



**PARKVIEW HEALTH SYSTEM, INC.  
AND AFFILIATES**

**Combined Financial Statements**

**For the Years Ended June 30, 2023 and 2022,**

**Supplemental Combining Information**

**For the Year Ended June 30, 2023**

**And**

**Independent Auditors' Report**

# **PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES**

## **TABLE OF CONTENTS**

---

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2023 AND 2022</b>	
Combined Balance Sheets	3
Combined Statements of Operations and Changes in Net Assets	4
Combined Statements of Cash Flows	5
Notes to Combined Financial Statements	6
<b>SUPPLEMENTAL COMBINING INFORMATION FOR THE YEAR ENDED JUNE 30, 2023</b>	
Combining Balance Sheet	24
Combining Statement of Operations	25

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Parkview Health System, Inc.

### **Opinion**

We have audited the accompanying combined financial statements of Parkview Health System, Inc. and Affiliates (collectively, the Health System) which comprise the combined balance sheets as of June 30, 2023 and 2022 and the related combined statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Health System as of June 30, 2023 and 2022 and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Health System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Combined Financial Statements**

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error. In preparing the combined financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about the Health Systems' ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

### **Auditors' Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Health Systems' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health Systems' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### **Report on Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental 2023 combining information is presented for the purpose of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

*Stockman Kast Ryan + Co. LLP*

September 21, 2023

# PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

## COMBINED BALANCE SHEETS

JUNE 30, 2023 AND 2022

	2023	2022
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 31,972,295	\$ 32,135,020
Short-term investments	17,600,141	21,702,553
Current portion of assets limited as to use	5,930,348	5,484,456
Patient accounts receivable, net	55,091,348	54,064,322
Inventories	11,991,686	11,988,183
Other current assets	<u>10,198,049</u>	<u>9,277,818</u>
Total current assets	132,783,867	134,652,352
LONG-TERM INVESTMENTS	183,801,213	185,834,937
ASSETS LIMITED AS TO USE		
Investments held by bond trustee	1,188,994	27,745,144
LAND, BUILDINGS AND EQUIPMENT, NET	322,925,250	308,912,188
INTANGIBLE ASSETS, NET	951,736	1,288,436
OTHER ASSETS	<u>2,074,126</u>	<u>3,531,230</u>
TOTAL ASSETS	<u>\$ 643,725,186</u>	<u>\$ 661,964,287</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 58,581,712	\$ 57,423,854
Estimated third-party payor settlements	6,687,036	7,343,661
Current maturities of bonds and notes payable	4,715,000	4,187,594
Current portion of other long-term liabilities	<u>4,022,249</u>	<u>3,994,884</u>
Total current liabilities	74,005,997	72,949,993
BONDS AND NOTES PAYABLE	230,278,024	235,505,605
OTHER LONG-TERM LIABILITIES	<u>3,897,349</u>	<u>7,151,985</u>
TOTAL LIABILITIES	<u>308,181,370</u>	<u>315,607,583</u>
NET ASSETS		
Without donor restrictions:		
Parkview Health System, Inc.	331,589,662	342,906,284
Non-controlling interest in subsidiary	<u>963,254</u>	<u>649,679</u>
Total without donor restrictions	332,552,916	343,555,963
With donor restrictions	<u>2,990,900</u>	<u>2,800,741</u>
TOTAL NET ASSETS	<u>335,543,816</u>	<u>346,356,704</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 643,725,186</u>	<u>\$ 661,964,287</u>

See Independent Auditors' Report and notes to combined financial statements.

# PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

## COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
OPERATING REVENUES		
Net patient service revenue	\$ 533,874,981	\$ 512,431,629
Other operating revenue	<u>7,146,871</u>	<u>20,242,712</u>
Total	<u>541,021,852</u>	<u>532,674,341</u>
OPERATING EXPENSES		
Salaries and benefits	247,873,956	241,493,700
Purchased services	117,437,371	132,356,210
Supplies and drugs	95,600,262	97,641,847
Provider fees	47,978,796	47,318,805
Depreciation and amortization	19,780,839	16,907,607
Interest	7,952,159	6,298,286
Other expenses	<u>26,680,603</u>	<u>25,290,863</u>
Total	<u>563,303,986</u>	<u>567,307,318</u>
LOSS FROM OPERATIONS	<u>(22,282,134)</u>	<u>(34,632,977)</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	6,246,983	26,269,938
Unrealized gains (losses) on equity investments	3,671,514	(25,943,024)
Other income, net	<u>102,986</u>	<u>757,640</u>
Total	<u>10,021,483</u>	<u>1,084,554</u>
REVENUES UNDER EXPENSES	(12,260,651)	(33,548,423)
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net unrealized gains (losses) on fixed income investments	711,743	(10,541,164)
Net assets released from restrictions	471,841	921,022
Contributions from non-controlling member of subsidiary	74,020	
Distributions to non-controlling member of subsidiary		<u>(33,590)</u>
DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(11,003,047)</u>	<u>(43,202,155)</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions restricted for capital acquisitions and other purposes	662,000	750,282
Net assets released from restrictions	<u>(471,841)</u>	<u>(921,022)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	<u>190,159</u>	<u>(170,740)</u>
DECREASE IN NET ASSETS	(10,812,888)	(43,372,895)
NET ASSETS, Beginning of year	<u>346,356,704</u>	<u>389,729,599</u>
NET ASSETS, End of year	<u>\$ 335,543,816</u>	<u>\$ 346,356,704</u>

See Independent Auditors' Report and notes to combined financial statements.

# PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

## COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (10,812,888)	\$ (43,372,895)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	19,780,839	16,907,607
Unrealized losses (gains) on equity investments	(3,671,514)	25,943,024
Unrealized losses (gains) on fixed income investments	(711,743)	10,541,164
Other	857,644	201,835
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(1,027,026)	4,801,235
Other current assets	(923,734)	3,784,125
Accounts payable and accrued liabilities	1,157,858	(2,964,568)
Estimated third-party payor settlements	<u>(656,625)</u>	<u>(4,674,365)</u>
Net cash provided by operating activities	<u>3,992,811</u>	<u>11,167,162</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales or maturities of investments	24,811,969	108,865,077
Purchases of investments	(14,215,828)	(103,067,575)
Purchases of land, buildings and equipment	(35,094,333)	(64,701,370)
Decrease in assets limited as to use	26,110,258	52,365,536
Other	<u>1,906,433</u>	<u>(142,360)</u>
Net cash provided by (used in) investing activities	<u>3,518,499</u>	<u>(6,680,692)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds and notes	(4,187,594)	(4,054,273)
Payments on other long-term liabilities	<u>(3,486,441)</u>	<u>(4,489,984)</u>
Net cash used in financing activities	<u>(7,674,035)</u>	<u>(8,544,257)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(162,725)	(4,057,787)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>32,135,020</u>	<u>36,192,807</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 31,972,295</u>	<u>\$ 32,135,020</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest, net of interest capitalized of \$1,457,302 and \$3,174,556 during 2023 and 2022, respectively	<u>\$ 7,590,879</u>	<u>\$ 5,960,185</u>

See Independent Auditors' Report and notes to combined financial statements.

# PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS

---

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** — Parkview Health System, Inc. (Parkview Health System), a Colorado not-for-profit corporation, controls the following affiliates: Parkview Medical Center, Inc. (the Medical Center); Parkview Ancillary Services, LLC (Parkview Ancillary Services); and Pueblo Health Care, Inc. (Pueblo Health Care). Parkview Health System provides management and financial services to the other entities. The Medical Center operates hospital facilities and provides a wide range of acute care services primarily to patients in southeastern Colorado. Parkview Ancillary Services operates physician practices and provides billing services. Pueblo Health Care provides contract management services for the Medical Center and other health care providers. Parkview Foundation, Inc. (the Foundation), an affiliated entity, solicits and holds charitable contributions for the benefit of the Health System.

As of June 30, 2023 and 2022, the Medical Center has a 51% interest in Parkwest Imaging Center, LLC, an imaging center (Parkwest Imaging Center).

**Principles of Combination** — The combined financial statements for the years ended June 30, 2023 and 2022 include the accounts of Parkview Health System, the Medical Center, the Foundation, Parkview Ancillary Services, Pueblo Health Care, and Parkwest Imaging Center (collectively, the Health System). The combined financial statements include all assets, liabilities, revenues and expenses of Parkwest Imaging Center. Accordingly, the financial statements include the earnings and equity of the 49% non-controlling interest in Parkwest Imaging Center (see Note 15). All significant intercompany transactions have been eliminated in combination.

**Basis of Presentation** — The Health System reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which represents the expendable resources that are available for operations at management's discretion; and net assets with donor restrictions, which represents resources restricted by donors as to purpose or by the passage of time and resources whose use by the Health System is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Health System.

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

**Cash and Cash Equivalents** — The Health System considers all highly liquid investments not included in assets limited as to use and purchased with an initial maturity of three months or less to be cash equivalents. The Health System maintains deposits in financial institutions and these deposits exceed federally insured limits.



**Investments** — Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Investment income, including realized gains and losses, interest and dividends, and the net change in unrealized gains and losses on equity securities are included in the revenues over (under) expenses in the accompanying combined statements of operations and changes in net assets, unless the income or loss is restricted by donor or law. The change in net unrealized gains and losses on fixed income securities is reported as a separate component of the change in net assets without donor restrictions, except declines in fair value that are determined by management to be other than temporary are reported as realized losses. No such losses were recorded for the years ended June 30, 2023 or 2022. Donated investments are recorded at the fair value on the date of receipt.

**Net Patient Service Revenue and Patient Receivables** — Net patient service revenue is reported at the amount that reflects the consideration to which the Health System expects to be entitled for providing patient care. These amounts are due from patients, third-party payors, and others and includes variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. Generally, the Health System bills the patients and third-party payors several days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Health System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Health System believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The Health System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and the Health System does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Health System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Health System is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Health System accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the Health System has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

The Health System has agreements with third-party payors that generally provide for payments to the Health System at amounts different from its established rates. For uninsured patients who do not qualify for charity care, the Health System recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by the Health System. The Health System determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured patients in accordance with the Health System's policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration the Health System expects to receive from patients, which are determined based on historical collection experience, current market conditions and other factors.

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The Health System estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not material during the years ended June 30, 2023 or 2022.

The Health System is paid a prospectively determined rate for the majority of services provided (principally Medicare, Medicaid, and certain insurers). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments are received on a prospective basis for the Health System's medical education costs, subject to certain limits. The Health System is paid for certain cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicare Administrative Contractor.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation as well as significant regulatory action, and, in the normal course of business, the Health System is subject to contractual reviews and audits, including audits initiated by the Medicare Recovery Audit Contractor program. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. The Health System believes it is in compliance with applicable laws and regulations governing the Medicare and Medicaid programs and that adequate provisions have been made for any adjustments that may result from final settlements.

Settlements with third-party payors for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Health System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits.

Adjustments arising from a change in estimated settlements increased net patient service revenue by approximately \$336,000 and \$2,680,000 in 2023 and 2022, respectively. The Medicare and Medicaid programs could be materially modified in future years. Any material changes in the funds provided under these programs would have a correspondingly material effect on the Health System's results from operations.

**Inventories** — Inventories are stated at the lower of cost (first-in, first-out) or net realizable value.

**Assets Limited as to Use** — Assets limited as to use consist of investments held by the bond trustee for construction and debt service. Amounts required to meet current liabilities of the Health System are classified as current assets.

**Land, Buildings and Equipment** — Land, buildings and equipment are recorded at cost. Net interest incurred during the construction period is included in the cost of buildings. Depreciation is computed using the straight-line method over the estimated useful lives of assets. All acquisitions of land, buildings and equipment in excess of \$2,000 and expenditures for repairs, maintenance and improvements that materially extend the useful lives of assets are capitalized. Depreciable lives range from 3 to 20 years for equipment and 5 to 40 years for buildings and building components.

**Intangible Assets** — Intangible assets relate to the acquisition of Pueblo Imaging Center, LLC during the year ended June 30, 2015 and consist of existing referring physician relationships, trademarks, and goodwill. The Health System amortizes the existing referring physician relationships over their estimated useful life of 10 years. The Health System does not amortize goodwill, but it is tested for impairment using a fair value approach. The Health System has determined that there was no impairment of goodwill as of June 30, 2023 and 2022.

**Investments in Affiliates** — The Health System accounts for its investments in affiliates using the cost or equity methods depending on its ability to exercise influence over the affiliates' operating and financial policies. Investments in affiliates total \$235,924 and \$1,676,419 as of June 30, 2023 and 2022, respectively. Such investments are recorded in Other Assets in the combined balance sheets.

**Deferred Financing Costs** — Financing costs incurred in connection with the issuance of bonds are deferred and amortized using the effective interest method over the life of the bonds. Such financing costs are netted with Bond and Notes Payable in the combined balance sheets.

**Statements of Operations and Changes in Net Assets** — The statements of operations and changes in net assets include the performance indicator, Revenues Over (Under) Expenses. Changes in net assets without donor restrictions which are excluded from Revenues Over (Under) 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).

**Income Taxes** — Parkview Health System and its affiliates, except Pueblo Health Care, are exempt from income taxes. Pueblo Health Care is a taxable entity but did not incur material tax liabilities for the years ended June 30, 2023 and 2022. Parkview Imaging Center and Parkview Ancillary Services are limited liability companies and are not subject to income taxes.

The Health System accounts for any uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Health System believes that it does not have any uncertain tax positions that are material to the financial statements.

**Reclassifications** — Certain amounts in the 2022 financial statements have been reclassified to conform with the current year format.

**Subsequent Events** — The Health System has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date of issuance of the financial statements.

## 2. NET PATIENT SERVICE REVENUE

The composition of patient service revenue by primary payor and service provider consists of the following for the years ended June 30:

	<b>2023</b>		
	<b>Hospital</b>	<b>Physician</b>	<b>Total</b>
Medicare	\$ 95,773,352	\$ 29,401,366	\$ 125,174,718
Medicaid	126,023,794	11,638,967	137,662,761
Other third-party payors	248,206,823	20,882,236	269,089,059
Self-pay	<u>1,332,496</u>	<u>615,947</u>	<u>1,948,443</u>
Net patient service revenue	<u>\$ 471,336,465</u>	<u>\$ 62,538,516</u>	<u>\$ 533,874,981</u>

  

	<b>2022</b>		
	<b>Hospital</b>	<b>Physician</b>	<b>Total</b>
Medicare	\$ 102,719,868	\$ 22,868,897	\$ 125,588,765
Medicaid	126,611,633	10,457,360	137,068,993
Other third-party payors	221,519,937	27,194,937	248,714,874
Self-pay	<u>726,807</u>	<u>332,190</u>	<u>1,058,997</u>
Net patient service revenue	<u>\$ 451,578,245</u>	<u>\$ 60,853,384</u>	<u>\$ 512,431,629</u>

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. A summary of the payment arrangements under the Medicare and Medicaid programs follows:

*Medicare* - Services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Health System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicare fiscal intermediary.

*Medicaid* - Services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. The Health System is reimbursed at a tentative rate with final settlement determined after audits by the Medicaid fiscal intermediary.

Although state-administered, the Medicaid program is a joint federal and state program for which the federal government pays a portion of the cost.

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

The Health System grants equal access to health care services to all members of its community regardless of financial status. See Note 9 regarding charity and indigent care provided by the Health System.

### 3. INVESTMENTS

Investments consist of the following as of June 30:

	2023	2022
Short-term investments	\$ 17,600,141	\$ 21,702,553
Long-term investments	183,801,213	185,834,937
Investments held by bond trustee	<u>7,119,342</u>	<u>33,229,600</u>
Total	<u>\$ 208,520,696</u>	<u>\$ 240,767,090</u>

Generally accepted accounting principles require the Health System to use a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Health System has the ability to access.

Level 2: Valuations determined using significant other observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Valuations determined using significant unobservable inputs.

The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Cash equivalents, mutual funds and equity securities are valued at quoted prices in active markets. U.S. government and agency securities, corporate fixed income securities and certificates of deposit are valued at quoted prices in inactive markets and using other observable inputs.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Health System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by Level, within the fair value hierarchy, the Health System's investments at fair value as of June 30:

	Fair Value	Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>2023</b>				
U.S. government and agency securities	\$ 62,505,611		\$ 62,505,611	
Corporate fixed income securities	51,884,316		51,884,316	
Domestic equities	50,541,430	\$ 50,541,430		
Domestic equity mutual funds	23,478,986	23,478,986		
International equity mutual funds	7,822,073	7,822,073		
Cash equivalents	7,119,943	7,119,943		
Real estate mutual fund	3,374,018	3,374,018		
Certificates of deposit	<u>1,794,319</u>		<u>1,794,319</u>	
Total	<u>\$ 208,520,696</u>	<u>\$ 92,336,450</u>	<u>\$ 116,184,246</u>	<u>\$ —</u>
<b>2022</b>				
U.S. government and agency securities	\$ 101,154,500		\$ 101,154,500	
Corporate fixed income securities	65,811,335		65,811,335	
Domestic equities	47,121,755	\$ 47,121,755		
Cash equivalents	17,303,912	17,303,912		
Real estate mutual fund	4,963,947	4,963,947		
Certificates of deposit	2,177,806		2,177,806	
Domestic equity mutual funds	1,631,433	1,631,433		
International equity mutual funds	<u>602,402</u>	<u>602,402</u>		
Total	<u>\$ 240,767,090</u>	<u>\$ 71,623,449</u>	<u>\$ 169,143,641</u>	<u>\$ —</u>

Realized gains and losses on disposal of investments are computed as the difference between the proceeds received from the sale and the cost of the specific investment. Investment income includes \$2,930,100 and \$22,416,131 of net realized gains for the years ended June 30, 2023 and 2022, respectively.

The terms of bond indentures provide for the establishment of various bond trust funds which can be used only for the purposes designated in the agreements (see Note 7). Such funds are classified as current to the extent that funds on hand will be used to satisfy current liabilities, including maturities of bond principal. Funds held for construction are classified as long-term.

The Health System routinely invests the majority of its surplus operating funds in fixed income investments including U.S. government and agency obligations, certificates of deposit and corporate fixed income securities. Management believes that credit risk related to such investments is not material to the accompanying financial statements.

#### **4. PATIENT ACCOUNTS RECEIVABLE**

The Health System grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. The composition of net patient accounts receivable is as follows as of June 30:

	<b>2023</b>	<b>2022</b>
Medicare	21%	20%
Medicaid	8%	12%
Other third-party payors	66%	65%
Patients	<u>5%</u>	<u>3%</u>
Total	<u>100%</u>	<u>100%</u>

The Health System has an agreement with a bank under which the Health System guarantees loans made by the bank to patients to enable the patients to satisfy their obligations to the Health System. As of June 30, 2023 and 2022, outstanding loans not yet collected by the bank totaled approximately \$4,182,000 and \$4,313,000, respectively. The Health System has recorded an allowance of approximately \$1,422,000 and \$1,507,000 for estimated losses relating to potential repurchases of such loans as of June 30, 2023 and 2022, respectively.

#### **5. LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consist of the following as of June 30:

	<b>2023</b>	<b>2022</b>
Buildings and improvements	\$ 376,418,328	\$ 289,473,865
Equipment and furniture	214,356,168	163,988,342
Land and improvements	21,130,104	18,889,784
Construction in progress	<u>9,963,857</u>	<u>114,633,379</u>
Total	621,868,457	586,985,370
Less accumulated depreciation	<u>298,943,207</u>	<u>278,073,182</u>
Land, buildings and equipment, net	<u>\$ 322,925,250</u>	<u>\$ 308,912,188</u>

## 6. INTANGIBLE ASSETS

Intangible assets relate to the acquisition of Pueblo Imaging Center, LLC in August 2014 and consist of the following as of June 30:

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
<b>2023</b>			
Amortized intangible assets:			
Existing physician relationships	\$ 3,264,000	\$ (2,910,399)	\$ 353,601
Trademarks	<u>103,000</u>	<u>(91,842)</u>	<u>11,158</u>
Total	3,367,000	(3,002,241)	364,759
Goodwill	<u>586,977</u>		<u>586,977</u>
Intangible assets, net	<u>\$ 3,953,977</u>	<u>\$ (3,002,241)</u>	<u>\$ 951,736</u>
<b>2022</b>			
Amortized intangible assets:			
Existing physician relationships	\$ 3,264,000	\$ (2,583,999)	\$ 680,001
Trademarks	<u>103,000</u>	<u>(81,542)</u>	<u>21,458</u>
Total	3,367,000	(2,665,541)	701,459
Goodwill	<u>586,977</u>		<u>586,977</u>
Intangible assets, net	<u>\$ 3,953,977</u>	<u>\$ (2,665,541)</u>	<u>\$ 1,288,436</u>

Amortization expense on amortized intangible assets for both the years ended June 30, 2023 and 2022 was \$336,700.

Estimated future amortization expense as of June 30, 2023 is as follows:

2024	\$ 336,700
2025	<u>28,059</u>
Total	<u>\$ 364,759</u>



## 7. BONDS AND NOTES PAYABLE

Bonds and notes payable consist of the following as of June 30:

	2023	2022
Series 2020A Hospital Revenue Bonds	\$ 67,465,000	67,465,000
Series 2020B Hospital Revenue Bonds	13,305,000	13,305,000
Series 2017 Hospital Revenue Refunding Bonds	12,120,000	13,225,000
Series 2016 Hospital Revenue Bonds	70,590,000	70,590,000
Series 2015A Hospital Revenue Refunding Bonds	1,655,000	2,165,000
Series 2015B Hospital Revenue Refunding Bonds	36,740,000	36,860,000
Series 2014 Hospital Revenue Refunding Bonds	3,495,000	4,615,000
Series 2012 Hospital Revenue Bonds	19,670,000	20,920,000
Notes payable	<u>1,350,000</u>	<u>1,432,594</u>
Bonds and notes payable, principal balances	226,390,000	230,577,594
Bond issue premiums	10,248,087	10,888,095
Bond issuance costs	<u>(1,645,063)</u>	<u>(1,772,490)</u>
Total	234,993,024	239,693,199
Less current maturities	<u>4,715,000</u>	<u>4,187,594</u>
Long-term maturities	<u>\$ 230,278,024</u>	<u>\$ 235,505,605</u>

Bond issue premiums and bond issuance costs are being amortized over the lives of the respective bonds.

In July 2020, Hospital Revenue Bonds, Series 2020A were issued in the amount of \$67,465,000 and Hospital Revenue Bonds, Series 2020B were issued in the amount of \$13,305,000 to fund construction projects. The 2020A Bonds mature in varying installments from 2040 through 2050 with interest payable semi-annually at 4%. The Series 2020B Bonds mature in varying installments from 2024 through 2039 with interest payable semi-annually at rates ranging from 2.176% to 4.274%. The Series 2020A and 2020B Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture.

In October 2017, Hospital Revenue Refunding Bonds, Series 2017, were issued to provide for the defeasance of \$23,090,000 of the Health System's Series 2007B Bonds. The 2017 Bonds mature in varying installments through September 2029 with interest rates ranging from 3% to 5%. Bond interest and principal are deposited with the bond trustee in annual requirements ranging from \$263,900 to \$2,949,550. The 2017 Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture. The proceeds of the Series 2017 Bonds were deposited with an escrow agent to provide for the future debt service payments on the Series 2007B Bonds. Since the Series 2007B Bonds were defeased, the liability for these bonds was removed from the financial statements.

In September 2016, Hospital Revenue Bonds, Series 2016, were issued in the amount of \$70,590,000 to fund various construction projects. The 2016 Bonds mature in varying installments from 2037 through September 2046 with interest rates ranging from 3.125% to 5%. Bond interest and principal are deposited with the bond trustee in annual requirements ranging from \$2,814,256 to \$7,997,500. The 2016 Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture.

In June 2015, Hospital Revenue Refunding Bonds, Series 2015A, were issued to provide for the defeasance of \$6,370,000 of the Health System's Series 2005 Bonds. The 2015A Bonds mature in varying installments through September 2025 with interest rates ranging from 2% to 5%. Bond interest and principal are deposited with the bond trustee in annual requirements ranging from \$543,538 to \$589,425. The 2015A Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture. The proceeds of the Series 2015A Bonds were deposited with an escrow agent to provide for the future debt service payments on the Series 2005 Bonds. Since the Series 2005 Bonds were defeased, the liability for these bonds was removed from the financial statements.

In June 2015, Hospital Revenue Refunding Bonds, Series 2015B, were issued to provide for the defeasance of \$38,380,000 of the Health System's Series 2007A Bonds. The 2015B Bonds mature in varying installments through September 2031 with interest rates ranging from 2% to 5%. Bond interest and principal are deposited with the bond trustee in annual requirements ranging from \$1,769,975 to \$6,295,400. The 2015B Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture. The proceeds of the Series 2015B Bonds were deposited with an escrow agent to provide for the future debt service payments on the Series 2015A Bonds. Since the Series 2007A Bonds were defeased, the liability for these bonds was removed from the financial statements.

In September 2014, Hospital Revenue Refunding Bonds, Series 2014, were issued for the repayment of \$13,245,000 of the Health System's Series 2004 Bonds. The 2014 Bonds mature in varying installments through September 2025 with an interest rate of 2.39%. Bond interest and principal are deposited with the bond trustee in annual requirements ranging from \$1,208,202 to \$1,254,435.

The 2014 Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture.

In October 2012, Hospital Revenue Bonds, Series 2012, were issued in the amount of \$29,310,000 to fund various construction projects. The 2012 Bonds mature in varying installments through September 2037 with interest rates ranging from 2% to 5%. Bond interest and principal are deposited with the bond trustee in annual requirements ranging from \$1,202,975 to \$2,123,675. The 2012 Bonds are collateralized by net pledged revenues and certain funds created under the Bond Indenture.

The Bond Indentures require that certain funds be established and controlled by the bond trustee to satisfy project construction and debt service requirements for as long as any of the bonds remain outstanding. At June 30, 2023 and 2022, the following accounts were held in trusteed accounts to satisfy these requirements (see Note 3):

	<b>2023</b>	<b>2022</b>
Construction funds	\$ 1,188,994	\$ 27,745,144
Debt service funds	<u>5,930,348</u>	<u>5,484,456</u>
Total	<u>\$ 7,119,342</u>	<u>\$ 33,229,600</u>

Additionally, the terms of the Bond Indenture contain restrictions regarding the issuance of additional debt and the encumbrance or disposition of certain assets and require the Medical Center and other members of the Obligated Group, as defined, to maintain certain levels of debt service.

The Health System has a promissory note with an outstanding principal balance of \$1,350,000 at June 30, 2023 and 2022 which is collateralized by a building and bears interest payable quarterly at 6% to 7.5%. All principal is due at maturity in January 2030.

The Health System had a promissory note with an outstanding principal balance of \$82,594 at June 30, 2022, which was collateralized by equipment and bore interest payable monthly at 4.86%. The note was repaid during 2023.

The aggregate future minimum principal repayment requirements of the bonds and notes for each of the next five fiscal years are as follows:

2024	\$ 4,715,000
2025	4,895,000
2026	5,080,000
2027	5,300,000
2028	5,555,000

## 8. OTHER LONG-TERM LIABILITIES

**Leases** — The Health System adopted Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-02, *Leases*, effective July 1, 2019. The Health System has operating leases for real estate, personal property and equipment. The Health System determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of twelve months or less are not recorded on the combined balance sheets.

The Health System has lease agreements which require payments for lease and non-lease components and has elected to account for these as a single lease component. For leases that commenced before the effective date of ASU 2016-02, the Health System elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

Right-of-use assets of \$1,898,563 and \$1,639,393 as of June 30, 2023 and 2022, respectively, are recorded within Other Assets and represent the Health System's right to use an underlying asset during the lease term, and lease liabilities represent the Health System's obligation to make lease payments arising from the lease. The Health System's lease terms include options to extend or terminate the lease when it is reasonably certain that the options will be exercised. As most of the Health System's operating leases do not provide an implicit rate, the Health System uses its estimated incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Health System considers recent debt issuances, as well as publicly available data for instruments with similar characteristics when calculating its incremental borrowing rates.

Operating fixed lease expense is recognized on a straight-line basis over the lease term. Variable lease costs consist mainly of volume-based lease payments on leased equipment.

Lease costs incurred under the lease agreements are as follows for the years ended June 30:

	<b>2023</b>	<b>2022</b>
Operating lease cost	\$ 1,673,811	\$ 1,117,379
Variable lease cost	1,384,169	1,215,633
Short-term lease cost	<u>218,696</u>	<u>27,221</u>
Total	<u>\$ 3,276,676</u>	<u>\$ 2,360,233</u>

Other information:

Cash paid for amounts included in  
the measurement of lease liability:

Operating cash flows from operating leases	\$ 916,802	\$ 955,278
Equipment obtained in exchange for new operating leases	\$ 1,561,405	
Weighted average remaining lease term	2.06 years	1.43 years
Weighted average discount rate	5.0%	5.0%

Undiscounted cash flows for operating leases as of June 30, 2023 are as follows:

2024	\$ 1,130,748
2025	752,645
2026	85,118
2027	47,824
2028	48,781
Thereafter	<u>49,756</u>
Future minimum lease payments	2,114,872
Less amount representing interest	<u>216,309</u>
Operating lease liability recognized in the combined balance sheet	<u>\$ 1,898,563</u>

The Health System is the lessor of numerous buildings under operating leases expiring in various years through 2026. The buildings have a cost of \$64,708,148 and accumulated depreciation of \$33,654,596 as of June 30, 2023.

Lease income under operating leases totaled \$1,933,541 and \$1,957,049 for the years ended June 30, 2023 and 2022, respectively. Minimum future rentals to be received on non-cancelable leases for each of the next five fiscal years as of June 30, 2023 are as follows:

2024	\$ 1,713,480
2025	1,381,799
2026	642,337
2027	499,342
2028	353,668
Thereafter	<u>1,503,090</u>
Total	<u>\$ 6,093,716</u>

**Software Financing Agreement** — During the year ended June 30, 2022, the Health System acquired software and financed the acquisition with monthly payments due through July 31, 2025. As of June 30, 2023 and 2022, \$6,021,035 and \$9,507,476, respectively, of principal remains outstanding under the agreement and has been recorded within other long-term liabilities in the accompanying combined balance sheet. Amounts outstanding under the financing agreement bear interest at a rate of 3%. Future minimum principal payments under the financing agreement are as follows as of June 30, 2023:

2024	\$	3,038,124
2025		2,982,911

## 9. CHARITY AND INDIGENT CARE

The Health System 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 Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition to charity care, the Health System provides services to individuals with low incomes under the Medicaid program, for which the payments received are less than the cost of providing the services. The Health System also qualifies indigent patients for the State of Colorado Indigent Care Program (CICP).

The estimated costs incurred under the Health System's charity care policy and Medicaid program are as follows for the years ended June 30 (amounts do not include physician practice or Parkwest Imaging Center balances):

	2023	2022
Medicaid	\$ 73,509,000	\$ 109,159,000
Charity care	918,000	1,148,000

The estimated cost amounts are calculated by multiplying gross uncompensated charges associated with the charity care and Medicaid programs with an estimate of the ratio of costs to gross charges. Patient service revenue under the Medicaid program, excluding provider fees discussed below, was approximately \$64,717,000 and \$64,342,000 for the years ended June 30, 2023 and 2022, respectively (amounts do not include physician practice balances). Patient service revenue under the charity care policy was not significant in amount.

The State of Colorado has implemented a provider fee on Medicaid and CICP providers which generates additional federal matching funds. Provider fees paid and supplemental payments received were as follows for the years ended June 30:

	2023	2022
Supplemental payments received	\$ 72,787,840	\$ 71,362,877
Provider fees paid	<u>(47,978,796)</u>	<u>(47,318,805)</u>
Net excess of payments received over provider fees paid	<u>\$ 24,809,044</u>	<u>\$ 24,044,072</u>

Supplemental payments received are recorded within net patient service revenue and provider fees paid are recorded within operating expenses in the statements of operations and changes in net assets.

## 10. EMPLOYEE BENEFIT PLAN

The Health System has a savings plan under Internal Revenue Code Section 401(k) covering all employees who have completed one year of service. Under the Plan, an employee may defer up to 15% of compensation. Through December 31, 2022, the Health System matched contributions equal to 100% of participants' deferral contributions up to 3% of compensation, plus 50% of deferral contributions over 3% but not over 7% of compensation. Effective January 1, 2023, the Health System matches 50% of the first 4% of participants' deferral contributions. Employee contributions vest immediately and the Health System's contributions vest over a three-year period. Employee benefit expense under this plan for the years ended June 30, 2023 and 2022 was \$5,234,584 and \$7,787,055, respectively.

## 11. CONTINGENCIES

**Medical Malpractice Claims** — The Health System maintains professional liability insurance through a claims-made type of commercial insurance policy. The policy provides coverage up to the policy limits for claims filed within the period of the policy term. The policy also provides the Health System with an option to purchase supplemental tail coverage for all claims incurred, but not reported, prior to the termination date of the current policy. The Health System has recorded an estimated liability for claims outstanding and unreported incidents as of June 30, 2023 and 2022.

**Litigation** — The Health System is involved in certain legal actions in the normal course of business. Management believes that the ultimate resolution with respect to these matters will not materially affect the financial position of the Health System.

## 12. LIQUIDITY AND AVAILABILITY

The Health System's financial assets available within one year of the balance sheet date for general expenditure are as follows as of June 30, 2023 and 2022:

	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 31,972,295	\$ 32,135,020
Investments	201,401,354	207,537,490
Assets limited as to use (held by bond trustee for debt service)	7,119,342	33,229,600
Patient accounts receivable, net	<u>55,091,348</u>	<u>54,064,322</u>
Total financial assets	<u>295,584,339</u>	<u>326,966,432</u>
Less amounts unavailable for general expenditures within one year:		
Long-term investments	183,801,213	185,834,937
Assets limited as to use (held by bond trustee for debt service)	<u>7,119,342</u>	<u>33,229,600</u>
Total amounts unavailable for general expenditures within one year	<u>190,920,555</u>	<u>219,064,537</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 104,663,784</u>	<u>\$ 107,901,895</u>

The Health System structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash in excess of daily requirements for general expenditures is invested in long-term investments. The Health System's long-term investment portfolio contains liquid investments that can be drawn upon, if necessary, to meet the liquidity needs of the Health System.

### 13. FUNCTIONAL EXPENSES

The Health System provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services and general and administrative functional expense classifications based on the relevant statistics, square footage and other methods.

The following schedule presents the natural classification of expenses by function for the years ended June 30, 2023 and 2022:

	<b>Health Care Services</b>	<b>General and Administrative</b>	<b>Total</b>
<b>2023</b>			
Salaries and benefits	\$ 179,236,203	\$ 68,637,753	\$ 247,873,956
Purchased services	87,018,966	30,418,405	117,437,371
Supplies and drugs	87,649,243	7,950,995	95,600,262
Provider fees	47,978,796		47,978,796
Depreciation and amortization	16,442,984	3,337,855	19,780,839
Interest		7,952,159	7,952,159
Other expenses	<u>3,304,419</u>	<u>23,376,178</u>	<u>26,680,603</u>
Total expenses	<u>\$ 421,630,641</u>	<u>\$ 141,673,345</u>	<u>\$ 563,303,986</u>
<b>2022</b>			
Salaries and benefits	\$ 157,722,734	\$ 83,770,966	\$ 241,493,700
Purchased services	116,613,631	15,742,579	132,356,210
Supplies and drugs	86,352,901	11,288,946	97,641,847
Provider fees	47,318,805		47,318,805
Depreciation and amortization	14,056,190	2,851,417	16,907,607
Interest		6,298,286	6,298,286
Other expenses	<u>2,494,755</u>	<u>22,796,108</u>	<u>25,290,863</u>
Total expenses	<u>\$ 424,559,016</u>	<u>\$ 142,748,302</u>	<u>\$ 567,307,318</u>

### 14. RELATED PARTY TRANSACTIONS

Parkview Health System and its affiliates (see Note 1 – Organization) have board members that are also physicians in practices that contract with the Health System. During the years ended June 30, 2023 and 2022, payments to these practices for services provided to the Medical Center totaled approximately \$16,300,000 and \$30,000,000, respectively.

## 15. NON-CONTROLLING INTEREST IN SUBSIDIARY

The combined financial statements include all assets, liabilities, revenues and expenses of Parkwest Imaging Center, which is 51% owned by the Medical Center.

The following table summarizes the changes in unrestricted net assets segregated between controlling and non-controlling interest for the years ended June 30, 2023 and 2022:

	<b>Controlling Interest</b>	<b>Non-controlling Interest</b>	<b>Total</b>
Net assets without donor restrictions, June 30, 2021	\$ 386,059,405	\$ 698,713	\$ 386,758,118
Revenues under expenses	(33,532,979)	(15,444)	(33,548,423)
Net unrealized losses on fixed income investments	(10,541,164)		(10,541,164)
Net assets released from restrictions	921,022		921,022
Distributions to non-controlling member		(33,590)	(33,590)
Net assets without donor restrictions, June 30, 2022	342,906,284	649,679	343,555,963
Revenues under expenses	(12,500,206)	239,555	(12,260,651)
Net unrealized gains on fixed income investments	711,743		711,743
Net assets released from restrictions	471,841		471,841
Contributions from non-controlling member		74,020	74,020
Net assets without donor restrictions, June 30, 2023	<u>\$ 331,589,662</u>	<u>\$ 963,254</u>	<u>\$ 332,552,916</u>

## 16. COVID-19 PANDEMIC AND PROVIDER RELIEF FUNDS

Patient volumes and related revenues have periodically been significantly affected by the COVID-19 pandemic as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses. Admissions and elective surgeries at the Health System's facilities were periodically banned or limited as a precautionary measure. The Health System has also incurred additional costs relating to the COVID-19 pandemic, including significant contract labor costs.

In response to the COVID-19 outbreak the Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act authorizes funding to hospitals and other health care providers to be distributed through the Provider Relief Fund. Provider Relief Fund payments are to be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the recipient for health care related expenses or lost revenues attributed to COVID-19. Provider Relief Fund payments received and not used for these purposes by various deadlines are required to be refunded.



The Health System was awarded \$1,839,731, \$11,129,884 and \$10,157,035 of provider relief funds during the years ended June 30, 2022, 2021 and 2020, respectively. The Health System has recognized revenue of \$10,585,080 within other operating revenue relating to the Provider Relief Fund payments in the accompanying combined statement of operations and changes in net assets for the year ended June 30, 2022. The remainder of the Provider Relief Fund revenues were recognized during the years ended June 30, 2021 and 2020.

## **17. INTEGRATION AND AFFILIATION AGREEMENT WITH UNIVERSITY OF COLORADO HEALTH**

Parkview Health System has entered into an Integration and Affiliation Agreement with University of Colorado Health (UCHealth) dated January 24, 2023 (the Agreement). Pursuant to the Agreement, upon the Effective Time (as defined in the Agreement), UCHealth shall become the sole member of Parkview Health System such that Parkview Health System and its affiliates (see Note 1) will be fully integrated into UCHealth. The consummation of the transactions contemplated by the Agreement shall take place following the date on which all conditions precedent to the Closing (as defined in the Agreement) are satisfied or waived. The Effective Time of the Agreement shall be on the date immediately after the Closing Date or such other date thereafter established by UCHealth and Parkview Health System.

In consideration for the transactions contemplated by the Agreement, UCHealth will provide capital to and for the benefit of Parkview Health System for capital projects in an aggregate amount of not less than \$175,000,000 during the ten years following the Closing Date. UCHealth will also forgive the balance of the Software Financing Agreement (see Note 8). At Closing, UCHealth will contribute \$5 million to the Medical Center and the Medical Center will subsequently contribute \$5 million to the Foundation. UCHealth will have the option to require the Medical Center to redeem or defease certain of its outstanding bonds.

The Agreement does not give UCHealth the right to control or direct the operations of Parkview Health System and its affiliates prior to the Closing Date. The Agreement may be terminated at any time prior to Closing under any of the following circumstances: (a) by mutual written consent of the parties, (b) by any party if the conditions of the Agreement to be satisfied or performed by another party at or before Closing become incapable of satisfaction or performance prior to the Closing Date, or (c) by any party on thirty days notice if the Closing shall not have occurred on or before January 24, 2024 (the Outside Date); provided, however, that the Outside Date may be extended for subsequent periods of three months upon mutual agreement of the parties.

As of the date of the independent Auditors' Report, the Closing and the transactions contemplated by the Agreement have not yet occurred.

**PARKVIEW HEALTH SYSTEM, INC.  
AND AFFILIATES**

**SUPPLEMENTAL COMBINING INFORMATION**

# PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

## COMBINING BALANCE SHEET

JUNE 30, 2023

	Obligated Group <sup>(1)</sup>	Other Combined Entities	Eliminations	Combined
<b>ASSETS</b>				
CURRENT ASSETS				
Cash and cash equivalents	\$ 30,831,596	\$ 1,140,699		\$ 31,972,295
Short-term investments	17,203,380	396,761		17,600,141
Current portion of assets limited as to use	5,930,348			5,930,348
Patient accounts receivable, net	55,091,348			55,091,348
Inventories	11,991,686			11,991,686
Other current assets	<u>10,029,545</u>	<u>168,504</u>		<u>10,198,049</u>
Total current assets	131,077,903	1,705,965	\$ —	132,783,867
LONG-TERM INVESTMENTS	180,470,047	3,331,166		183,801,213
ASSETS LIMITED AS TO USE				
Investments held by bond trustee	1,188,994			1,188,994
LAND, BUILDINGS AND EQUIPMENT, NET	322,968,446		(43,196)	322,925,250
INTANGIBLE ASSETS, NET	951,736			951,736
INVESTMENTS IN OTHER COMBINED ENTITIES	140,178		(140,178)	
OTHER ASSETS	<u>5,065,026</u>		<u>(2,990,900)</u>	<u>2,074,126</u>
TOTAL ASSETS	<u>\$ 641,862,330</u>	<u>\$ 5,037,130</u>	<u>\$ (3,174,274)</u>	<u>\$ 643,725,186</u>
<b>LIABILITIES AND NET ASSETS</b>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 58,576,645	\$ 5,067		\$ 58,581,712
Estimated third-party payor settlements	6,687,036			6,687,036
Current maturities of bonds and notes payable	4,715,000			4,715,000
Current portion of other long-term liabilities	<u>4,022,249</u>			<u>4,022,249</u>
Total current liabilities	74,000,930	5,067	\$ —	74,005,997
BONDS AND NOTES PAYABLE	230,278,024			230,278,024
OTHER LONG-TERM LIABILITIES	<u>3,897,349</u>			<u>3,897,349</u>
TOTAL LIABILITIES	<u>308,176,303</u>	<u>5,067</u>	<u>—</u>	<u>308,181,370</u>
NET ASSETS				
Without donor restrictions:				
Parkview Health System	329,731,873	2,041,163	(183,374)	331,589,662
Non-controlling interest in subsidiary	<u>963,254</u>			<u>963,254</u>
Total without donor restrictions	330,695,127	2,041,163	(183,374)	332,552,916
With donor restrictions	<u>2,990,900</u>	<u>2,990,900</u>	<u>(2,990,900)</u>	<u>2,990,900</u>
TOTAL NET ASSETS	<u>333,686,027</u>	<u>5,032,063</u>	<u>(3,174,274)</u>	<u>335,543,816</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 641,862,330</u>	<u>\$ 5,037,130</u>	<u>\$ (3,174,274)</u>	<u>\$ 643,725,186</u>

<sup>(1)</sup> The Obligated Group as defined in the Health System's bond indenture consists of Parkview Medical Center, Inc., Parkview Health System, Inc. and Parkview Ancillary Services, LLC.

# PARKVIEW HEALTH SYSTEM, INC. AND AFFILIATES

## COMBINING STATEMENT OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2023

	Obligated Group <sup>(2)</sup>	Other Combined Entities	Eliminations	Combined
OPERATING REVENUES				
Net patient service revenue	\$ 533,874,981			\$ 533,874,981
Other operating revenue	<u>7,083,469</u>	<u>\$ 298,912</u>	<u>\$ (235,510)</u>	<u>7,146,871</u>
Total	<u>540,958,450</u>	<u>298,912</u>	<u>(235,510)</u>	<u>541,021,852</u>
OPERATING EXPENSES				
Salaries and benefits	247,659,067	214,889		247,873,956
Purchased services	117,521,159		(83,788)	117,437,371
Supplies and drugs	95,600,262			95,600,262
Provider fees	47,978,796			47,978,796
Depreciation and amortization	19,794,130		(13,291)	19,780,839
Interest	7,952,159			7,952,159
Other expenses	<u>26,639,837</u>	<u>57,746</u>	<u>(16,980)</u>	<u>26,680,603</u>
Total	<u>563,145,410</u>	<u>272,635</u>	<u>(114,059)</u>	<u>563,303,986</u>
LOSS FROM OPERATIONS	<u>(22,186,960)</u>	<u>26,277</u>	<u>(121,451)</u>	<u>(22,282,134)</u>
NON-OPERATING INCOME (EXPENSE)				
Investment income	6,102,388	144,595		6,246,983
Unrealized gains on equity investments	3,671,514			3,671,514
Other income (expense), net	<u>450,109</u>	<u>(455,588)</u>	<u>108,465</u>	<u>102,986</u>
Total	<u>10,224,011</u>	<u>(310,993)</u>	<u>108,465</u>	<u>10,021,483</u>
REVENUES UNDER EXPENSES	<u>\$ (11,962,949)</u>	<u>\$ (284,716)</u>	<u>\$ (12,986)</u>	<u>\$ (12,260,651)</u>

<sup>(2)</sup> The Obligated Group as defined in the Health System's bond indenture consists of Parkview Medical Center, Inc., Parkview Health System, Inc. and Parkview Ancillary Services, LLC.