341,415
Accounts payable	14,412,036	12,854,101
Due to related organizations	596,330	10,500,000
Estimated third-party payor settlements - Medicare, Medicaid, Blue Cross	17,265,000	16,570,000
Retainage and construction accounts payable	2,980,031	4,679,029
Deferred revenue	3,040,152	3,068,990
Other accruals	28,593,604	24,032,000
Total Current Liabilities	\$ 72,503,137	\$ 77,045,535
Other Liabilities:		
Long-term debt, net of current portion and deferred financing costs	\$ 76,632,130	\$ 82,204,491
Estimated professional liability claims	14,414,050	14,475,029
Accrued pension costs	33,899,341	53,090,781
Other long-term liabilities	7,225,927	6,955,817
Total Other Liabilities	\$ 132,171,448	\$ 156,726,118
Total Liabilities	\$ 204,674,585	\$ 233,771,653
Net Assets:		
Unrestricted	\$ 363,146,242	\$ 300,036,889
Temporarily restricted	2,812,364	2,525,364
Permanently restricted	1,773,273	1,697,273
Total Net Assets	\$ 367,731,879	\$ 304,259,526
Total Liabilities And Net Assets	\$ 572,406,464	\$ 538,031,179

Exhibit "E", Notes To Financial Statements, is an integral part of this statement.

Exhibit "B"

BLESSING HOSPITAL
STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	Year Ended September 30	
	2018	2017
Unrestricted Revenues, Gains And Other Support:		
Net patient service revenue	\$ 425,000,363	\$ 376,193,843
Provision for bad debts	<u>(16,725,230)</u>	<u>(13,474,737)</u>
Net patient service revenue less provision for bad debts	\$ 408,275,133	\$ 362,719,106
Auxiliary services income	19,257,420	15,329,684
Net assets released from restrictions used for operations	<u>2,447,975</u>	<u>2,676,480</u>
Total Unrestricted Revenues, Gains And Other Support	\$ 429,980,528	\$ 380,725,270
Expenses:		
Salaries, wages and contract labor	\$ 136,562,929	\$ 117,886,494
Other operating expenses	183,307,259	173,705,166
Depreciation and amortization	17,235,452	15,481,555
Goodwill impairment	9,332,371	-
Interest expense	<u>2,166,968</u>	<u>2,262,247</u>
Total Expenses	\$ 348,604,979	\$ 309,335,462
Operating income	\$ 81,375,549	\$ 71,389,808
Investment income	<u>7,700,694</u>	<u>2,853,181</u>
Excess of revenues over expenses	\$ 89,076,243	\$ 74,242,989
Change in net unrealized gains and losses on other than trading securities	3,055,046	13,362,427
Net assets released from restrictions used for purchase of property and equipment	230,292	214,079
Transfers to parent	(41,891,805)	(41,653,314)
Pension liability adjustment	<u>12,639,577</u>	<u>3,365,925</u>
Increase (Decrease) In Unrestricted Net Assets	\$ 63,109,353	\$ 49,532,106

Exhibit "E", Notes To Financial Statements, is an integral part of this statement.

Exhibit "C"

BLESSING HOSPITAL
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>Year Ended September 30</u>	
	<u>2018</u>	<u>2017</u>
<u>Unrestricted Net Assets:</u>		
Excess of revenues over expenses	\$ 89,076,243	\$ 74,242,989
Change in net unrealized gains and losses on other than trading securities	3,055,046	13,362,427
Net assets released from restrictions used for purchase of property and equipment	230,292	214,079
Transfers to parent	(41,891,805)	(41,653,314)
Pension liability adjustment	<u>12,639,577</u>	<u>3,365,925</u>
<u>Increase (Decrease) In Unrestricted Net Assets</u>	\$ <u>63,109,353</u>	\$ <u>49,532,106</u>
<u>Temporarily Restricted Net Assets:</u>		
Contributions	\$ 2,900,263	\$ 2,989,431
Net realized and unrealized gains (losses) on investments	65,004	(49,686)
Net assets released from restrictions	<u>(2,678,267)</u>	<u>(2,890,559)</u>
<u>Increase (Decrease) In Temporarily Restricted Net Assets</u>	\$ <u>287,000</u>	\$ <u>49,186</u>
<u>Permanently Restricted Net Assets:</u>		
Contributions	\$ 76,000	\$ -
Net realized and unrealized gains (losses) on investments	<u>-</u>	<u>-</u>
<u>Increase (Decrease) In Permanently Restricted Net Assets</u>	\$ <u>76,000</u>	\$ <u>-</u>
<u>Increase (Decrease) In Net Assets</u>	\$ 63,472,353	\$ 49,581,292
<u>Net Assets, Beginning Of Year</u>	<u>304,259,526</u>	<u>254,678,234</u>
<u>Net Assets, End Of Year</u>	\$ <u>367,731,879</u>	\$ <u>304,259,526</u>

Exhibit "E", Notes To Financial Statements, is an integral part of this statement.

BLESSING HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>Year Ended September 30</u>	
	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 63,472,353	\$ 49,581,292
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,235,452	15,481,555
Amortization of deferred financing costs and bond premium	138,095	38,458
Provision for bad debts	16,725,230	13,474,737
(Gain) loss on disposal of property and equipment	277,459	816,435
Loss on related party loan	644,399	-
Goodwill impairment	9,332,371	-
Net realized and unrealized (gains) losses on investments other than trading securities	(8,638,581)	(14,486,271)
Undistributed portion of change in interest in net assets of The Blessing Foundation, Inc.	391,131	570,655
Transfers to parent	41,891,805	41,653,314
Restricted contributions	(2,976,263)	(2,989,431)
(Increase) decrease in patient accounts receivable	(6,551,742)	(22,133,823)
(Increase) decrease in inventories	(540,604)	204,402
(Increase) decrease in prepaid expenses	(772,647)	(1,320,635)
(Increase) decrease in other current assets and due to (from) related organizations	(10,967,467)	10,454,885
(Increase) decrease in other notes receivable	(1,375,201)	(1,649,615)
(Increase) decrease in estimated insurance recoveries	(737,927)	(210,576)
Increase (decrease) in accounts payable	1,557,935	(2,684,698)
Increase (decrease) in other current accruals	3,861,604	(2,494,506)
Increase (decrease) in estimated professional liability claims	639,021	1,835,109
Increase (decrease) in accrued pension cost	(19,191,440)	(4,871,407)
Increase (decrease) in estimated third-party payor settlements	695,000	4,824,000
Increase (decrease) in deferred revenue	(119,838)	1,019,861
Increase (decrease) in other long-term liabilities	361,110	424,337
Net Cash Provided (Used) By Operating Activities	\$ 105,351,255	\$ 87,538,078
Cash Flows From Investing Activities:		
Purchase of property and equipment	\$ (24,967,496)	\$ (31,642,185)
Sales of investments	54,783,839	51,165,380
Purchase of investments	(49,590,615)	(52,747,638)
Repayment of related party loan	-	25,188
Purchase of intangibles and deferred financing costs	(22,600)	(1,000)
Net Cash Provided (Used) By Investing Activities	\$ (19,796,872)	\$ (33,200,255)
Cash Flows From Financing Activities:		
Transfers to parent	\$ (41,891,805)	\$ (41,653,314)
Restricted contributions	2,976,263	2,989,431
Increase (decrease) in retainage and construction accounts payable	(1,698,998)	(1,785,541)
Proceeds from issuance of long-term debt	15,955,000	-
Repayment of long-term debt	(21,368,287)	(4,993,449)
Net Cash Provided (Used) By Financing Activities	\$ (46,027,827)	\$ (45,442,873)
Net Increase (Decrease) In Cash And Cash Equivalents	\$ 39,526,556	\$ 8,894,950
Cash And Cash Equivalents At Beginning Of Year	55,716,216	46,821,266
Cash And Cash Equivalents At End of Year	\$ 95,242,772	\$ 55,716,216

Supplemental Disclosure Of Cash Flow Information:

Cash paid for interest for the years ended September 30, 2018 and 2017 was \$2,410,654 and \$2,457,256, respectively.
Interest capitalized for the years ended September 30, 2018 and 2017 was \$109,988 and \$180,242, respectively.

Exhibit "E", Notes To Financial Statements, is an integral part of this statement.

BLESSING HOSPITAL
NOTES TO FINANCIAL STATEMENTS

Note (1) Description Of Organization And Summary Of Significant Accounting Policies

Organization - Blessing Hospital (Hospital), located in Quincy, Illinois, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient and emergency care services for residents of western Illinois, northeastern Missouri, and southern Iowa. Admitting physicians are primarily practitioners in the local area. The Hospital was incorporated in Illinois in 1875 and is a member of a group of related organizations (See Note 15).

Use of estimates - Preparation of the Hospital's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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. These estimates are based on historical experience and information that is available to management about current events and actions the Hospital may take in the future. Significant items subject to estimates and assumptions include depreciable lives and carrying values of long-lived assets; valuation allowances for receivables; the liability for third-party payor settlements - Medicare, Medicaid, and Blue Cross; the liabilities for employee healthcare, workers' compensation, and professional liability claims; other estimated third party liabilities; and obligations related to the Hospital's defined benefit plan. Actual results could differ from these estimates.

Cash and cash equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payers.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the balance sheet. Investments also include investments in alternative assets, such as hedge funds structured as limited liability corporations or partnerships. These funds are carried at net asset value. The estimated fair value of these alternative investments is based on the most recent valuations provided by external investment managers. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities. The Hospital routinely invests its surplus operating funds in certificates of deposit.

Assets limited as to use - Assets limited as to use primarily include assets held by trustees under indenture agreements, assets restricted to pay retirement benefits, assets restricted by donors, and designated assets set aside by the Board of Trustees for future capital improvements and self-insurance trust arrangements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Property and equipment - Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Note (1) Description Of Organization And Summary Of Significant Accounting Policies (Cont'd.)

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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.

Excess of revenues over expenses - The 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 unrealized gains and losses on investments other than trading securities, permanent transfers of assets 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 purposes of acquiring such assets).

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. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. See Note (2) for the total amount of charity care.

Donor-restricted gifts - Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as restricted contributions and a subsequent release of restrictions in the accompanying financial statements (See Note 13).

Estimated professional liability costs - The provision for estimated professional liability claims includes estimates of the ultimate costs for both actual reported claims and potential claims incurred but not reported.

Income taxes - The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The tax years from 2014 through 2017 remain open for review by the taxing authorities.

Note (1) Description Of Organization And Summary Of Significant Accounting Policies (Cont'd.)

Other long-term liabilities - The provision for other long-term liabilities includes the Hospital's estimate of potential liability for future adjustments of prior billings.

Patient accounts receivable - The Hospital provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Hospital's estimate is based on historical collection experience and a review of the current status of patient accounts receivable. It is reasonably possible that the Hospital's estimate of the allowance for doubtful accounts will change. The Hospital considers accounts receivable to be past due one month after initial billing and charges off accounts when turned over to collection.

Notes receivable - Notes receivable include amounts due from employees, physicians, and Blessing-Rieman College of Nursing students. Notes receivable are stated at unpaid principal balances with an allowance for uncollectible accounts. Notes due from employees and physicians bear interest at a rate equal to the prime rate plus 1% and are eligible for forgiveness as the borrower completes specified years of service with the Hospital. All student notes are on non-accrual status because management believes, in general, student's economic conditions, business conditions, and past collection efforts, show that collection of interest is doubtful. Interest on loans is recognized only to the extent cash payments are received and is calculated using the simple interest method on principal amounts outstanding. These notes' past due status is based on the contractual terms of the notes.

Deferred financing costs - Deferred financing costs are netted against long term debt and amortized over the period the obligation is outstanding using the interest method.

Intangible assets - Intangible assets are evaluated for impairment on a periodic basis.

Inventories - Inventories consist principally of medical supplies and pharmaceuticals and are valued at the lower of cost or net realizable value, following the first-in, first-out method.

New accounting standards adopted - In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment*. The provisions of this ASU eliminate the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new ASU, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The new standard is effective for goodwill impairment tests in fiscal years beginning after December 15, 2021, and should be applied on a prospective basis. Early adoption is permitted for goodwill impairment testing performed after January 1, 2017. Blessing Hospital early adopted this guidance as of September 30, 2018 and applied it to the goodwill impairment recognized during the year (See Note (7)).

Subsequent events - Subsequent events have been evaluated through January 9, 2019, which is the date the financial statements were available to be issued.

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. A summary of the payment arrangements with major third-party payers follows:

Medicare - Inpatient acute care services and inpatient rehabilitation 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. Inpatient psychiatric services are paid at prospectively determined per diem rates that are based on clinical, diagnostic, and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Substantially all outpatient services are paid at prospectively determined rates. Certain medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology with certain limitations. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a quality improvement organization under contract with the Hospital. The Hospital's Medicare cost reports have been finalized by the Medicare fiscal intermediary through September 30, 2011.

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge or prospectively determined daily rates based on the services rendered. Outpatient services are reimbursed based upon a payment schedule by type of service. The Hospital's Medicaid cost reports have been finalized by the Medicaid fiscal intermediary through September 30, 2010.

Revenue from the Medicare and Medicaid programs accounted for approximately 26 percent and 11 percent, respectively, of the Hospital's net patient revenue for the year ended September 30, 2018, and 28 percent and 9 percent, respectively, of the Hospital's net patient revenue for the year ended September 30, 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Noncompliance with Medicare and Medicaid laws and regulations can make the Hospital subject to significant regulatory action, including substantial fines and penalties, as well as exclusion from the Medicare and Medicaid programs. For the years ended September 30, 2018 and 2017, net patient service revenue decreased \$190,000 and \$1,330,000, respectively, due to changes in estimated payment related to third-party payors and certain historical cost report periods, excluding the Recovery Audit program.

Under Section 302 of the Tax Relief and Health Care Act of 2006, Congress required the Secretary of the Department of Health and Human Services to institute a permanent and national Recovery Audit program to recoup overpayments associated with services for which payment is made under part A or B of title XVIII of the Social Security Act. Under the Recovery Audit program, Blessing Hospital, like other healthcare providers, experiences withholding of payments from the Medicare program for a variety of circumstances that result in uncertainty in the estimated realization of both current receivables and previously collected amounts. Accordingly, the Hospital estimates the impact, on a net basis, of amounts that may be withheld or recouped under the Recovery Audit program and amounts previously withheld or recouped inappropriately that are due to the Hospital. Net patient service revenue and operating income for September 30, 2018 and 2017 did not change due to changes in estimated liabilities under the Recovery Audit contractor program.

The Hospital also 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.

Note (2) Net Patient Service Revenue (Cont'd.)

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than their established rates. The Hospital does not pursue collection of amounts determined to qualify as charity care so they are not reported as net patient service revenue. The amounts of direct and indirect costs for services and supplies furnished under the Hospital's charity care policy totaled approximately \$6,439,604 and \$6,158,264 for the years ended September 30, 2018 and 2017, respectively, and is based on a ratio of the Hospital's costs to its gross charges.

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 that 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.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the years ended September 30, 2018 and 2017, respectively, is approximately:

	<u>Year Ended September 30</u>	
	<u>2018</u>	<u>2017</u>
Medicare	\$ 110,804,849	\$ 106,928,500
Medicaid	47,081,181	33,166,788
Commercial insurance	251,634,195	227,261,815
Self-pay	<u>15,480,138</u>	<u>8,836,740</u>
Net patient service revenue	<u>\$ 425,000,363</u>	<u>\$ 376,193,843</u>

Note (3) Patient Accounts Receivable

Patient 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 bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

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

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

Note (3) Patient Accounts Receivable (Cont'd.)

The Hospital's allowance for doubtful accounts for self-pay patients was 81% and 77% of self-pay accounts receivable at September 30, 2018 and 2017, respectively. The Hospital's self-pay write-offs increased from \$14,514,553 for the year ended September 30, 2017 to \$18,953,917 for the year ended September 30, 2018. This increase is due to an increase in volumes and reflects a fairly consistent payer mix. The Hospital has not changed its charity care or uninsured discount policies during the years ended September 30, 2018 and 2017. The Hospital does not maintain a material allowance for doubtful accounts from third-party payers nor did it have significant bad debt write-offs from third-party payers.

Note (4) Investments

The following is a summary of the composition of investments as of September 30, 2018 and 2017:

	As Of September 30	
	2018	2017
	Fair Value	Fair Value
Marketable Equity Securities	\$ 82,453,000	\$ 79,458,456
Government Bonds	10,223,714	8,649,794
Government Backed Securities	2,627,547	3,067,116
Corporate Mortgage/Asset Backed Securities	7,858,403	7,735,524
Foreign Bonds	739,118	738,109
Corporate Bonds	15,119,360	16,536,617
Money Market Accounts	52,518	344,988
Mutual Funds	35,354,019	36,816,683
Managed Futures/Hedge Funds	2,124,738	2,069,445
Certificates Of Deposits	15,232,115	13,183,666
Other Assets	4,612,477	4,351,254
Total	\$ 176,397,009	\$ 172,951,652

The following is a summary of investments included in the Balance Sheets:

	2018	2017
Classified as current	\$ 171,310,915	\$ 154,375,650
Assets whose use is limited:		
By board of trustees for self-insurance and other	-	13,997,936
Under bond indenture agreement by trustee	-	268
Assets held to pay retirement benefits	3,150,927	2,789,817
By donor:		
Endowment assets	1,773,273	1,697,273
Specific purpose assets	161,894	90,708
Classified as noncurrent	-	-
Total	\$ 176,397,009	\$ 172,951,652

Note (4) Investments (Cont'd.)

Subsequent to September 30, 2018, the fair value of the Hospital's investments declined by approximately \$10 million.

Investment income and gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ending September 30, 2018 and 2017:

	Year Ending September 30	
	2018	2017
	<u>Fair Value</u>	<u>Fair Value</u>
Investment Income:		
Interest and dividend income	\$ 3,339,100	\$ 3,342,141
Investment fees	(714,219)	(671,043)
Realized gains (losses) on sales of securities	5,353,272	998,518
Gain (loss) on sale of fixed assets	<u>(277,459)</u>	<u>(816,435)</u>
	\$ <u>7,700,694</u>	\$ <u>2,853,181</u>
Other Changes in Unrestricted Net Assets:		
Change in net unrealized gains (losses) on other than trading securities	\$ <u>3,055,046</u>	\$ <u>13,362,427</u>
Other Changes in Temporarily Restricted Net Assets:		
Change in net unrealized gains (losses) on other than trading securities	\$ <u>65,004</u>	\$ <u>(49,686)</u>

Note (5) Inventories

Inventories consist of the following:

	As Of September 30	
	2018	2017
Surgery and anesthesia	\$ 4,161,799	\$ 4,064,945
Pharmacy and intravenous	1,837,276	1,444,802
Storeroom	173,127	115,882
Laboratory	225,471	235,331
Supplies processing development	236,876	142,383
Cardiology	475,176	508,367
Radiology	<u>79,761</u>	<u>137,172</u>
Total	\$ <u>7,189,486</u>	\$ <u>6,648,882</u>

Note (6) Property, Plant, And Equipment

Property, plant, and equipment consist of the following:

	As Of September 30	
	2018	2017
Land	\$ 14,452,937	\$ 14,395,667
Land improvements	8,032,868	7,183,114
Buildings and building equipment	219,923,308	208,396,215
Furniture, fixtures and equipment	169,175,889	156,130,433
Construction in progress	6,760,205	12,736,548
	<u>\$ 418,345,207</u>	<u>\$ 398,841,977</u>
Less accumulated depreciation	<u>(198,610,130)</u>	<u>(186,561,485)</u>
Total	<u>\$ 219,735,077</u>	<u>\$ 212,280,492</u>

Property, plant and equipment in the amount of \$2,913,169 are held under capital lease at both September 30, 2018 and 2017. The related accumulated amortization for equipment under capital lease obligations was \$1,295,811 and \$1,095,291 at September 30, 2018 and 2017, respectively.

During the year ended September 30, 2017, Blessing Hospital vacated a facility and demolished it during the year ended September 30, 2018. During the year ended September 30, 2017, assets of the facility totaling \$13,017,802 with related accumulated depreciation of \$12,272,237 were written off, resulting in a loss of \$745,565 which is included in 'Investment income' on the Statement of Operations. Demolition expenses of \$2,236,996 are included in 'Other operating expenses' for the year ended September 30, 2018.

The Hospital capitalizes interest cost on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. During the years ended September 30, 2018 and 2017, the Hospital capitalized \$109,988 and \$180,242 of interest, respectively, in connection with various capital expansion projects.

Note (7) Intangible Assets

Intangible assets consisted of the following at September 30, 2018 and 2017:

	As Of September 30	
	2018	2017
Goodwill	\$ 12,740,276	\$ 12,740,276
Accumulated amortization	(3,407,905)	(3,407,905)
Goodwill impairment	<u>(9,332,371)</u>	<u>-</u>
Total	<u>\$ -</u>	<u>\$ 9,332,371</u>

All goodwill is allocated to a surgery center. Due to increased competition in the market, operating profits and cash flows of the surgery center are expected to decrease in the future. As a result, the fair value of the reporting unit was estimated to be fully impaired as of September 30, 2018, and the Hospital recognized an impairment loss of \$9,332,371 at that date.

Note (7) Intangible Assets (Cont'd.)

Deferred financing costs are netted against long-term debt and consisted of the following at September 30, 2018 and 2017:

	As Of September 30	
	2018	2017
Deferred financing costs	\$ 654,031	\$ 631,431
Accumulated amortization	(370,129)	(232,034)
Total	\$ 283,902	\$ 399,397

Amortization of intangible assets amounted to \$138,095 and \$38,458 for the years ended September 30, 2018 and 2017, respectively.

The following is a schedule of amortization of deferred financing costs for the next five years:

2019	\$ 30,733
2020	29,174
2021	28,020
2022	26,814
2023	25,549
Total	\$ 140,290

Advertising costs are expensed as incurred. Advertising expense totaled \$959,916 and \$386,152 for the years ended September 30, 2018 and 2017, respectively.

Note (8) Other Accruals

Other accruals consist of the following:

	As Of September 30	
	2018	2017
Salaries, wages, and paid time off	\$ 19,577,713	\$ 16,482,889
Payroll taxes and other withholding	1,502,870	657,386
Deferred compensation - current	136,317	390,742
Accrued interest	480,709	633,159
Employee healthcare claims	2,939,294	3,038,445
Workers' compensation claims	1,456,701	1,029,379
Professional liability claims - current	2,500,000	1,800,000
Total	\$ 28,593,604	\$ 24,032,000

Note (9) Commitments and Contingencies

The Hospital has adopted a plan of self-insurance for certain liability coverage. The Hospital is periodically involved in litigation and regulatory investigations arising in the course of business. Under this plan, the Hospital is self-insured with respect to a primary layer of coverage for medical professional and general liability claims. Losses from asserted claims and from unasserted claims identified under the Hospital's incident reporting system are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The Hospital has employed independent actuaries to estimate the ultimate costs, if any, of the settlement and defense costs of these claims. Gross malpractice losses totaling \$16,673,258 and \$15,385,128, respectively, have been discounted at six percent for the years ending September 30, 2018 and 2017 and in management's opinion provide an adequate reserve for loss contingencies. The Hospital has certain claims-made commercial insurance coverage for claims exceeding the self-insurance layer. At September 30, 2018 and 2017, the Balance Sheet includes current estimated insurance recoveries of \$600,000 and \$-0-, respectively, and noncurrent estimated insurance recoveries of \$1,648,833 and \$2,939,274, respectively, for the estimated amount of the liability that would be recoverable under the commercial insurance plan.

The Hospital has established a revocable trust fund for the payment of professional liability and general claim settlements. The professional actuarial consultants have assisted the Hospital with determining amounts to be deposited in the trust fund. On August 20, 2018, the board of trustees adopted a resolution to terminate the trust fund and transfer the assets to Blessing Corporate Services, Inc. in connection with the establishment of a captive insurance company. Subsequent to September 30, 2018, Blessing Assurance Company was established, and Blessing Hospital plans to transfer assets previously designated for self-insurance to it during the year ending September 30, 2019.

Blessing Hospital has entered into purchase commitments until 2020 to acquire computer software and licensing, with approximately \$2.2 million of those commitments remaining at year end. The Hospital has entered into purchase commitments through March 2022 for medical services, with approximately \$40 million of those commitments remaining at year end. The Hospital has also entered into an agreement with Blessing Corporate Services, Inc. for management services for approximately \$15 million for the year ending September 30, 2019. During the year ended September 30, 2018, the Hospital signed contracts for approximately \$26.4 million for construction of a medical facility and approximately \$32.7 million for construction of an addition to the hospital. At September 30, 2018, approximately \$24.4 million and \$32.7 million, respectively, remained to be paid on the contracts.

The Hospital has entered into an agreement with a bank to guarantee loans between patients of the Hospital and the bank. The Hospital agrees to purchase these loans if the patients default and must maintain deposits with the bank equal to ten percent of the outstanding loan principal balance of the loan portfolio. The Hospital guarantees patient loans made under the agreement until they are paid in full. Patient loans purchased by the Hospital under the agreement are subject to normal collection procedures by the entity. At September 30, 2018 and 2017, the amount of patient loans outstanding with the bank and guaranteed by the Hospital totaled \$1,774,183 and \$1,559,537, respectively.

During the year ended September 30, 2018, Blessing Hospital entered into an agreement to guarantee a \$20 million loan entered into by its sole corporate member, Blessing Corporate Services, Inc. The loan matures in full on December 29, 2020. Examples of events that would require the Hospital to provide a cash payment pursuant to the guarantee include a loan default, which would result from the borrower's failure to service its debt when due or non-compliance with covenants. In accordance with generally accepted accounting principles, there is currently no recorded liability for potential losses or funding required under this related party guarantee. The guarantee is secured by a note issued under the Hospital's master trust indenture which includes the Hospital's gross receipts as collateral.

Note (10) Pension Plan

The Hospital sponsors a defined contribution 403(b) plan. Substantially all employees are eligible to participate in the plan. Prior to January 1, 2017, the Hospital made matching contributions to this plan based on a 25% match of employee's contributions up to 1.25% of an employee's compensation. Effective January 1, 2017, the Hospital amended the plan to make matching contributions to this plan based on a 100% match of employee's contributions up to 5% of an employee's compensation. The Hospital's matching contributions to this plan amounted to \$4,995,146 and \$4,656,203 for the years ended September 30, 2018 and 2017, respectively. For calendar year 2016, the Hospital also made a nonelective contribution to this plan for eligible employees of 3% of the employee's compensation. This totaled \$140,742 for the year ending September 30, 2017. Effective January 1, 2017, the plan was amended to no longer include an employer nonelective contribution.

The Hospital also has a noncontributory defined benefit pension plan. The defined benefit plan was amended effective March 31, 2007 to freeze benefit accruals for active participants hired on or after April 1, 2002 and to freeze participation in the plan as of March 31, 2007. On August 31, 2016, the Plan was amended to freeze the monthly accrued benefit of all participants as of December 31, 2016. Consequently, the accrued benefit of each participant will not increase as the result of continued service, increased compensation, or for any other reason after December 31, 2016. The Hospital's funding policy is to contribute the amount necessary to meet the funding requirements as defined by the Internal Revenue Code.

The Hospital uses a September 30 measurement date for the defined benefit plan. Calculations have been updated to reflect the freezing of benefit accruals in the plan effective December 31, 2016. The following tables set forth the benefit obligation, fair value of plan assets, and the funded status of the Hospital's plan; amounts recognized in the Hospital's financial statements; and the principal weighted-average assumptions used:

	<u>Year Ended September 30</u>	
	<u>2018</u>	<u>2017</u>
<u>Change In Benefit Obligation:</u>		
Benefit obligation at Beginning of Year	\$ 171,167,125	\$ 164,903,154
Service cost	-	1,167,109
Interest cost	6,720,029	6,197,028
Actuarial (gains)/losses	(9,807,082)	4,190,565
Benefits paid	<u>(5,914,450)</u>	<u>(5,290,731)</u>
<u>Benefit Obligation At End Of Year</u>	<u>\$ 162,165,622</u>	<u>\$ 171,167,125</u>
<u>Change In Plan Assets:</u>		
Fair value of plan assets at Beginning of Year	\$ 118,076,344	\$ 106,940,966
Actual return on plan assets	10,204,387	14,051,109
Employer contribution	5,900,000	2,375,000
Benefits paid	<u>(5,914,450)</u>	<u>(5,290,731)</u>
<u>Fair Value Of Plan Assets At End Of Year</u>	<u>\$ 128,266,281</u>	<u>\$ 118,076,344</u>
<u>Funded Status</u>	<u>\$ (33,899,341)</u>	<u>\$ (53,090,781)</u>

Note (10) Pension Plan (Cont'd.)

Amounts recognized in the Balance Sheet consist of:

	Year Ended September 30	
	2018	2017
Noncurrent assets	\$ -	\$ -
Current liabilities	-	-
Noncurrent liabilities	<u>(33,899,341)</u>	<u>(53,090,781)</u>
Net Amount Recognized in Balance Sheet	\$ <u>(33,899,341)</u>	\$ <u>(53,090,781)</u>

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

	Year Ended September 30	
	2018	2017
Net actuarial loss (gain)	\$ 42,017,705	\$ 54,657,282
Prior service cost (credit)	-	-
Net initial obligation (asset)	<u>-</u>	<u>-</u>
Total	\$ <u>42,017,705</u>	\$ <u>54,657,282</u>

Components of net periodic benefit cost are as follows:

	Year Ended September 30	
	2018	2017
Net Periodic Benefit Cost:		
Service cost	\$ -	\$ 1,167,109
Interest cost	6,720,029	6,197,028
Expected return on assets	(8,671,323)	(7,900,132)
Amortization of net (gain) loss	<u>1,299,431</u>	<u>1,405,513</u>
Net periodic benefit cost	\$ <u>(651,863)</u>	\$ <u>869,518</u>

Note (10) Pension Plan (Cont'd.)

Other changes in net assets not yet included in net periodic benefit cost and reclassifications to net periodic benefit cost of amounts previously recognized as changes in unrestricted net assets but not included in net periodic benefit cost when they arose:

	Year Ended September 30	
	2018	2017
Other changes in unrestricted net assets:		
Net (gain) loss	\$ (11,340,146)	\$ (1,960,412)
Recognized (gain) loss	<u>(1,299,431)</u>	<u>(1,405,513)</u>
Total of other changes in unrestricted net assets	\$ <u>(12,639,577)</u>	\$ <u>(3,365,925)</u>
Total amounts recognized as changes in unrestricted net assets arising from a defined benefit plan	\$ <u>(13,291,440)</u>	\$ <u>(2,496,407)</u>

During 2018 the plan's total unrecognized net loss decreased by \$12.6 million largely due to favorable asset return, higher discount rate and miscellaneous experience. The variance between the actual and expected return on plan assets during 2018 decreased the total unrecognized net loss by \$1.5 million. Because the total unrecognized net gain or loss exceeds the greater of 10% of the projected benefit obligation or 10% of the plan assets, the excess will be amortized over the average expected future working lifetime of active and inactive plan participants. As of October 1, 2017 the average expected future working lifetime of active plan participants was 28.89 years. Actual results for 2018 will depend on the 2018 actuarial valuation of the plan.

Amounts expected to be recognized in net periodic cost in the coming year are as follows:

	Year Ended September 30	
	2018	2017
(Gain)/loss recognition	\$ 938,223	\$ 1,299,431
Prior service cost recognition	-	-

The following table summarizes the Hospital sponsored pension plan that has an accumulated benefit obligation in excess of plan assets:

	Year Ended September 30	
	2018	2017
Projected benefit obligation	\$ 162,165,622	\$ 171,167,125
Accumulated benefit obligation	162,165,622	171,167,125
Fair value of plan assets	128,266,281	118,076,344

Note (10) Pension Plan (Cont'd.)

The following are weighted-average assumptions used to determine benefit obligations and net periodic benefit cost at September 30, 2018 and 2017:

	Year Ended September 30	
	2018	2017
Actuarial Assumptions Used To Determine Benefit Obligations:		
Discount rate	4.32%	3.99%
Rate of Compensation Increase	0.00%	0.00%
Mortality	MP-2016	MP-2016
Actuarial Assumptions Used To Determine Net Periodic Benefit Cost:		
Discount rate	3.99%	3.82%
Expected Return on Plan Assets	7.50%	7.50%
Rate of Compensation Increase	N/A	2.50%

The change in unrecognized net gain/loss is one measure of the degree to which important assumptions have coincided with actual experience. During 2018 the unrecognized net loss decreased by 7.4% of the September 30, 2017 projected benefit obligation. The Hospital changes important assumptions whenever changing conditions warrant. The discount rate is typically changed at least annually and the expected long-term return on plan assets will typically be revised every three to five years. Other material assumptions include the compensation increase rates, rates of employee termination, and rates of participant mortality.

The discount rate was determined by projecting the plan's expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, and solving for a single equivalent discount rate that resulted in the same projected benefit obligation. A 1% increase in the discount rate would have decreased the net periodic benefit cost for fiscal year 2018 by \$17,000 and decreased the year-end projected benefit obligation by \$19.4 million. A 1% decrease in the discount rate would have decreased the net periodic benefit cost for fiscal year 2018 by \$94,000 and increased the year-end projected benefit obligation by \$24 million.

The Hospital's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plan's asset allocation and liability structure over a long-term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on plan assets was determined based on historical and expected future returns of the various asset classes, using the target allocations described below.

The Hospital's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges (described below) by major asset categories.

The target allocations for plan assets are 70% equity securities and 30% debt securities. The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters and achieve asset returns that meet or exceed the plan's actuarial assumptions.

The investment policy is periodically reviewed by the Hospital and a designated third-party fiduciary for investment matters. The policy is established and administered in a manner to comply at all times with applicable government regulations.

Note (10) Pension Plan (Cont'd.)

The fair value of the Hospital's pension plan assets at September 30, 2018, by asset class are as follows:

	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total
Cash	\$ 7,779,350	\$ -	\$ -	\$ 7,779,350
Equity securities:				
U.S. large-cap value	18,693,464	-	-	18,693,464
U.S. large-cap growth	19,021,701	-	-	19,021,701
U.S. small-cap value	6,959,719	-	-	6,959,719
Small-cap growth	10,509,437	-	-	10,509,437
U.S. mid-cap core	12,019,671	-	-	12,019,671
International	22,100,163	-	-	22,100,163
Fixed income securities:				
Corporate bonds	-	10,506,961	-	10,506,961
Government bonds	-	9,159,262	-	9,159,262
Asset-backed securities	-	9,484,918	-	9,484,918
Foreign bonds	270,805	-	-	270,805
Mutual fund	1,502,584	-	-	1,502,584
Other	258,246	-	-	258,246
Total	\$ 99,115,140	\$ 29,151,141	\$ -	\$ 128,266,281

The fair value of the Hospital's pension plan assets at September 30, 2017, by asset class are as follows:

	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total
Cash	\$ 3,104,020	\$ -	\$ -	\$ 3,104,020
Equity securities:				
U.S. large-cap value	17,315,020	-	-	17,315,020
U.S. large-cap growth	18,074,554	-	-	18,074,554
U.S. small-cap value	7,374,864	-	-	7,374,864
Small-cap growth	10,144,236	-	-	10,144,236
U.S. mid-cap core	11,540,867	-	-	11,540,867
International	21,646,308	-	-	21,646,308
Fixed income securities:				
Corporate bonds	-	9,912,694	-	9,912,694
Government bonds	-	7,189,657	-	7,189,657
Asset-backed securities	-	9,825,042	-	9,825,042
Foreign bonds	219,322	-	-	219,322
Mutual fund	1,550,463	-	-	1,550,463
Other	100,779	-	-	100,779
Taxable Municipal Bond	78,518	-	-	78,518
Total	\$ 91,148,951	\$ 26,927,393	\$ -	\$ 118,076,344

Note (10) Pension Plan (Cont'd.)

The Hospital expects to contribute \$6.3 million to the plan during the upcoming year. Funding requirements for subsequent time periods are uncertain and will significantly depend on whether the plan's actuary changes any assumptions used to calculate plan funding levels, the actual return on plan assets, changes in the employee groups covered by the plan, and any legislative or regulatory changes affecting plan funding requirements. For financial planning, cash flow management or cost reduction purposes the Hospital may increase, accelerate, decrease, or delay contributions to the plan to the extent permitted by law.

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

2019	\$	6,212,136
2020		6,717,758
2021		7,173,831
2022		7,638,910
2023		8,087,224
Years 2024-2028		45,812,635

Note (11) Non-Qualified Deferred Compensation Plans

The Hospital sponsors a 457(b) retirement plan for the benefit of a group of designated employees. The assets of the plan are subject to the general creditors of the Hospital; thus, the assets are reported as noncurrent assets on the balance sheet with a corresponding noncurrent liability.

Note (12) Long-term Debt

Long-term debt consists of the following at September 30:

	2018	2017
Revenue Refunding Bonds, Series 2012A (A)	\$ 28,625,000	\$ 29,445,000
Revenue Refunding Bonds, Series 2012B (B)	30,000,000	30,000,000
Revenue Bonds, Series 2017 (C)	15,955,000	-
Revenue Refunding Bonds, Series 2007 (D)	-	19,295,000
Series 2007 Premium (D)	-	275,695
Direct Note Obligation, Series 2008A (E)	6,868,134	7,594,159
Capital leases (F)	1,083,882	1,335,449
	<u>\$ 82,532,016</u>	<u>\$ 87,945,303</u>
Less deferred financing costs	<u>(283,902)</u>	<u>(399,397)</u>
Total	<u>\$ 82,248,114</u>	<u>\$ 87,545,906</u>

Note (12) Long-term Debt (Cont'd.)

- (A) During the year ended September 30, 2012, the Hospital issued through the City of Quincy, Illinois revenue bonds totaling \$32,785,000 entitled City of Quincy, Adams County, Illinois Revenue Refunding Bonds, Series 2012A (Blessing Hospital). The interest income on these bonds is considered to be exempt from federal taxation for bond holders. Net proceeds from the bond issue were \$32,620,418. Proceeds were reduced by \$164,582 for legal and accounting fees, trustees' fees, financial printing costs, and rating agency charges. These costs are netted against long-term debt on the balance sheet and are being amortized over the life of the bonds following the interest method. During the year ended September 30, 2012, proceeds of the bond issue were used to legally defease \$12,595,000 of Series 2004 bonds and \$20,000,000 of Series 2008 bonds. The bonds are due in annual payments through 2033 and bear interest at a variable rate based on LIBOR which is paid on a monthly basis. The bonds are collateralized by a pledge of the Hospital's gross receipts.
- (B) During the year ended September 30, 2012, the Hospital issued through the City of Quincy, Illinois revenue bonds with a maximum principal amount of \$30,000,000 entitled City of Quincy, Adams County, Illinois Revenue Bonds, Series 2012B (Blessing Hospital). The interest income on these bonds is considered to be exempt from federal taxation for bond holders. Proceeds were used for the acquisition, construction, and equipping of a patient care addition with borrowings drawn on the bonds as the project progresses. Net proceeds from the draws were \$29,831,914. Proceeds were reduced by \$168,086 for legal and accounting fees, trustees' fees, financial printing costs, and rating agency charges. These costs are netted against long-term debt on the balance sheet and are being amortized over the life of the bonds following the interest method. The bonds are due in annual payments beginning in 2020 through 2042 and bear interest at a variable rate which is paid on a semiannual basis. Through August 22, 2019, the bonds bear interest at an annual rate of 2.05%. The bonds are collateralized by a pledge of the Hospital's gross receipts.
- (C) During the year ended September 30, 2018, the Hospital issued through the City of Quincy, Illinois revenue bonds totaling \$15,955,000 entitled Illinois Finance Authority, Revenue Bond, Series 2017 (Blessing Hospital). The interest income on these bonds is considered to be exempt from federal taxation for bond holders. Net proceeds from the bond issue were \$15,807,413. Proceeds were reduced by \$147,588 for underwriter's discount and reimbursable expenses, legal and accounting fees, trustees' fees, financial printing costs, and rating agency charges. These costs were expensed as a loss on extinguishment of debt. Issuance costs of \$22,600 costs are netted against long-term debt on the balance sheet and are being amortized over the life of the bonds following the interest method. Proceeds of the bond issue were used to legally defease \$15,955,000 of Series 2007 bonds. The bonds are collateralized by a pledge of the Hospital's gross receipts. The bonds are due in annual payments through 2029 and bear interest at 3.1%, which is paid on a semiannual basis.
- (D) During the year ended September 30, 2007, the Hospital issued through the City of Quincy, Illinois revenue bonds totaling \$47,575,000 entitled City of Quincy, Adams County, Illinois Revenue Refunding Bonds, Series 2007 (Blessing Hospital). The interest income on these bonds is considered to be exempt from federal taxation for bond holders. Net proceeds from the bond issue were \$48,850,181, consisting of \$47,575,000 principal and \$1,275,181 net original issue premium. Proceeds were reduced by \$570,296 for underwriter's discount and reimbursable expenses, legal and accounting fees, trustees' fees, financial printing costs, and rating agency charges. These costs are netted against long-term debt on the balance sheet and are being amortized over the life of the bonds following the interest method. The net original issue premium is being amortized as a reduction in interest expense over the life of the bonds. During the year ended September 30, 2018, the bonds were defeased using proceeds from the 2017 bond issue (See (C) above). The remaining deferred issuance costs of \$119,344 and original issue premium of \$266,875 were recorded to gain/loss. The bonds are collateralized by a pledge of the Hospital's gross receipts. The bonds were due in annual payments through 2029 and bore interest at a variable rate which was paid on a semiannual basis. Until defeased, the bonds bore interest at an annual rate of 5%.

Note (12) Long-term Debt (Cont'd.)

- (E) On October 31, 2006, Blessing Hospital borrowed \$13,000,000 to purchase an ambulatory surgery center. The loan has been refinanced multiple times and currently bears interest at a fixed rate of 3.625% payable in monthly payments of \$83,349. The loan is collateralized by a pledge of the Hospital's unrestricted receivables. The allocation of the original purchase price was \$12,630,277 for goodwill, \$152,285 for fixed assets, and \$217,438 for inventory. The goodwill is included in intangible assets and was being amortized over fifteen years. Beginning October 1, 2010, goodwill is no longer being amortized but rather periodically tested for impairment as required under generally accepted accounting principles. As discussed in Note (7), an impairment loss was recorded during the year ended September 30, 2018.
- (F) The Hospital leases various medical equipment and building improvements under capital lease agreements.

The Hospital maintains an Obligated Group structure under its Master Indenture agreement, dated as of April 1, 2007. The Master Indenture permits the Hospital to issue Master Notes thereunder to evidence or secure additional indebtedness on behalf of the Obligated Group. Master Notes were issued for the 2017, 2012A, 2012B, 2008A, and 2007 obligations, as well as a related party guarantee (see Note (9)). The Master Indenture imposes various covenants and conditions on the Hospital, including limits on the incurrence of additional borrowings and requirements that the Hospital satisfy certain measures of financial performance. Management believes the Hospital is in compliance with these covenants and conditions as of September 30, 2018. In addition, under the terms of the indentures, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets whose use is limited in the financial statements.

Scheduled maturities on debt and capital lease obligations are as follows:

	<u>Long-Term Debt</u>	<u>Capital Lease Obligations</u>
2019	\$ 5,385,532	\$ 274,132
2020	3,098,653	250,200
2021	3,913,724	250,200
2022	4,114,327	250,200
2023	4,511,074	177,225
Later years	<u>60,424,825</u>	<u>-</u>
	<u>\$ 81,448,135</u>	<u>\$ 1,201,957</u>
Less unamortized deferred financing costs	<u>\$ (283,902)</u>	
	<u>\$ 81,164,233</u>	
Less amount representing interest under capital lease obligations		<u>\$ (118,075)</u>
		<u>\$ 1,083,882</u>

Note (13) Temporarily And Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2018 and 2017:

	<u>As Of September 30</u>	
	<u>2018</u>	<u>2017</u>
Resident Education	\$ -	\$ 3,258
Hospice	29,128	34,336
Blessing Rieman College of Nursing	128,040	148,435
Eno Bequest	24,621	33,020
Hospital Program Needs and Community Health Improvement	<u>2,630,575</u>	<u>2,306,315</u>
Total	\$ <u>2,812,364</u>	\$ <u>2,525,364</u>

Permanently restricted net assets at September 30, 2018 and 2017 are restricted to:

	<u>As Of September 30</u>	
	<u>2018</u>	<u>2017</u>
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as operating income)	\$ <u>1,773,273</u>	\$ <u>1,697,273</u>

Note (14) Endowment

The Hospital's endowment consists of a pool of investments established to provide income for purposes related to the Hospital. The endowment includes donor-restricted endowment funds. In accordance with the FASB Accounting Standards Codification, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment balance is included in net assets limited as to use in the balance sheets.

For the year ended September 30, 2018, the Hospital had the following endowment related activities:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ <u>90,708</u>	\$ <u>1,697,273</u>	\$ <u>1,787,981</u>
Investment Return:			
Investment Income	\$ -	\$ -	\$ -
Net Appreciation (Realized & Unrealized)	<u>65,004</u>	<u>-</u>	<u>65,004</u>
Total Investment Return	\$ <u>65,004</u>	\$ <u>-</u>	\$ <u>65,004</u>
Contributions	-	76,000	76,000
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment Net Assets, End of Year	\$ <u>155,712</u>	\$ <u>1,773,273</u>	\$ <u>1,928,985</u>

Note (14) Endowment (Cont'd.)

For the year ended September 30, 2017, the Hospital had the following endowment related activities:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 140,394	\$ 1,697,273	\$ 1,837,667
Investment Return:			
Investment Income	\$ -	\$ -	\$ -
Net Appreciation (Realized & Unrealized)	(49,686)	-	(49,686)
Total Investment Return	\$ (49,686)	\$ -	\$ (49,686)
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	-	-
Endowment Net Assets, End of Year	\$ 90,708	\$ 1,697,273	\$ 1,787,981

Interpretation of Relevant Law

On June 30, 2009, the State of Illinois repealed UMIFA and enacted the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA), which changes the standards for investing endowment funds and for determining amounts to be appropriated for expenditure. Management of the Hospital has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund,
- (2) The purposes of the Hospital and the donor-restricted endowment fund,
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of the Hospital, and
- (7) The investment policy of the Hospital.

Return Objectives and Risk Parameters

The Hospital has adopted investment and spending policies for endowment assets that attempt to maintain a sufficient liquidity to ensure the funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that meet or exceed (net of fees) the market index, or blended market index, as identified in the policy. The Hospital expects its endowment funds, over time, to provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

Note (14) Endowment (Cont'd.)Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation or depreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The primary objective of the endowment is to provide support of the operating needs of the Hospital. Consequently, the Hospital's spending policy provides for discretionary appropriations of investment return.

Note (15) Related Party Transactions

The Hospital is a member of a group of related organizations. Other members of the group and a summary of their functions are listed below:

Blessing Corporate Services, Inc. is the parent organization of the group and provides overall direction and control to all entities within the structure and operates a division of practicing physicians.

Blessing Affiliates, Inc. is currently inactive.

BlessingCare Corporation - Missouri is currently inactive.

BlessingCare Corporation - Illinois operates a not-for-profit acute care hospital in Pittsfield, Illinois.

The Blessing Foundation, Inc. provides financial support for services and programs promoting the improvement and availability of healthcare services within the community.

Denman Services, Inc. (a taxable corporation) engages in the business of selling and renting medical equipment and operating a commercial laundry and is a wholly owned subsidiary of Blessing Corporate Services, Inc.

Hannibal Clinic, Inc. (a taxable corporation) operates a physician clinic in Hannibal, Missouri and is a wholly owned subsidiary of Blessing Corporate Services, Inc.

CHS Holding Company (a taxable corporation) provides health insurance products and services through its subsidiaries (Current Health Administrators, LLC and Current Health Network, LLC). It is a wholly owned subsidiary of Blessing Corporate Services, Inc.

Blessing Walk-In Clinic, LLC operates health clinics in retail facilities and is a wholly owned subsidiary of Blessing Corporate Services, Inc.

Crossriver Quality Health Partners is a clinically integrated network focused on improving quality and efficiency of patient care across Illinois, Missouri, and Iowa. It is a wholly owned subsidiary of Blessing Corporate Services, Inc.

Illini Health Services, LLC operates a pharmacy business in Pittsfield, Illinois and is ninety-five percent owned by Denman Services, Inc. and five percent (5%) owned by BlessingCare Corporation - Illinois.

Northeast Missouri Ambulatory Surgery Center, LLC operates a surgery center in Hannibal, Missouri and is seventy percent owned by Hannibal Clinic, Inc.

Note (15) Related Party Transactions (Cont'd.)

Following is a summary of activity for the related organizations for the year ended September 30, 2018:

	The Blessing Foundation, Inc.	BlessingCare Corporation dba Illini Community Hospital	Blessing Corporate Services, Inc. and Subsidiaries*
Assets	\$ <u>49,879,619</u>	\$ <u>27,073,327</u>	\$ <u>68,309,518</u>
Liabilities	\$ <u>12,764,317</u>	\$ <u>8,266,364</u>	\$ <u>38,484,007</u>
Equity	\$ <u>37,115,302</u>	\$ <u>18,806,963</u>	\$ <u>29,825,511</u>
Increase (Decrease) In Net Assets For Year	\$ <u>1,595,099</u>	\$ <u>3,824,879</u>	\$ <u>6,719,338</u>
Accounts receivable (payable) by Blessing Hospital from (to) related organizations at September 30, 2018	\$ <u>116,812</u>	\$ <u>225,867</u>	\$ <u>786,205</u>

* Blessing Corporate Services, Inc. is the sole stockholder of Denman Services, Inc., Hannibal Clinic, Inc., CHS Holding Company, Blessing Walk-In Clinic, LLC, and Crossriver Quality Health Partners, and thus, records the investment in those entities using the equity method of accounting. Accordingly, Blessing Corporate Services, Inc. and Subsidiaries' financial information presented above includes the investment in those entities and the resulting income from equity in earnings from the subsidiaries.

**Blessing Affiliates, Inc. and BlessingCare Corporation - Missouri are not presented above as there is no financial activity.

During the years ended September 30, 2018 and 2017, the Hospital transferred \$41,891,805 and \$41,653,314, respectively, to its parent, Blessing Corporate Services, Inc. During the years ended September 30, 2018 and 2017, Blessing Hospital paid \$17,446,447 and \$15,951,283, respectively, to Blessing Corporate Services, Inc. for management services. In addition, Blessing Hospital received \$3,859,522 for management services and \$2,535,981 for laboratory services from Blessing Corporate Services, Inc. during the year ended September 30, 2018 for services provided to the physician group. Blessing Corporate Services, Inc. leases administrative offices from the Hospital under a one year lease. Rent paid by Blessing Corporate Services, Inc. to the Hospital during the years ended September 30, 2018 and 2017 totaled \$181,720 and \$180,068, respectively.

During the years ended September 30, 2018 and 2017, BlessingCare Corporation paid \$951,632 and \$495,700, respectively, to Blessing Hospital for laboratory and other services.

Denman Services, Inc. purchases various supplies, services, and health insurance from Blessing Hospital. Amounts paid for these items totaled \$1,537,321 and \$1,171,634 for the years ended September 30, 2018 and 2017, respectively. Denman also leases real estate from Blessing Hospital under various lease agreements. Rent paid by Denman to Blessing Hospital during the years ended September 30, 2018 and 2017 totaled \$110,128 and \$121,938, respectively.

Note (15) Related Party Transactions (Cont'd.)

Blessing Hospital has contracted with Denman Services, Inc. to provide biomedical services to the Hospital. The Hospital has paid Denman Services, Inc. \$1,249,375 and \$1,182,843 for these services for the years ended September 30, 2018 and 2017, respectively, under this contract. Denman Services, Inc. also provides linen services to Blessing Hospital. During the years ended September 30, 2018 and 2017, Blessing Hospital paid Denman Services, Inc. \$1,199,105 and \$1,117,385, respectively, for these services. In addition, Blessing Hospital in the course of its operations, purchases certain medical supplies from Denman Services, Inc. Amounts paid for these supplies totaled \$98,881 and \$110,387 for the years ended September 30, 2018 and 2017, respectively.

During the years ended September 30, 2018 and 2017, Blessing Hospital received restricted grants from The Blessing Foundation, Inc. for the support of various activities and programs. The restricted grants totaled \$1,794,754 and \$1,650,000 for the years ended September 30, 2018 and 2017, respectively. During the years ended September 30, 2018 and 2017, respectively, \$1,589,981 and \$1,520,213 were released from restrictions and included in net assets released from restrictions and used for operations. In addition, The Blessing Foundation, Inc. conducted a fundraising campaign to raise funds for the patient care addition being constructed by the Hospital. Because the entities are financially interrelated, contributions to the campaign are recorded by the Hospital as temporarily restricted revenue when pledged or contributed and as an asset (Interest in Net Assets of The Blessing Foundation, Inc.) on the balance sheet until funds are transferred to the Hospital. During the years ended September 30, 2018 and 2017, campaign pledges and contributions included in restricted revenue and 'Interest in Net Assets of The Blessing Foundation, Inc.' totaled \$103,030 and \$105,620, respectively. These amounts were released from restriction in the same year as contributed. During the years ended September 30, 2018 and 2017, campaign contributions included \$100,000 from Blessing Volunteers in Partnership.

Blessing Hospital leases medical office space from The Blessing Foundation, Inc. The lease agreement provides for monthly rental payments of approximately \$7,400 with a 3% annual rent increase. The lease agreement expires on October 18, 2023. The Hospital also leased clinic space from The Blessing Foundation, Inc. The lease can be renewed until July 1, 2020 and calls for monthly payments of approximately \$6,500. Rent expense paid to The Blessing Foundation during the years ended September 30, 2018 and 2017 totaled \$171,824 and \$201,937, respectively.

During the year ended September 30, 2016, Blessing Hospital entered into an agreement to loan \$711,262 to BFM Keokuk Clinic, LLC, a partnership owned 50% by Blessing Corporate Services, Inc. The loan is repayable over 20 years at an interest rate of 4.1%. At September 30, 2017, the loan balance was \$669,588. During the year ended September 30, 2018, the loan balance was written off due to dissolution of the partnership.

Note (16) Concentrations Of Credit Risk

Blessing Hospital maintains cash balances in several financial institutions in Quincy, Illinois. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. At September 30, 2018 and 2017, Blessing Hospital's cash balances exceeded the basic FDIC limit by \$78,937,551 and \$50,179,736, respectively, which include outstanding checks. At September 30, 2017, all of the excess except \$69,509 was secured by repurchase agreements. At September 30, 2018, all of the excess except \$589,497 was secured by repurchase agreements or sweeps to money market funds. The Hospital does not believe that it is exposed to significant credit risk in connection with cash and cash equivalents.

The Hospital routinely invests in money market funds. Investments in money market funds are not insured or guaranteed by the U.S. government; however, management believes that credit risk related to these investments is minimal.

Note (16) Concentrations Of Credit Risk (Cont'd).

The Hospital is located in Quincy, Illinois. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

The mix of receivables from patients and third-party payors was as follows at September 30:

	<u>2018</u>		<u>2017</u>
Medicare	24 %		18 %
Medicaid	15		26
Blue Cross	7		7
Other Third-Party Payors	47		44
Patient Responsibility	<u>7</u>		<u>5</u>
	<u>100 %</u>		<u>100 %</u>

Note (17) Fair Value Measurements

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. The Fair Value Measurements and Disclosures Topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Certain of the Hospital's financial assets are measured at fair value on a recurring basis, including money market, fixed income, and equity instruments. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments, such as money market securities and listed equities.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in the category include certain U.S. government agency and sponsored entity debt securities.

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset and are not observable from objective sources, including external appraisal.

Note (17) Fair Value Measurements (Cont'd.)

The following are the major categories of assets measured at fair value on a recurring basis during the years ended September 30, 2018 and 2017, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

	<u>Fair Value</u>	<u>Level 1: Quoted Prices in Active Markets for Identical Assets</u>	<u>Level 2: Significant Other Observable Inputs</u>	<u>Level 3: Significant Unobservable Inputs</u>
<u>Year Ended September 30, 2018</u>				
Marketable Equity Securities	\$ 82,453,000	\$ 82,453,000	\$ -	\$ -
Government Bonds	10,223,714	-	10,223,714	-
Government Backed Securities	2,627,547	-	2,627,547	-
Corporate Mortgage/Asset Backed Securities	7,858,403	-	7,858,403	-
Foreign Bonds	739,118	-	739,118	-
Corporate Bonds	15,119,360	-	15,119,360	-
Money Market Accounts	52,518	52,518	-	-
Mutual Funds	35,354,019	35,354,019	-	-
Managed Futures/Hedge Funds*	2,124,738	-	-	-
Certificates Of Deposits	15,232,115	15,232,115	-	-
Other Assets	3,155,477	3,155,477	-	-
Real Property	<u>1,457,000</u>	-	-	1,457,000
Total	<u>\$ 176,397,009</u>			
<u>Year Ended September 30, 2017</u>				
Marketable Equity Securities	\$ 79,458,456	\$ 79,458,456	\$ -	\$ -
Government Bonds	8,649,794	-	8,649,794	-
Government Backed Securities	3,067,116	-	3,067,116	-
Corporate Mortgage/Asset Backed Securities	7,735,524	-	7,735,524	-
Foreign Bonds	738,109	-	738,109	-
Corporate Bonds	16,536,617	-	16,536,617	-
Money Market Accounts	344,988	344,988	-	-
Mutual Funds	36,816,683	36,816,683	-	-
Managed Futures/Hedge Funds*	2,069,445	-	-	-
Certificates Of Deposits	13,183,666	13,183,666	-	-
Other Assets	2,894,254	2,894,254	-	-
Real Property	<u>1,457,000</u>	-	-	1,457,000
Total	<u>\$ 172,951,652</u>			

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

Note (18) Rental Income

The Hospital leases various parcels of property to several businesses as well as individuals. Non-cancelable operating lease terms generally range from 36 to 120 months. Rental income was \$1,271,815 and \$1,242,222 for the years ended September 30, 2018 and 2017, respectively. Future minimum rental payments to be received on non-cancelable operating leases are contractually due as follows as of September 30, 2018:

2019	\$	635,162
2020		212,942
2021		212,942
2022		212,942
2023		<u>195,197</u>
Total	\$	<u>1,469,185</u>

Note (19) Operating Leases

The Hospital has entered into several operating leases for equipment and real estate. The lease terms generally range from monthly leases to 120 months. Total rental expense for the periods ended September 30, 2018 and 2017 was \$3,382,171 and \$3,578,008, respectively.

The following is a schedule of future minimum lease payments on significant leases for the next five years:

2019	\$	2,105,086
2020		1,798,915
2021		1,708,234
2022		1,721,796
2023		<u>1,707,780</u>
Total	\$	<u>9,041,811</u>

Note (20) Functional Expenses

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

	<u>Year Ended September 30</u>	
	<u>2018</u>	<u>2017</u>
Health care services	\$ 240,327,433	\$ 215,278,684
General and administrative	<u>108,277,546</u>	<u>94,056,778</u>
Total	\$ <u>348,604,979</u>	\$ <u>309,335,462</u>

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs	\$ 29,360	\$ 34,640	\$ 64,000
Site Survey and Soil Investigation	\$ 16,056	\$ 18,944	\$ 35,000
Site Preparation	\$ 387,265	\$ 456,913	\$ 844,178
Earthwork	\$ 107,099	\$ 126,360	\$ 233,459
Exterior Improvements	\$ 208,135	\$ 245,567	\$ 453,702
Site Utilities	\$ 72,031	\$ 84,986	\$ 157,017
Off Site Work	N/A	N/A	N/A
HVAC (non reviewable)	N/A	\$ 3,105,380	\$ 3,105,380
New Construction Contracts	\$ 6,195,754	\$ 7,310,031	\$ 13,505,785
Modernization Contracts	N/A	N/A	N/A
Contingencies	\$ 658,302	\$ 776,694	\$ 1,434,996
Architectural/Engineering Fees	\$ 569,966	\$ 672,471	\$ 1,242,437
Architectural	\$ 403,166	\$ 475,674	\$ 878,840
Design Development	\$ 120,950	\$ 142,702	\$ 263,652
Construction Documentation	\$ 161,267	\$ 190,269	\$ 351,536
Bidding	\$ 20,158	\$ 23,784	\$ 43,942
Construction Administration	\$ 100,792	\$ 118,918	\$ 219,710
Engineering (Mechanical, Electrical, Plumbing)	\$ 131,935	\$ 155,662	\$ 287,597
Design Development	\$ 39,580	\$ 46,699	\$ 86,279
Construction Documentation	\$ 52,774	\$ 62,265	\$ 115,039
Bidding	\$ 6,597	\$ 7,783	\$ 14,380
Construction Administration	\$ 32,984	\$ 38,916	\$ 71,899
Structural	\$ 34,865	\$ 41,135	\$ 76,000
Design Development	\$ 10,459	\$ 12,341	\$ 22,800
Construction Documentation	\$ 13,946	\$ 16,454	\$ 30,400
Bidding	\$ 1,743	\$ 2,057	\$ 3,800
Construction Administration	\$ 8,716	\$ 10,284	\$ 19,000
Consulting and Other Fees	\$ 98,860	\$ 116,640	\$ 215,500
CON Related	\$ 22,937	\$ 27,063	\$ 50,000
Legal + Accounting	\$ 18,350	\$ 21,650	\$ 40,000
Historic Preservation			
Insurance Fees/Permits	\$ 11,469	\$ 13,531	\$ 25,000
Commissioning			
Moving	\$ 2,294	\$ 2,706	\$ 5,000
Movable or Other Equipment (not in construction contracts)	\$ 114,687	\$ 135,313	\$ 250,000
Cysto Table	\$ 114,687	\$ 135,313	\$ 250,000
Bond Issuance Expense (project related)	\$ 53,521	\$ 63,146	\$ 116,667
Net Interest Expense During Construction (project related)	\$ 123,862	\$ 146,138	\$ 270,000
Fair Market Value of Leased Space or Equipment			
Other Costs to be Capitalized	\$ 114,687	\$ 135,313	\$ 250,000
Artwork	\$ 12,845	\$ 15,155	\$ 28,000
Furniture	\$ 90,832	\$ 107,168	\$ 198,000
Signage (Exterior & Interior Signage)	\$ 11,010	\$ 12,990	\$ 24,000
Acquisition of Building or Other Property (excluding land)	N/A	N/A	N/A
TOTAL USES OF FUNDS	\$ 10,173,941	\$ 15,109,055	\$ 21,333,943

SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash & Securities	4,503,757	6,830,186	11,333,943
Pledges			
Gifts and Bequests			
Bond Issues (project related)	3,970,000	6,030,000	10,000,000
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	8,473,757	12,860,186	21,333,943