Boulder Community Health

Auditor’s Report and Financial Statements

December 31, 2017 and 2016

BOULDER COMMUNITY HEALTH
December 31, 2017 and 2016

Contents

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Independent Auditor's Report

Board of Directors
Boulder Community Health
Boulder, Colorado

We have audited the accompanying financial statements of Boulder Community Health (the Hospital), which comprise the balance sheets as of December 31, 2017 and 2016, 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.

Auditor's Responsibility

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

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

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

Board of Directors
Boulder Community Health

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the 2016 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

BKD, LLP

Denver, Colorado
April 20, 2018

BOULDER COMMUNITY HEALTH

Balance Sheets

December 31, 2017 and 2016

Assets	**2017**	**2016**
Current assets		
Cash	$ 700,079	$ 14,401,551
Assets limited as to use required for current liabilities	5,566,479	3,009,716
Accounts receivable from patient services, net of allowances for uncollectible accounts of approximately $19,259,000 and $15,378,000 in 2017 and 2016, respectively	45,608,965	47,613,011
Supplies inventory	3,692,934	3,073,782
Prepaid expenses and other current assets	10,818,534	8,354,942
Total current assets	66,386,991	76,453,002
Assets limited as to use, net of current portion	381,468,801	348,707,222
Land, buildings, and equipment, net	235,078,502	224,794,715
Other	14,102,035	12,798,973
Interest in net assets held by Boulder Community Hospital Foundation	40,391,511	35,012,999
Total assets	$ 737,427,840	$ 697,766,911
Liabilities and Net Assets		
Current liabilities		
Current maturities of long-term debt	$ 7,295,000	$ 12,076,000
Accounts payable	13,088,234	11,419,283
Accounts payable – construction	3,940,400	1,417,312
Accrued salaries, wages, and employee benefits	11,157,823	10,164,410
Accrued vacation and sick pay	10,544,181	10,225,163
Accrued interest	977,910	1,003,409
Other current liabilities	3,790,838	4,403,671
Estimated settlement due to third parties	4,606,308	3,593,965
Total current liabilities	55,400,694	54,303,213
Accrued pension benefit liability	46,111,126	43,996,208
Derivative liability	6,977,419	9,092,391
Long-term debt, net of current maturities	153,251,737	160,782,945
Other long-term liabilities	8,874,622	7,062,110
Total liabilities	270,615,598	275,236,867
Net assets		
Unrestricted	426,200,786	387,235,978
Temporarily restricted		
Held by Boulder Community Hospital	219,945	281,067
Held by Boulder Community Hospital Foundation	32,073,459	28,457,685
Total temporarily restricted net assets	32,293,404	28,738,752
Permanently restricted		
Held by Boulder Community Hospital Foundation	8,318,052	6,555,314
Total net assets	466,812,242	422,530,044
Total liabilities and net assets	$ 737,427,840	$ 697,766,911

BOULDER COMMUNITY HEALTH

Statements of Operations

Years Ended December 31, 2017 and 2016

	2017	2016 (Restated - Note 2)
Unrestricted revenue and other support		
Net patient service revenue	$ 339,427,100	$ 334,870,185
Provision for uncollectible patient accounts	(16,062,569)	(13,048,545)
Net patient service revenue less provision for uncollectible accounts	323,364,531	321,821,640
Other operating revenue	20,180,650	16,656,404
Net assets released from restrictions – operations	891,503	907,678
Total unrestricted revenue and other support	344,436,684	339,385,722
Expenses		
Salaries, wages, and employee benefits	193,446,220	176,590,987
Supplies and other	105,152,100	98,150,903
Medicaid provider fee	19,687,533	17,007,134
Specialists' fees	8,343,704	8,267,295
Depreciation	18,220,761	17,577,238
Interest and amortization	4,867,033	4,672,381
Total expenses	349,717,351	322,265,938
Operating income (loss)	(5,280,667)	17,119,784
Other income		
Investment income	7,742,755	4,553,079
Realized gain on investments	37,431,040	512,484
Other, net of $484,229 and $493,203 in 2017 and 2016, respectively, in nonoperating depreciation expense	(57,769)	1,181
Other income, excluding interest rate swaps and other than temporary investment impairment losses	45,116,026	5,066,744
Unrestricted revenue and gains in excess of expenses before unrealized gains on interest rate swaps, unrealized gains on investments, and net period pension cost	39,835,359	22,186,528

BOULDER COMMUNITY HEALTH
Statements of Operations (continued)

Years Ended December 31, 2017 and 2016

	2017	2016 (Restated - Note 2)
Unrestricted revenue and gains in excess of expenses before unrealized gains on interest rate swaps, unrealized gains on investments, and net periodic pension cost	39,835,359	22,186,528
Unrealized gains on interest rate swaps and investments		
Unrealized gain (loss) on interest rate swaps, net of $1,430,713 and $(1,056,703) in 2017 and 2016, respectively, in interest (income) expense	923,894	(1,867,254)
Change in net unrealized gain on marketable securities	172,608	13,895,034
Other components of net periodic pension cost	(3,595,920)	(5,502,707)
	(2,499,418)	6,525,073
Unrestricted revenue and gains in excess of expenses	37,335,941	28,711,601
Other changes in unrestricted net assets		
Amortization of previously recognized loss on ineffective interest rate swap	(239,635)	(239,635)
Net assets released from restriction used to purchase equipment	2,081,298	2,088,272
Change in minimum pension liability	(212,798)	1,877,685
Increase in unrestricted net assets	$ 38,964,806	$ 32,437,923

BOULDER COMMUNITY HEALTH

Statements of Changes in Net Assets

Years Ended December 31, 2017 and 2016

	2017	2016 (Restated - Note 2)
Unrestricted net assets		
Unrestricted revenue and gains in excess of expenses	$ 37,335,941	$ 28,711,601
Amortization of previously recognized loss on ineffective interest rate swap	(239,635)	(239,635)
Net assets released from restriction used to purchase equipment	2,081,298	2,088,272
Change in minimum pension liability	(212,798)	1,877,685
Increase in unrestricted net assets	38,964,806	32,437,923
Temporarily restricted net assets		
Contributions received	2,911,681	2,917,452
Net assets released from restriction		
Capital acquisitions	(2,081,298)	(2,088,272)
Operations	(891,503)	(907,678)
Decrease in temporarily restricted net assets held by Boulder Community Hospital	(61,120)	(78,498)
Net change in assets held by Boulder Community Hospital Foundation	3,615,774	1,440,853
Total increase in temporarily restricted net assets	3,554,654	1,362,355
Permanently restricted net assets		
Net change in assets held by Boulder Community Hospital Foundation	1,762,738	110,062
Increase in permanently restricted net assets	1,762,738	110,062
Increase in net assets	44,282,198	33,910,340
Net assets, beginning of year	422,530,044	388,619,704
Net assets, end of year	$ 466,812,242	$ 422,530,044

BOULDER COMMUNITY HEALTH
Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 44,282,198	$ 33,910,340
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized change in assets owned by Boulder Community Hospital Foundation	(5,378,512)	(1,550,915)
Change in net realized and unrealized gains or loss on marketable securities	(37,603,648)	(14,407,518)
Income from medical joint ventures	(9,047,777)	(7,944,041)
Depreciation	18,220,761	17,577,238
Amortization of bond issuance costs and other	276,662	373,584
Amortization of bond premiums	7,792	(176,290)
Loss on disposition of assets	99,544	616,719
Provision for uncollectible patient accounts	16,062,569	13,048,545
Change in minimum pension liability	212,798	(1,877,685)
Unrealized loss (gain) on interest rate swaps	(2,114,972)	3,163,592
Changes in operating assets and liabilities		
Accounts receivable	(14,058,523)	(13,174,882)
Supplies inventory	(619,152)	(222,153)
Prepaid expenses and other current assets	(2,463,592)	489,365
Other assets	(940,452)	(1,833,833)
Accounts payable	1,668,951	(4,675,286)
Accrued salaries, wages, and employee benefits	993,413	2,380,498
Accrued vacation and sick pay	319,018	579,291
Accrued interest	(25,499)	(31,077)
Other current liabilities	(612,833)	(1,550,047)
Other long-term liabilities	1,812,512	866,475
Accrued pension benefit liability	1,902,120	2,365,276
Estimated settlement due to third parties	1,012,343	(733,353)
Net cash provided by operating activities	14,005,721	27,193,843
Cash flows from investing activities		
Acquisition of land, buildings, and equipment	(26,194,576)	(14,028,453)
Proceeds from sales of land, buildings, and equipment	113,572	149,940
Payments received for notes receivable	-	1,354,278
Distributions from medical joint ventures	8,408,505	8,361,479
Purchases of investments	(555,532,239)	(36,359,084)
Sales and maturities of investments	557,817,545	19,887,525
Net cash used in investing activities	(15,387,193)	(20,634,315)

BOULDER COMMUNITY HEALTH
Statements of Cash Flows (continued)

Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	11,695,000
Repayment/repurchase of bonds and other debt	(12,320,000)	(8,362,066)
Net cash provided by (used in) financing activities	(12,320,000)	3,332,934
Net increase (decrease) in cash and cash equivalents	(13,701,472)	9,892,462
Cash, beginning of year	14,401,551	4,509,089
Cash, end of year	$ 700,079	$ 14,401,551
Supplemental cash flows information		
Property and equipment financed in accounts payable	$ 3,940,400	$ 1,417,312
Interest paid (net of amount capitalized)	$ 4,580,000	$ 4,506,166

(1) Organization

Boulder Community Health (the Hospital) is a not-for-profit corporation located in Boulder, Colorado that was incorporated in 1922.

Governed by a 15-member Board of Directors, the Hospital owns and operates the Foothills Hospital, a general acute care hospital with 178 licensed beds (of which 161 are staffed). This licensure includes the operation of off-site locations at the Broadway Hospital, which has a 16-bed rehabilitation unit and a 16-bed behavioral health unit. In addition, the Hospital operates a network of heath care facilities offering preventive, ambulatory, specialty, home care, secondary, and tertiary services located in Boulder and Broomfield counties. In 2017, the Hospital formed a wholly owned clinically integrated provider network, Boulder Valley Care Network, LLC. In 2015, the Hospital entered into a Joint Operating Agreement to co-develop and jointly operate a comprehensive center for sports medicine that is located on the University of Colorado campus in Boulder, Colorado.

Boulder Community Hospital Foundation (the Foundation) was incorporated in August 1978 to solicit and receive contributions for the Hospital's benefit. In the absence of donor restrictions, the Foundation's Board of Directors has discretionary control over the amounts to be distributed to the Hospital, the timing of such distributions, and the purposes for which such funds are to be used. One member of the Hospital's Board of Directors serves on the 20-member Board of Directors of the Foundation.

Under accounting principles generally accepted in the United States of America, the Hospital is deemed to be a financially interrelated beneficiary of the Foundation. Therefore, the net assets of the Foundation have been shown on the Hospital's balance sheets as interest in net assets held by the Foundation. The net assets held by the Foundation are reflected in temporarily and permanently restricted net assets. Contributions made by the Foundation to the Hospital during the years ended December 31, 2017 and 2016 were approximately $2,454,000 and $2,450,000, respectively.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

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

(b) Cash

At December 31, 2017, the Hospital's cash accounts exceeded federally insured limits by approximately $3,306,000.

(c) Investments and Investment Income

Investments in equity securities with readily determinable fair values and marketable debt securities are carried at fair value based on the most recent market quotations.

For equity funds and international equity funds that are not publicly traded, fair values are based on the underlying investments, which are publicly traded. For alternative investments, fair values are based on estimates or net asset values reported by fund managers where quoted market prices do not exist. The Hospital reviews and evaluates the estimated values by comparing them to audited financial statements of the funds and other similar procedures.

Investment income on proceeds of borrowings that are held by a trustee is reported as other operating revenue. Investment income and realized gains and losses from all other investments are reported as other income.

The Hospital treats its investments as trading resulting in the gains and losses being included in unrestricted revenue and gains in excess of expenses in the statements of operations.

(d) ***Assets Limited as to Use***

Assets limited as to use include assets set aside by the Board of Directors for future capital improvements (funded depreciation) over which the Board retains control (and may, at its discretion, subsequently use for other purposes), assets held by trustees under indenture agreements, and self-insurance funds held by trustees.

(e) ***Financial Instruments***

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets limited as to use, interest rate swap agreements, notes receivable, accounts payable, and long-term debt. The carrying amounts reported in the balance sheets for cash equivalents, patient accounts receivable, assets limited as to use, interest rate swap agreements, notes receivable, and accounts payable approximate fair value.

(f) ***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for 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 (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts for self-pay patients decreased from 139% of self-pay accounts receivable at December 31, 2016, to 122% of self-pay accounts receivable at December 31, 2017. The allowance includes a reserve for deductible and copayments classified within insured accounts receivable at year-end. In addition, the Hospital's write-offs increased approximately $2,543,000 from approximately $11,381,000 for the year ended December 31, 2016, to approximately $13,924,000 for the year ended December 31, 2017. The increase was due to an increase in self-pay patients.

The Hospital's charity reserves increased approximately $2,501,000 from $5,025,000 for the year ended December 31, 2016 to $7,526,000 for the year ended December 31, 2017.

(g) ***Supplies Inventory***

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

(h) ***Land, Buildings, and Equipment***

Land, buildings, and equipment are recorded at cost when purchased or at fair value when received by donation. Improvements and replacements are capitalized, and repairs and maintenance are expensed in the period incurred. The cost and accumulated depreciation for property sold or retired is removed from the accounts, and the resulting gain or loss is reflected as other income (loss).

The provision for depreciation is calculated using the straight-line method, which allocates the cost of the properties equally over their estimated useful lives. Effective January 1, 2016, the Hospital elected a change in accounting estimate and restated the remaining useful lives of the assets based upon a detailed professional study. Depreciable lives range from 10 to 40 years (was 10 to 13) for land improvements, 30 to 80 years (was 20 to 40) for buildings, 10 to 45 years (was 12 to 15) for building improvements, 10 to 45 years (was 14 to 16) for building service equipment, and 3 to 20 years (was 3 to 6) for equipment. The effect of this change was to increase net income in 2016 by $8,523,403.

See Note 5 for a discussion of the Hospital's facility consolidation plan.

(i) ***Joint Ventures***

Investments in joint ventures are accounted for using the equity method. The Hospital ownership percentage of joint venture income is recognized in other operating revenue for health care-related ventures and in other income for non-health care ventures.

At December 31, 2017 and 2016, investments in joint ventures held by the Hospital amounted to $4,791,768 and $4,152,496, respectively and are included in other assets. Total net income amounted to $9,047,777 and $7,944,040 as of December 31, 2017 and 2016, respectively. During 2017 and 2016, the Hospital received $8,408,505 and $8,361,479 of capital distributions, respectively.

In addition, the Hospital guaranteed debt held by two unconsolidated subsidiaries, including 50% of Boulder Community Musculoskeletal Surgery Center, LLC, and 35% of Foothills Surgery Center and any unpaid interest thereon. The total outstanding balance on the guaranteed loans was $2,808,519 and $3,299,056 for the years ended December 31, 2017 and 2016, respectively.

(j) ***Unamortized Bond Issuance Costs***

Bond issuance costs are amortized over the estimated lives of the related bonds using the effective interest method. The Hospital records these costs as direct deductions from the related debt. When the related debt is refunded prior to its original maturity, the remaining costs are expensed as part of the refunding.

(k) ***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those assets whose use by the Hospital or distribution by the Foundation has been limited by donors to a specific purpose. Permanently restricted net assets include assets held by the Foundation that have been restricted by donors to be maintained in perpetuity.

(l) ***Unrestricted Revenue and Gains in Excess of Expenses***

The statements of operations include unrestricted revenue and gains in excess of expenses, which includes transactions deemed by management to be ongoing, major, or central to the provision of health care services. Consistent with industry practice, changes in unrestricted net assets that are excluded from unrestricted revenue and gains in excess of expenses include net assets released from restriction used to purchase equipment, recognition of the minimum pension liability related to the Hospital’s defined benefit pension plan, and amortization of previously recognized loss on ineffective interest rate swap.

(m) ***Net Patient Service Revenue***

Net patient service revenue is recognized in the period services are performed and is reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered. Amounts reimbursed for services covered under Medicare, Medicaid, and other third-party payers are generally less than established billing rates. Differences between established billing rates and amounts reimbursed are recognized as contractual adjustments.

Amounts receivable under reimbursement agreements with Medicare and Medicaid programs are subject to audit and retroactive adjustment. Provisions for estimated retroactive adjustments under such programs are provided in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient revenue for the years ended December 31, 2017 and 2016 changed approximately $(912,000) and $(311,000), respectively, due to changes in previously estimated allowances as a result of final settlements and prior-year retroactive adjustments.

(n) ***Estimated Medical Malpractice Claims***

The Hospital maintains a claims-made insurance policy for claims arising from providing professional and patient care and is self-insured for claim deductibles. The Hospital has accrued the estimated cost of medical claims not reported to the insurance carrier at

December 31, 2017 and 2016. The accrual is based on the estimated aggregate as determined periodically by actuarial consultants. Additionally, the Hospital provides an accrual for the estimated cost associated with claims made in excess of the insurance limits. The Hospital has accrued approximately $1,217,000 and $1,228,000 as of December 31, 2017 and 2016, respectively, for these estimated medical claims. This liability is included in other current liabilities on the balance sheets.

(o) ***Self-insurance***

The Hospital is self-insured for costs related to employee health and accident benefit programs. The Hospital has employed an independent actuary to estimate the cost of the settlement of known and incurred but not reported claims as of year-end. The accrued health insurance liabilities were approximately $1,492,000 and $1,500,000 as of December 31, 2017 and 2016, respectively. The Hospital maintains a stop-loss policy for individual claims in excess of $350,000. This liability is included in accrued salaries, wages, and employee benefits on the balance sheets.

(p) ***Workers' Compensation Claims***

The Hospital is self-insured for workers' compensation claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims for unknown incidents that may be asserted against the Hospital. The Hospital has employed an independent actuary to estimate the ultimate cost of the settlement of such claims. Accrued workers' compensation losses were approximately $1,655,000 and $1,535,000 as of December 31, 2017 and 2016, respectively, as determined periodically by actuarial consultants. The Hospital maintains a stop-loss policy for individual claims in excess of $500,000. This liability is included in accrued salaries, wages, and employee benefits on the balance sheets.

(q) ***Interest Expense***

Interest cost incurred during the construction of an asset financed by tax-exempt borrowings is capitalized, net of any interest income earned on the related bond funds held by the trustee. Interest cost incurred during the construction of an asset not financed by tax-exempt debt is capitalized based on weighted average construction expenditures and the Hospital's effective interest rate. The Hospital capitalized approximately $240,000 and $97,000 of interest cost in 2017 and 2016, respectively. Cash paid for interest, including capitalized interest, was approximately $4,820,000 and $4,603,000 in 2017 and 2016, respectively.

(r) ***Contributions and Bequests***

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 are reported at fair value when the condition is met. The gifts are reported as either temporarily restricted or permanently restricted if they are received with donor stipulations that limit the use of the gift. When a donor restriction expires, that is, when a stipulated time restriction ends and/or purpose restriction has been met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(s) ***Income Taxes***

The Hospital is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) of the Code. However, income generated from activities unrelated to the Hospital's exempt purpose is subject to tax under Section 511 of the Code.

(t) ***Long-lived Asset Impairment***

In accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 360, *Property, Plant and Equipment,* long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. No impairments were recognized in 2017 or 2016.

(u) ***Restatement***

During the year ended December 31, 2016, the Hospital early adopted ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires service costs to be reported with compensation costs and other components of the net benefit cost to be reported separately from service costs. These costs were excluded from the performance indicator. During the year ended December 31, 2017, the Hospital determined that all amounts needed to be included in the performance indicator and these costs needed to be included in subtotal of unrestricted revenue and gains in excess of expenses. The impact of this change was a decrease in unrestricted revenue and gains in excess of expenses, as shown below but had no effect on the total change in unrestricted net assets:

	2016		
	As Restated	**Previously Reported**	**Effect of Change**
Statement of Operations			
Unrestricted revenue and gains in excess of expenses	$ 28,711,601	$ 34,214,308	$ (5,502,707)

(3) 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, these charges are not reported as revenue. However, the Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. The following information measures the level of charity care provided during the years ended December 31, 2017 and 2016:

	2017	2016
Charges forgone, based on established rates	$ 14,273,000	$ 12,370,000
Estimated costs and expenses incurred to provide charity care	3,187,000	2,738,000
Equivalent percentage of charity care patients to all patients served	0.9%	0.9%

(4) 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.

(a) Medicare

Inpatient acute-care services rendered under the Medicare program are paid at prospectively determined rates per discharge. These rates vary according to a Medicare Severity Diagnostic Related Group (MS-DRG) patient classification system that is based on clinical, diagnostic, and other factors. Inpatient rehabilitation services are paid at prospectively determined rates per discharge. Rates vary according to a Case Mix Group (CMG) patient classification system that is based on clinical, diagnostic, and other factors. Inpatient psychiatric services are reimbursed at prospectively determined rates based on length of stay, diagnosis, age, and co-morbidity. Outpatient services rendered under the Medicare program are paid based on the Ambulatory Payment Classification (APC) system. 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 medical necessity of procedures performed are subject to an independent audit by a peer review organization under contract with the Hospital. The Hospital’s Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2013. The Medicare cost reports for 2014, 2015, and 2016 remain unaudited, while the 2013 and 2006 audits were completed by Medicare during 2016 and the 2012 audit was completed in 2015.

(b) ***Medicaid***

Inpatient services rendered under the Medicaid program are paid under a prospectively determined system similar to Medicare. Outpatient services are primarily paid on an interim basis using a tentative payment rate, which approximates the costs incurred less 28%. Final settlement is determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. Effective October 31, 2016, outpatient hospital services will be paid at prospectively determined rates using the Enhanced Ambulatory Patient Grouping (EAPG) methodology. The original implementation was postponed until March 1, 2017, although payments will be adjusted retroactively to October 31, 2016. The Hospital's classification of patients under the Medicaid program and medical necessity of procedures performed are subject to an independent audit by a peer review organization under contract with the Hospital. The Hospital's cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2012. The Hospital anticipates an outpatient settlement liability given the lag by the state in adjusting the interim payment rate and the increase in outpatient volumes related to Medicaid program expansion with the Affordable Care Act.

(c) ***Other Payers***

The Hospital has also entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements is generally based on prospectively determined daily or case rates for inpatient services and negotiated percentage of charges for outpatient services.

Net patient services revenue as reflected in the accompanying statements of operations consists of the following:

	2017	2016
Medicare	$ 82,148,609	$ 79,607,671
Medicaid	28,310,643	27,594,228
Other third-party payers	226,324,596	222,637,946
Self-pay	2,643,252	5,030,340
	$ 339,427,100	$ 334,870,185

The Colorado Healthcare Affordability Act, designated as House Bill 1293 (HB1293), was passed during 2009 implementing a fee on hospitals to generate matching funds to the state of Colorado from federal sources. Colorado hospitals with high Medicaid volumes benefit from HB1293; those adversely impacted were made whole by the Colorado Hospital Association through a redistribution pool. Implementation of the act occurred during April 2010 and had the following effect on the Hospital's financial statements:

	2017	2016
Deductions from patient charges		
Colorado Indigent Care Program revenue	$ 1,614,754	$ 1,875,637
Provider fee recovery revenue	16,880,323	14,786,816
Total increase to net patient service revenue	18,495,077	16,662,453
Total increase to other operating revenue from redistribution pool	2,254,633	1,416,487
Provider fee expense in expenses	(19,687,533)	(17,007,134)
Impact on operating income	$ 1,062,177	$ 1,071,806

(5) Facility Consolidation — Broadway Campus Sale

The Hospital has consolidated the majority of inpatient acute care services at Foothills Hospital, located at Foothills Parkway and Arapahoe Avenue in east Boulder, a site that improves access to critical services for most residents of Boulder County. This includes surgery, imaging and laboratory services, and inpatient care for patients with heart disease, cancer, neurological issues and orthopedic injuries. Since 2011, more than 100,000 square feet of clinical space has been added to Foothills Hospital, along with additional medical office space. This process was completed on October 9, 2014.

On December 4, 2015, the Hospital sold its Broadway campus to the city of Boulder. The sale included a two-year leaseback period, which has been extended to May 31, 2019. Behavioral Health and Rehabilitation services continue to be provided at the Broadway campus.

(6) Assets Limited as to Use

The Hospital provides for future expansion and equipment acquisitions by funding depreciation. Funded depreciation and assets limited as to use under bond trust indentures and self-insurance funds at December 31, 2017 and 2016, are as follows:

	2017		2016	
	Cost	**Fair value**	**Cost**	**Fair value**
Funded depreciation				
Cash and cash equivalents	$ 3,644,496	$ 3,644,496	$ 6,104,075	$ 6,104,075
U.S. bond funds	129,336,343	129,405,997	71,232,697	69,190,365
International bond funds	15,072,729	15,154,967		
Municipal bonds	4,883,619	4,847,951	1,653,735	1,679,776
U.S. government obligations	3,822,495	3,793,280	10,072,994	9,579,494
Corporate bonds and notes	4,386,303	4,369,116	20,769,669	20,741,857
Asset-backed securities	1,390,805	1,364,964	3,962,047	3,981,529
Common stock	3,158,978	3,512,533	14,160,167	14,931,032
Equity funds	126,809,253	140,866,637	62,326,226	83,731,657
International equity funds	44,535,767	51,957,046	56,530,881	54,162,187
Long/short equity funds	-	-	22,614,331	23,039,378
Long/short fixed income funds	8,126,588	9,264,560	29,507,599	36,405,392
Real assets	12,765,693	12,873,476	16,282,924	14,617,359
Accrued interest	72,834	72,834	266,646	266,646
	358,005,903	381,127,857	315,483,991	338,430,747
Funds required by bond indentures				
Cash and cash equivalents	4,359,728	4,359,728	11,739,982	11,739,982
Workers' compensation self-insurance funds				
Cash and cash equivalents	1,204,111	1,204,111	1,200,122	1,200,122
U.S. government obligations	347,801	342,797	347,717	345,303
Accrued interest	787	787	784	784
	1,552,699	1,547,695	1,548,623	1,546,209
Total assets limited as to use	363,918,330	387,035,280	328,772,596	351,716,938
Less amounts required for current liabilities	(5,566,479)	(5,566,479)	(3,009,716)	(3,009,716)
Assets limited as to use, net of current portion	$ 358,351,851	$ 381,468,801	$ 325,762,880	$ 348,707,222

Alternative Investments

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

	December 31, 2017		
	Fair Value	**Redemption Frequency**	**Redemption Notice Period**
Fixed income long/short funds (A)	$ 9,264,560	Quarterly	Funds vary from 45–90 days

	December 31, 2016		
	Fair Value	**Redemption Frequency**	**Redemption Notice Period**
Fixed income long/short funds (A)	$ 36,405,392	Quarterly	Funds vary from 45–90 days
Equity funds (B)	17,229,563	Weekly	None
Equity long/short (C)	23,039,378	Monthly	Funds vary from 30–90 days
Real assets (D)	7,092,303	Daily	None

(A) This category includes funds invested primarily in debt instruments, including but not limited to domestic and international bonds, loans, and derivatives.

(B) This category includes investments in funds primarily invested in common stocks and similar equity securities. As of December 31, 2017, these investments have been liquidated.

(C) This category includes equity investments and uses an equity long/short management approach. As of December 31, 2017, these investments have been liquidated.

(D) This category includes investments in real estate securities and commodities. As of December 31, 2017, these investments have been liquidated.

The following schedule summarizes the investment return on assets held by the Hospital and its classification in the accompanying statements of operations and changes in net assets.

	2017	2016
Unrestricted net assets		
Interest and dividend income from funded depreciation	$ 7,730,273	$ 4,359,134
Interest income from workers' compensation self-insurance fund	8,802	60,403
Interest income from notes receivable	3,679	82,096
Interest income from operating funds	1	51,446
Investment income	7,742,755	4,553,079
Interest income from funds required by bond indentures included in other operating revenue	34,985	38
Realized gain on investments	37,431,040	512,484
Net change in unrealized gain or loss on marketable securities	172,608	13,895,034
	37,638,633	14,407,556
Net return gain on investments	$ 45,381,388	$ 18,960,635

(7) Other Assets

Other assets consist of the following at December 31:

	2017	2016
Investment in joint ventures	$ 4,791,768	$ 4,152,496
Deferred 457(b) and 457(f) assets	8,673,924	6,783,722
Other	636,343	1,862,755
Total	$ 14,102,035	$ 12,798,973

(8) Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at December 31:

	2017	2016
Land	$ 20,151,647	$ 16,446,336
Land improvements	14,045,432	13,468,008
Buildings and improvements	113,396,966	111,041,429
Building service equipment	84,012,717	83,841,162
Equipment	149,394,376	140,275,578
Construction in progress	16,410,742	6,175,769
	397,411,880	371,248,282
Less accumulated depreciation	(162,333,378)	(146,453,567)
Land, buildings, and equipment, net	$ 235,078,502	$ 224,794,715

Construction commitments as of December 31, 2017 and 2016 were approximately $37,284,000 and $2,671,000, respectively.

(9) Long-term Debt

Long-term debt consists of the following at December 31:

	2017	2016
Colorado Health Facilities Authority Revenue Bonds, Series 2014; variable interest rates	$ 30,000,000	$ 30,000,000
Colorado Health Facilities Authority Revenue Bonds, Series 2012, including premium of $1,240,986 and $1,316,331 at December 31, 2017 and 2016, respectively; fixed interest rates	28,410,986	29,091,331
Colorado Health Facilities Authority Revenue Bonds, Series 2010A, including discount of $130,093 and $102,608 at December 31, 2017 and 2016, respectively; fixed interest rates	41,889,906	47,377,392
Colorado Health Facilities Authority Revenue Bonds, Series 2010B; variable interest rates	20,850,000	21,775,000
Colorado Health Facilities Authority Revenue Bonds, Series 2000; variable interest rates	40,400,000	45,730,000
Other long-term debt	70,000	70,000
Total long-term debt	161,620,892	174,043,723
Less unamortized debt issuance costs	(1,074,155)	(1,184,778)
Less current portion	(7,295,000)	(12,076,000)
	$ 153,251,737	$ 160,782,945

(a) ***Series 2014***

In December 2014, the Authority agreed to issue $30,000,000 aggregate principal amount of its Revenue Bonds, Series 2014, dated December 1, 2014. The proceeds of the Series 2014

Bonds were available to be loaned to the Hospital pursuant to a Bond Indenture of Trust between the Hospital, the Authority, and the Bond Trustee. The proceeds from the Series 2014 Bond were loaned in order to (i) finance the costs of the project and reimburse the Hospital for a portion of costs incurred prior to the date of issuance and (ii) pay costs of issuance. The project consist of (i) facilities and equipment at the Hospital's Foothills, Riverbend and Community Medical Center campuses, (ii) facilities and equipment at a location to be determined for services relocated from the Hospital's Mapleton and/or Broadway campuses, (iii) capital improvements at some or all of the Hospital's facilities, and (iv) acquisition, construction, renovation, improvement and equipping of hospital-related facilities within the Hospital's service area.

The Series 2014 Bonds mature on October 1, 2048, and are subject to mandatory sinking fund redemptions each October 1 beginning in 2019. The Series 2014 Bonds are owned by Bank of America Public Capital Corp. (the Bank) in accordance with the Bond Trust Indenture. The Bank may tender the Series 2014 Bonds for purchase in whole on October 1, 2024. Interest on the Series 2014 Bonds is payable monthly based on a variable interest rate. The weighted-average-interest rate was 1.52% and 1.12% during 2017 and 2016, respectively.

As of December 31, 2017 and 2016, $30,000,000 of bond proceeds had been funded to the Hospital.

Unamortized debt issuance costs were $136,706 and $145,119 at December 31, 2017 and 2016, respectively.

(b) ***Series 2012***

In August 2012, the Authority issued $30,000,000 aggregate principal amount of its Revenue Bonds, Series 2012 dated August 28, 2012. The proceeds of the Series 2012 Bonds were loaned to the Hospital pursuant to a Bond Indenture of Trust between the Hospital, the Authority, and the Bond Trustee. The proceeds from the Series 2012 Bonds were used to (i) finance the expansion, renovation, improvement, and equipping of the Hospital's health care facilities at its Foothills Campus, (ii) reimburse the Hospital for certain capital expenditures, and (iii) pay costs associated with the issuance of the 2012 Bonds.

The Series 2012 Bonds are payable in installments through October 1, 2042, bearing fixed interest rates from 2.0% to 5.0%.

No reserve fund securing the Series 2012 Bonds is required to be funded.

Unamortized debt issuance costs were $331,729 and $353,126 at December 31, 2017 and 2016, respectively.

(c) ***Series 2010***

In December 2010, the Authority issued $66,030,000 aggregate principal amount of its Revenue Bonds, Series 2010A dated December 1, 2010, and $26,595,000 aggregate principal amount of its Refunding Revenue Bonds, Series 2010B dated December 1, 2010. The proceeds of the Series 2010 Bonds were loaned to the Hospital pursuant to a Bond Indenture of Trust between the Hospital, the Authority, and the Bond Trustee. The proceeds from the

Series 2010A Bonds were used together with other available funds to (i) refund the Series 1994B Bonds and the Variable Rate Series 2003B Bonds, (ii) provide $25,000,000 of new money to finance costs associated with a strategic initiative to optimize service delivery by expanding the Foothills Campus to deliver all acute care inpatient services and to renovate the Broadway Campus to accommodate services transferred from the Mapleton Campus, and (iii) pay costs associated with the issuance of the 2010A Bonds. The proceeds from the Series 2010B Bonds were used to refund the Variable Rate Series 2003A Bonds and to pay costs associated with the issuance of the 2010B Bonds.

The Series 2010A Bonds are payable in installments through October 1, 2035, bearing fixed interest rates from 3.0% to 6.0%. The Series 2010A Bonds maturing on October 1, 2030 and 2035 are subject to mandatory sinking fund redemptions each October 1.

A Debt Service Reserve Fund securing the Series 2010A Bonds is required to be funded if ratings on the bonds fall to “BBB+” or lower by Standard & Poor’s Ratings Services or “Baa1” or lower by Moody’s Investors Service, Inc. or cash on hand is less than 100 days of operating expenses.

Unamortized debt issuance costs were $408,237 and $470,110 at December 31, 2017 and 2016, respectively.

The Series 2010B Bonds mature on October 1, 2033, and are subject to mandatory sinking fund redemptions each October 1. The Series 2010B Bonds are owned by JPMorgan Chase Bank, N.A. (the Bank) in accordance with a Bank Bondowner Agreement, which was amended August 29, 2013 to modify the tender dates and lower the variable interest calculation. The Bank may tender the Series 2010B Bonds for purchase in whole on August 28, 2020 or December 1, 2027. Interest on the Series 2010B Bonds is payable monthly based on a variable interest rate. The weighted-average-interest rate was 1.53% and 1.14% during 2017 and 2016, respectively. On or before 180 days prior to an applicable tender date, the Hospital may request the Bank to extend the Bank Bondowner Agreement to the next tender date, and if agreed to by the Bank, the agreement will be amended, which may include the variable interest rate formula. The Series 2010B Bonds may be converted to Serial Bonds at a Fixed Rate Mode. A Debt Service Reserve Fund securing the Series 2010B Bonds is required to be funded if the bonds have been converted to a Fixed Rate Mode and if ratings on the bonds fall as described for 2010A Bonds above.

Unamortized debt issuance costs were $70,378 and $78,384 at December 31, 2017 and 2016, respectively.

(d) ***Series 2000***

In October 2000, the Authority issued $65,000,000 aggregate principal amount of its Variable Rate Demand Hospital Revenue Bonds, Series 2000 (Series 2000 Bonds) dated October 1, 2000. The bond issuance resulted in net proceeds to the Hospital of approximately $64.5 million. The proceeds of the Series 2000 Bonds were loaned to the Hospital pursuant to a Bond Indenture of Trust between the Hospital, the Authority, and the Bond Trustee. The net proceeds from the Series 2000 Bonds were used to pay certain costs relating to the expansion and renovation of the Hospital and purchases of capital equipment. The Series 2000 Bonds are payable in installments through October 1, 2028. The Series 2000 Bonds are backed by an irrevocable letter of credit. The letter of credit was amended on April 2, 2018 to extend the expiration date to August 29, 2021 and to lower associated fees. At December 31, 2017 and 2016, no borrowings under the letter of credit were outstanding. The principal of any draws on the letter of credit with no event of default are due in four equal quarterly installments commencing 367 days after the draw on the letter of credit. With an event of default, principal of any draws is due on demand.

The Hospital is required to make deposits with the Bond Trustee for both principal and interest payments. The weighted average interest rate was 0.87% and 0.44% during 2017 and 2016, respectively.

Unamortized debt issuance costs were $127,109 and $138,039 at December 31, 2017 and 2016, respectively.

(e) Aggregate Annual Maturities of Long-term Debt

Amounts due for long-term debt are as follows:

For the year ending December 31, 2017:

2018	$ 7,295,000
2019	8,515,000
2020	8,850,000
2021	8,965,000
2022	9,260,000
Thereafter	118,735,892
Total	$ 161,620,892

The Series 2000, 2010, 2012, and 2014 Bonds are secured by substantially all of the Hospital's property and equipment and a priority interest in revenue. The Hospital has also agreed to various restrictive covenants including limitations on incurring additional indebtedness and maintaining certain levels of net income available for debt service, as defined.

In 2017, the Hospital repaid an additional $3,360,000 on the Series 2000 bonds, and defeased $310,000 of 2010A bonds in relation to the sale of bond financed property to a nongovernmental person other than a 501(c)(3) organization.

(f) Interest Rate Swaps

The Hospital uses interest rate swap agreements to manage interest costs and risks associated with changing interest rates on its variable rate debt. The differential to be paid or received is accrued as interest rates change and is recognized as unrealized gain or loss on interest rate swaps over the life of the agreements. The counterparty to the interest rate swaps is a major financial institution. The estimated fair value of the interest rate swaps, which is the gross unrealized market gain or loss, is based on quotes obtained from the counterparty. Interest rate swaps are subject to credit risk (if the counterparty fails to meet its obligations) and interest rate risk. The Hospital could be obligated to pay more under its swap agreements than it receives as a result of interest rate changes. Collateral posting is required whenever the negative fair value of the swaps exceeds threshold amounts defined in the credit support annex agreement based upon the Hospital's bond rating.

In 2008, management designated an interest rate swap agreement as a cash flow hedging instrument for the Series 2003 Bonds, and determined the agreement qualifies for hedge accounting under the provisions of FASB ASC Topic 815. As a result, the agreement was recorded at its fair value with subsequent changes in fair value excluded from revenue and gains in excess of expenses, except for the ineffective portion. The Series 2003 Bonds were refunded on December 31, 2010, in conjunction with the issuance of the Series 2010A and 2010B Bonds. After the refunding, the swap agreement no longer qualifies for hedge accounting and all changes in its fair value subsequent to December 1, 2010 are included in revenue and gains in excess of expenses. The value of the swap loss will be amortized over the life of the original term of the Series 2003 Bond.

The Hospital had entered into the following interest rate swap agreements as of December 31, 2017 and 2016:

Notional 2017	Notional 2016		Rate Paid by Hospital	Rate Received by Hospital	Effective Date	Termination Date	Fair Value 2017	Fair Value 2016	Purposes
$ 100,000,000	$ 100,000,000		1-month BMA	78% of 1-month Libor	07/21/03	07/21/23	$ 131,722	$ (728,816)	(c)
9,935,000	11,285,000	(a)	Fixed (3.55%)	67% of 1-month Libor	10/01/04	10/01/23	(693,625)	(1,019,455)	(c)
36,445,388	38,055,918	(b)	Fixed (3.727%)	67% of 1-month Libor	04/05/08	12/01/33	(6,415,516)	(7,344,120)	(d)
							$ (6,977,419)	$ (9,092,391)	

(a) Notional amounts reduce annually through 2023.

(b) Notional amounts reduce annually through 2033.

(c) To protect against an increase in variable interest rates.

(d) Prior to December 1, 2010 refunding of 2003 bonds, this was a cash flow hedge to protect against increase in variable interest rates for the 2003 bonds; after refunding of 2003 bonds, purpose is general protection against an increase in variable interest rates.

The fair value of the swaps was $(6,977,419) and $(9,092,391) as of December 31, 2017 and 2016, respectively. The fair value of the swaps is reported as a derivative asset or liability in the accompanying balance sheets. Unrealized gains and losses in the fair value of the swaps, net of related interest income, are recognized in other income (ineffective portion) and other changes in unrestricted net assets (effective portion) as follows:

	2017	2016
Unrealized gain (loss) on interest rate swaps reported in other income	$ 2,354,607	$ (2,923,957)
Amortization of previously recognized ineffective amount	(239,635)	(239,635)
Swap interest expense	(1,430,713)	1,056,703
Unrealized gain (loss) on interest rate swaps, net of interest income	$ 684,259	$ (2,106,889)

(10) Boulder Community Health Retirement Plans

Defined Benefit Plan

The Hospital has a noncontributory, defined benefit retirement plan (the Plan) covering the majority of employees. The Hospital makes contributions to the Plan based on the funding recommendations of the Plan’s actuary and regulatory requirements. Based upon the actuary’s calculations, management believes they are in compliance with the funding requirements under the Pension Protection Act of 2006. The Plan uses the projected unit credit cost method for financial reporting and the unit credit cost method for funding purposes. Participation in the Plan was closed to employees hired on or after January 1, 2010.

Effective July 1, 2012, the Plan was amended to include a lump-sum payment option. Once a participant reaches at least age 55, has 10 years of vested service and terminates employment, he or she will have the option of taking a lump-sum benefit or a monthly payment.

In December 2016, the Finance Committee, acting as fiduciary to the Defined Benefit Pension Plan, agreed that it is probable the Plan will be frozen on June 30, 2017. This will allow for enhancement of the 403(b) profit sharing plan. Defined Benefit Plan Curtailment expenses of $920,850 are recognized in the 2016 net periodic benefit cost. As of September 30, 2017 the Defined Benefit Pension Plan was frozen and the shift to enhanced 403(b) profit sharing plan was made.

Key financial information and assumptions related to the Plan are summarized below:

	December 31	
	2017	**2016**
Change in projected benefit obligation (PBO)		
PBO, beginning of year	$ 148,782,586	$ 139,711,694
Service cost	4,305,200	4,889,021
Interest cost	6,375,492	6,748,062
Actuarial loss (gain)	12,925,896	13,645,620
Benefits paid	(8,544,103)	(7,121,026)
Curtailment	-	(9,090,785)
PBO, end of year	$ 163,845,071	$ 148,782,586

The accumulated benefit obligation is $163,845,071 and $148,782,586 as of December 31, 2017 and 2016, respectively.

	2017	**2016**
Change in plan assets		
Fair value of plan assets, beginning of year	$ 104,786,378	$ 96,203,077
Actual return on plan assets	15,491,670	7,677,965
Employer contributions	6,000,000	8,026,362
Benefits paid	(8,544,103)	(7,121,026)
Fair value of plan assets, end of year	$ 117,733,945	$ 104,786,378
Funded status of the plan, end of year (PBO, less plan assets)	$ (46,111,126)	$ (43,996,208)

	December 31	
	2017	**2016**
Assumptions and dates used to determine benefit obligation		
Discount rate	3.63%	4.39%
Compensation increase rate	n/a	2.75%
Measurement date	12/31/17	12/31/16
Census date	01/01/17	01/01/16
Assumptions to determine expense		
Discount rate	4.39%	4.99%
Long-term rate of return on assets	7.00%	7.00%
Compensation increase rate	2.75%	2.77%

	December 31	
	2017	2016
Amounts recognized in statements of operations		
Net periodic benefit cost		
Service cost	$ 4,305,200	$ 4,889,021
Interest cost	6,375,492	6,748,062
Expected return on plan assets	(5,868,657)	(5,644,032)
Prior service cost amortization	-	197,081
Net loss amortization	3,090,085	3,280,746
Amount recognized due to curtailment	-	920,850
Net periodic benefit cost	$ 7,902,120	$ 10,391,728

Amounts recognized in change in net assets not yet recognized as components of periodic benefit cost consist of the following:

	Pension Benefits	
	2017	2016
Total net loss	$ 38,915,609	$ 38,702,811

Asset Allocation by Asset Category

The Plan's investments at December 31 are as follows (see Note 15 for a description of Fair Value Measurements):

		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)
December 31, 2017				
Mutual bond funds	$ 41,037,892	$ 43,010,007	$ -	$ -
Domestic equity funds	50,566,714	48,594,599	-	-
International equity funds	26,129,339	26,129,339	-	-
Total	$ 117,733,945	$ 117,733,945	$ -	$ -

		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)**
December 31, 2016				
Cash	$ 27,591	$ 27,591	$ -	$ -
Mutual bond funds	33,207,391	33,207,391	-	-
Common stock	8,999,898	8,999,898	-	-
Domestic equity funds	42,179,760	32,857,121	9,322,639	-
International equity funds	20,371,738	20,371,738	-	-
Total	$ 104,786,378	$ 95,463,739	$ 9,322,639	$ -

The Hospital employs a total return investment approach, whereby a mix of equity and fixed income investments are used to maximize the long-term return of plan assets with a prudent level of risk. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns of individual assets. The expected return is generally based on historical returns.

Expected benefit payments for the years ending December 31:

2018	$ 9,100,000
2019	9,610,000
2020	9,650,000
2021	10,110,000
2022	9,750,000
2023–2027	48,420,000

The Hospital expects to contribute approximately $6,000,000 to the Plan in 2018.

The estimated net actuarial loss that will be amortized in 2017 is $3,120,621 and the estimated net actuarial loss and prior service cost that will be amortized in 2016 was $3,090,085.

Profit-sharing Plan

The Hospital has a 403(b) profit-sharing plan covering substantially all employees. The Hospital's matching contributions to the Plan are determined by the individual employee contribution. Effective October 1, 2017, the Hospital will match 100% of the employee contribution up to 3% of compensation. Additionally, the Hospital makes an annual lump sum contribution, regardless of employee participation in match, of 2% if you have less than six years of service at year-end and 3% for six or more years of service at year-end. Prior to October 1, 2017, the Hospital's contribution was equal to half of the employee contribution up to 3% of compensation. Employer contributions to the plan were $3,344,681 and $1,480,940 for 2017 and 2016, respectively. The custodian of the Plan is Principal.

457 Plans

The Hospital also has two nonqualified defined contribution plans. Assets of $8,673,924 and $6,783,722 were held as part of other assets at December 31, 2017 and 2016, respectively. Liabilities of $8,673,924 and $6,783,722 are included at December 31, 2017 and 2016, respectively, as part of other long-term liabilities.

(11) Functional Expenses

The Hospital provides general health care services to residents within its geographic location including inpatient, outpatient, emergency, and home health services. The Hospital's Cardiac Services, Surgical Services, Child/Maternal, Cancer, Behavioral Health, and Rehabilitation programs provide the community with a broad continuum of care. Expenses related to providing these services are as follows:

	2017	2016
Health care services	$ 189,442,390	$ 177,608,580
Physician services	69,394,956	60,918,735
General and administrative	90,880,005	83,738,623
Total	$ 349,717,351	$ 322,265,938

(12) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are generally insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31, 2017 and 2016, based on net receivables, is as follows:

	2017	2016
Medicare	20%	17%
Medicaid	14%	17%
HMO/PPO and commercial insurance	66%	66%
Patients (self-pay)	0%	0%
Total	100%	100%

(13) Commitments and Contingencies

The Hospital is a defendant or co-defendant in certain civil action suits involving personal injury damage claims by former patients, whereby plaintiffs are seeking damages. Management, based upon advice from legal counsel, estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results of its operations.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in substantial compliance with fraud and abuse compliance requirements, as well as other applicable government laws and regulations. Compliance with such laws and regulations is subject to government review and interpretation as well as regulatory actions.

(14) 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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying 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, 2017 and 2016:

		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)**
December 31, 2017				
U.S. bond funds	$ 129,405,997	$ 129,405,997	$ -	$ -
International bond funds	15,154,967	15,154,967	-	-
Municipal bonds	4,847,951	-	4,847,951	-
U.S. government obligations	4,136,077	4,136,077	-	-
Corporate bonds and notes	4,369,116	-	4,369,116	-
Asset-backed securities	1,364,964	-	1,364,964	-
Common stock	3,512,533	3,512,533	-	-
Equity funds	140,866,637	140,866,637	-	-
International equity funds	51,957,046	51,957,046	-	-
Long/short fixed income funds (A)	9,264,560	-	-	-
Real assets fund	12,873,476	12,873,476	-	-
	377,753,324	357,906,733	10,582,031	-
Cash and cash equivalents, at fair value	9,208,335	-	-	-
Accrued interest, at cost	73,621	-	-	-
	$ 387,035,280	$ 357,906,733	$ 10,582,031	$ -
Interest rate swap agreements	$ (6,977,419)	$ -	$ (6,977,419)	$ -

(A) In accordance with ASC 820, certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

		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)**
December 31, 2016				
U.S. bond funds	$ 69,190,365	$ 69,190,365	$ -	$ -
Municipal bonds	1,679,776	-	1,679,776	-
U.S. government obligations	9,924,797	9,924,797	-	-
Corporate bonds and notes	20,741,857	-	20,741,857	-
Asset-backed securities	3,981,529	-	3,981,529	-
Common stock	14,931,032	14,165,254	765,778	-
Equity funds	73,493,554	73,493,554	-	-
Equity funds (A)	10,238,103	-	-	-
International equity funds	47,170,727	47,170,727	-	-
International equity funds (A)	6,991,460	-	-	-
Long/short fixed income funds (A)	36,405,392	-	-	-
Long/short equity funds (A)	23,039,378	-	-	-
Real assets fund	7,525,056	7,525,056	-	-
Real assets (A)	7,092,303	-	-	-
	332,405,329	221,469,753	27,168,940	-
Cash and cash equivalents, at fair value	19,044,179	-	-	-
Accrued interest, at cost	267,430	-	-	-
	$ 351,716,938	$ 221,469,753	$ 27,168,940	$ -
Interest rate swap agreements	$ (9,092,391)	$ -	$ (9,092,391)	$ -

(A) In accordance with ASC 820, certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2017. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

(a) ***Assets Limited as to Use (Investments)***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient, which includes the long/short equity fund and long/short fixed income funds. Investments for which the funds have ongoing redemption and subscription activity are categorized as Level 2. Investments for which there is not observable data such as ongoing redemption and subscription activity are categorized as Level 3.

Fair value determinations for Level 3 measurements of securities are the responsibility of management. Management reviews these investment challenges to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

(b) ***Interest Rate Swap Agreement***

The fair value is estimated using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

(15) Subsequent Events

Subsequent events have been evaluated through April 20, 2018, which is the date the financial statements were available to be issued.