

# **AnMed Health**

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## **Financial Statements**

**Years Ended December 31, 2017 and 2016**

## **Table of Contents**

**Independent Auditors' Report** ..... 1

**Financial Statements:**

Balance Sheets ..... 2

Statements of Operations and Changes in Net Assets ..... 3-4

Statements of Cash Flows ..... 5-6

Notes to Financial Statements ..... 7-23



## **Independent Auditors' Report**

The Board of Trustees  
AnMed Health  
Anderson, South Carolina

### ***Report on the Financial Statements***

We have audited the accompanying balance sheets of AnMed Health as of December 31, 2017 and 2016, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 AnMed Health'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 AnMed Health's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

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

*Dixon Hughes Goodman LLP*

Greenville, South Carolina  
April 26, 2018

**AnMed Health**  
**Balance Sheets**  
**December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 20,782,738	\$ 27,625,953
Patient accounts receivable, net (less allowance for uncollectible accounts of approximately \$80,733,000 in 2017 and \$63,724,000 in 2016)	68,426,867	65,791,370
Other receivables, net	4,382,025	5,806,236
Due from related entities	4,207,942	3,178,078
Inventories of drugs and supplies	9,630,716	3,783,080
Prepaid expenses and other current assets	7,861,837	7,982,966
Assets whose use is limited, required for current liabilities	10,161,287	7,931,459
Total current assets	<u>125,453,412</u>	<u>122,099,142</u>
Assets whose use is limited, excluding amounts required for current liabilities	466,536,788	462,734,698
Property, plant, and equipment, net	306,355,802	297,322,026
Cash surrender value of life insurance	12,763,603	5,660,839
Other assets	3,742,695	4,496,756
Total assets	<u>\$ 914,852,300</u>	<u>\$ 892,313,461</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 17,080,971	\$ 16,568,493
Accrued payroll and employee benefits	32,231,484	32,746,468
Accrued liabilities	7,843,347	18,022,997
Estimated third-party payor settlements	8,532,657	8,219,321
Due to related entities	366,358	1,681,721
Current installments of long-term debt	7,265,000	6,415,000
Total current liabilities	<u>73,319,817</u>	<u>83,654,000</u>
Interest rate swap instrument	6,973,804	7,988,314
Long-term debt, excluding current installments	260,001,198	268,031,024
Other long-term liabilities	1,153,914	233,407
Total liabilities	<u>341,448,733</u>	<u>359,906,745</u>
Net assets:		
Unrestricted	573,287,878	530,758,314
Temporarily restricted	115,689	1,648,402
Total net assets	<u>573,403,567</u>	<u>532,406,716</u>
Total liabilities and net assets	<u>\$ 914,852,300</u>	<u>\$ 892,313,461</u>

See accompanying notes.

**AnMed Health**  
**Statements of Operations and Changes in Net Assets**  
**Years ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Unrestricted revenues and other support:		
Net patient service revenue	\$ 564,674,484	\$ 570,055,964
Provision for uncollectible accounts	<u>(64,548,415)</u>	<u>(76,683,624)</u>
Net patient service revenue less provision for uncollectible accounts	500,126,069	493,372,340
Other operating revenue	9,428,940	10,315,539
Net assets released from restrictions used for operations	<u>3,726,947</u>	<u>1,210,888</u>
Total unrestricted revenues and other support	<u>513,281,956</u>	<u>504,898,767</u>
Operating expenses:		
Salaries	218,114,510	208,269,861
Benefits	49,215,905	115,814,975
Contract Labor	20,131,852	4,721,363
Professional fees	24,284,440	23,643,795
Supplies	81,475,212	85,820,265
Purchased services	42,755,476	40,209,840
Utilities	7,350,685	7,660,167
Other expenses	35,420,852	32,722,298
Depreciation	43,368,172	35,544,058
Interest	<u>8,914,422</u>	<u>10,140,596</u>
Total operating expenses	<u>531,031,526</u>	<u>564,547,218</u>
Loss from operations	<u>(17,749,570)</u>	<u>(59,648,451)</u>
Nonoperating income:		
Net change in the fair value of investments, trading securities	37,023,189	17,190,957
Change in fair value of interest swap instrument	1,014,510	1,221,493
Net investment income	22,325,666	24,125,196
Loss on redemption of series 2009B bonds	-	(14,256,259)
Net other losses	<u>(674,665)</u>	<u>(957,680)</u>
Total nonoperating income, net	<u>59,688,700</u>	<u>27,323,707</u>
Excess (deficit) of revenues and gains over expenses and losses	41,939,130	(32,324,744)
Net assets released from restrictions used for purchase of property, plant and equipment	573,316	87,056
Change in unfunded pension gains	-	66,773,046
Other, net	17,118	185,612
Transfers from related organizations	-	7,000,000
Increase in unrestricted net assets	<u>\$ 42,529,564</u>	<u>\$ 41,720,970</u>

**AnMed Health****Statements of Operations and Changes in Net Assets, continued****Years ended December 31, 2017 and 2016**

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	<u>2017</u>	<u>2016</u>
Temporarily restricted net assets:		
Investment income, net	\$ 60	\$ 55
Contributions, net	1,397,995	(589,706)
Grant for medical education	1,369,495	545,948
Net assets released from restrictions used for operations	(3,726,947)	(1,210,888)
Net assets released from restrictions used for purchase of property and equipment	<u>(573,316)</u>	<u>(87,056)</u>
Decrease in temporarily restricted net assets	<u>(1,532,713)</u>	<u>(1,341,647)</u>
Increase in net assets	40,996,851	40,379,323
Net assets at beginning of year	<u>532,406,716</u>	<u>492,027,393</u>
Net assets at end of year	<u>\$ 573,403,567</u>	<u>\$ 532,406,716</u>

**AnMed Health**  
**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Operating activities</b>		
Increase in net assets	\$ 40,996,851	\$ 40,379,323
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	43,368,172	35,544,058
Amortization expense for loan costs	(674,826)	313,038
Gain on disposal of property and equipment	(297,556)	(39,285)
Change in unfunded pension gains	—	(66,773,046)
Unrealized gains on joint ventures	(332,930)	(410,849)
Restricted contributions, net	(1,397,995)	589,706
Change in fair value of interest rate swap instrument	(1,014,510)	(1,221,493)
Grant for medical education	(1,369,495)	(545,948)
Provision for uncollectible accounts	64,548,415	76,683,624
(Increase) decrease in:		
Patient accounts receivable, net	(67,183,912)	(80,352,182)
Other receivables, net	1,424,211	(1,201,952)
Inventories of drugs and supplies	(5,847,636)	(582,939)
Prepaid expenses and other assets	121,129	1,346,730
Assets whose use is limited, classified as trading	(6,031,918)	(40,410,561)
Increase (decrease) in:		
Accounts payable	(979,851)	(4,228,013)
Accrued payroll and employee benefits	(514,984)	2,887,617
Accrued liabilities	(9,533,272)	(6,743,156)
Estimated third-party payor settlements	313,336	(800,000)
Accrued pension cost	—	63,135,647
Net cash provided by operating activities	<u>\$ 55,593,229</u>	<u>\$ 17,570,319</u>
<b>Investing activities</b>		
Acquisitions of property, plant, and equipment	(51,010,614)	(54,272,608)
Proceeds from sale of equipment	672,678	108,934
Change in cash surrender value of life insurance	(7,102,764)	(171,439)
Net cash used by investing activities	<u>\$ (57,440,700)</u>	<u>\$ (54,335,113)</u>

Continued on next page.

**AnMed Health**  
**Statements of Cash Flows, continued**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Financing activities</b>		
Grant for medical education	\$ 1,369,495	\$ 545,948
Repayment of long-term debt	(6,415,000)	(106,489,479)
Proceeds from issuance of long-term debt	-	102,825,000
Cost of issuance of long-term debt	(90,000)	12,016,808
Change in due from related entities	(1,029,864)	(682,969)
Change in due to related entities	(1,315,363)	1,402,753
Receipt on debt service leveling agreement	1,086,993	1,241,970
Restricted contributions	1,397,995	(589,706)
Net cash provided (used) by financing activities	<u>(4,995,744)</u>	<u>10,270,325</u>
Net decrease in cash and cash equivalents	(6,843,215)	(26,494,469)
Cash and cash equivalents at beginning of year	27,625,953	54,120,422
Cash and cash equivalents at end of year	<u>\$ 20,782,738</u>	<u>\$ 27,625,953</u>
 Noncash transactions:		
Property and equipment acquired through accounts payable	<u>\$ 1,492,329</u>	<u>\$ 6,949,368</u>
Property and equipment acquired through accrued liabilities	<u>\$ 274,129</u>	<u>\$ 3,283,292</u>

See accompanying notes.

## **Notes to Financial Statements**

### **1. Description of Organization and Summary of Significant Accounting Policies**

#### ***Organization***

AnMed Health (the "Hospital") is an acute care regional referral center located in Anderson, South Carolina. The Hospital is operated by AnMed Health System, a nonstock, not-for-profit corporation that is its sole member with the authority to appoint the Hospital's Board of Trustees (the "Board").

Effective August 4, 2009, the Hospital entered into a ten-year Management Services Agreement (the "MSA") with the Charlotte-Mecklenburg Hospital Authority which does business as Atrium Health ("Atrium") (formerly Carolinas HealthCare System) to manage the Hospital on a day-to-day basis. The terms of the MSA call for the Hospital to pay Atrium an annual management fee. In addition, Atrium is required to furnish key personnel. The Hospital will reimburse Atrium the salary and benefits cost of these key personnel.

On March 1, 2013, the Hospital entered into an affiliation and management services agreement with the Elbert County Hospital Authority. The management agreement appoints the Hospital as the manager of Elbert Memorial Hospital. Under the management agreement, Elbert Memorial Hospital will pay the Hospital a quarterly management fee, based on Elbert Memorial Hospital's excess of revenues over expenses. The total financial commitment for the Hospital under this agreement is \$2,650,000. The initial term of the agreement is five years with options to extend the agreement. This agreement ended on February 28, 2018.

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

Cash and cash equivalents include overnight bank repurchase agreements. For purposes of the statements of cash flows, the Hospital considers all highly liquid investments with original maturities of three months or less, exclusive of assets whose use is limited, to be cash equivalents.

#### ***Inventories of Drugs and Supplies***

Inventories of drugs and supplies are stated at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method. In 2017, operating room supplies were included in inventories of drugs and supplies for the first time.

#### ***Property, Plant, and Equipment***

Property, plant, and equipment is recorded at cost or at fair value at the date of donation. Depreciation on plant and equipment is computed over the estimated useful lives of the assets, which range from 3 to 25 years, using the straight-line method. Routine maintenance, repairs, and replacements are charged to operating expenses. Expenditures which materially increase values, change capacities, or extend useful lives are capitalized. Individual new or replacement buildings or equipment with a cost of \$5,000 or more and a useful life of more than one year is capitalized.

The Hospital periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For assets to be held, impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. For assets to be disposed of, impairment is determined to exist if the estimated net realizable value is less than the carrying amount. There was no impairment recorded as of 2017 or 2016.

***Assets Whose Use Is Limited***

Assets whose use is limited primarily include amounts designated by the Board of Trustees for capital improvements and operating contingencies over which the Board retains control and may at its discretion subsequently use for other purposes, amounts held by Bond Trustees in accordance with the indenture agreements and amounts held in a Rabbi Trust for a former employee. Amounts required to meet current liabilities of the Hospital have been reclassified on the balance sheets and are included in current assets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess (deficit) of revenues and gains over expenses and losses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess (deficit) of revenues and gains over expenses and losses unless the investments are trading securities.

***Capitalization of Interest***

Material interest costs incurred on borrowed funds during the period of construction of qualifying capital assets are capitalized as a component of the cost of acquiring these assets. No interest was capitalized in the years ended December 31, 2017 and 2016.

***Bond Issuance Costs***

Bond issuance costs included in long term debt, are amortized using the effective interest rate method over the term of the related bonds. At December 31, 2017 and 2016, accumulated amortization of bond issuance costs were approximately \$5,501,000 and \$5,194,000, respectively.

***Bond Discounts and Premiums***

Bond discounts and premiums, included in long-term debt, are amortized using the effective interest rate method over the life of the related series of bonds.

***Net Assets***

Substantially all of the Hospital's net assets are classified as unrestricted for accounting and reporting purposes. These resources of the Hospital have no external restrictions as to use or purpose. These resources include amounts generated from operations, undesignated gifts, and investments in property, plant, and equipment.

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose.

***HITECH Incentive Funding for Meaningful Use of Electronic Health Records ("EHR")***

The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain healthcare providers that use certified EHR technology. The program is commonly referred to as the Health Information Technology for Economic and Clinical Health ("HITECH") Act. To qualify for incentives under the HITECH Act, healthcare providers must meet designated EHR meaningful use criteria as defined by the Centers for Medicare & Medicaid Services ("CMS"). Incentive payments are awarded to healthcare providers who have attested to CMS that applicable meaningful use criteria have been met. Compliance with meaningful use criteria is subject to audit by the federal government or its designee and incentive payments are subject to adjustment in a future period.

The Hospital recognizes revenue for EHR incentive payments in the period in which it has attested that it is in compliance with the applicable EHR meaningful use requirements. Accordingly, the Hospital recognized other operating revenue of approximately \$168,000 from Medicare EHR meaningful use payments and approximately \$178,000 from Medicaid EHR meaningful use payments for the year ended December 31, 2017. The Hospital recognized other operating revenue of approximately \$788,000 from Medicare EHR meaningful use payments for the year ended December 31, 2016.

***Excess (Deficit) of Revenues and Gains Over Expenses and Losses***

The statements of operations and changes in net assets include excess (deficit) of revenues and gains over expenses and losses. Changes in unrestricted net assets which are excluded from excess (deficit) of revenues and gains over expenses and losses, 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).

***Donor-Restricted Gifts***

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

***Statements of Operations and Changes in Net Assets***

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and other support, and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Net investment income, unrestricted gifts and bequests, and contributions to the community are recorded as nonoperating activities. Gains or losses on disposals of property, plant, and equipment are recorded as operating activities.

***Functional Expenses***

The Hospital does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Further, since the Hospital receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in these financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

***Derivative Instruments***

The Hospital entered into a derivative instrument, exclusively an interest rate swap agreement, to manage interest rate exposures on floating rate Hospital Revenue Bonds. An interest rate swap allows the Hospital to swap variable interest rates on a stated notional amount for fixed rates. Under the swap agreement that expires in 2033, the Hospital pays interest at a fixed rate of 3.51% and receives interest at a variable rate equal to 65% of the monthly LIBOR plus 45 basis points. The 65% LIBOR rate on each reset date determines the variable portion of the interest rate swap for the following month. The fixed and variable rate payments are calculated on a notional amount equal to \$55,200,000.

The fair value of the interest rate swap instrument is presented on the balance sheets as follows:

	<b>Liability Derivative</b>			
	<b><u>December 31, 2017</u></b>		<b><u>December 31, 2016</u></b>	
	<b>Balance Sheet Location</b>	<b>Fair Value</b>	<b>Balance Sheet Location</b>	<b>Fair Value</b>
<b><i>Derivative not designated as hedging instrument</i></b>				
Interest rate swap	Interest rate swap instrument	\$ 6,973,804	Interest rate swap instrument	\$ 7,988,314

**AnMed Health**  
**Notes to Financial Statements**

The unrealized gain for the year and period associated with the fair market value of the interest rate swap is included on the statements of operations and changes in net assets as follows:

<i>Derivative not designated as hedging instrument</i>	Location of unrealized gain recognized in income on the derivative	Amount of unrealized gain recognized in income on derivative	
		December 31, 2017	December 31, 2016
Interest rate swap	Change in fair value of interest rate swap instrument	\$ 1,014,510	\$1,221,493

The Hospital is exposed to credit loss in the event of nonperformance by the counterparty in relation to its interest rate swap agreement. Management believes that the counterparty will be able to fully satisfy its obligations under the agreement. Credit exposure exists in relation to all the Hospital's financial instruments, and is not unique to derivatives.

**Concentrations of Credit Risk**

Financial instruments that potentially subject the Hospital to a concentration of credit risk consist principally of cash and cash equivalents, investments, and accounts receivable from patients and third-party payors. The Hospital places its cash and cash equivalents and investments with high quality credit financial institutions. Third-party payors are primarily Medicare and Medicaid, which provide reimbursement on patient accounts on a regular basis. Managed care receivables are distributed among several primary payors. The credit worthiness of all managed care payors is considered by the Hospital prior to entering into an agreement with the payor.

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party agreements. The mix of receivables from patients and third-party payors was as follows at December 31, 2017 and 2016:

	2017	2016
Medicare	37%	37%
Medicaid	19%	18%
Other third-party payors	27%	27%
Private pay	17%	18%
	<b>100%</b>	<b>100%</b>

**Fair Value of Financial Instruments**

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

- *Cash and cash equivalents*: The carrying amounts reported on the balance sheets for cash and cash equivalents approximate their fair value.
- *Assets whose use is limited*: These assets consist primarily of cash, investments, and interest receivable. As discussed in Note 1, the carrying values of investments at December 31, 2017 and 2016 are equal to estimated fair value based on quoted market prices or lower of cost or market as appropriate.
- *Accounts payable and accrued expenses*: The carrying amounts reported on the balance sheets for accounts payable and accrued expenses approximate their fair value.
- *Estimated third-party payor settlements*: The carrying amounts reported on the balance sheets for these settlements approximate their fair value.

**AnMed Health**  
**Notes to Financial Statements**

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- *Bonds Payable:* Fair values for the Series 2009, 2010, and 2016 Bonds are based on estimates using present value techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, prepayments, and estimates of future cash flows, future expected loss experience, and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison of independent markets and, in many cases, may or may not be realized in an immediate sale of the instrument. The fair value of the Series 2009, 2010, 2014, and 2016 Bonds, described in Note 4, is estimated to be approximately \$269,798,000 and \$272,431,000 at December 31, 2017 and 2016, respectively.

***Income Taxes***

The Hospital is exempt from income tax under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for Federal or State income taxes. The Hospital has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2017.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Hospital to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 and assumptions.

***Subsequent Events***

Subsequent events have been evaluated through April 26, 2018, which is the date the financial statements were available to be issued.

**AnMed Health**  
**Notes to Financial Statements**

**2. Assets Whose Use Is Limited**

The composition of assets whose use is limited is set forth below as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
By Board for capital improvements:		
Cash and cash equivalents	\$ 6,608,226	\$ 4,753,880
Fixed income	34,438,410	92,502,159
Common stock	121,527,202	117,183,301
Mutual funds	282,671,610	210,454,806
Diversified investment fund	16,499,975	16,499,975
Accrued interest	336,102	600,567
	<u>462,081,525</u>	<u>441,994,688</u>
By Board for operating contingencies:		
Cash and cash equivalents	166,643	4,008,553
Fixed income	7,415,686	17,578,151
Accrued interest	18,720	84,567
	<u>7,601,049</u>	<u>21,671,271</u>
By Trustee for former and current employees:		
Cash and cash equivalents	5	1
Equities	155,484	130,241
Mutual funds – fixed income	58,370	56,634
Mutual funds – special strategies	48,170	46,531
	<u>262,029</u>	<u>233,407</u>
By Trustee for bond repayment:		
Cash and cash equivalents	6,753,472	6,766,791
Total assets whose use is limited	<u>476,698,075</u>	<u>470,666,157</u>
Less amounts required for current liabilities:		
Current installments of bond principal	7,265,000	6,415,000
Deferred compensation payable	262,030	233,407
Accrued interest and other	2,634,257	1,283,052
	<u>10,161,287</u>	<u>7,931,459</u>
	<u>\$ 466,536,788</u>	<u>\$ 462,734,698</u>

Net investment income from assets whose use is limited, cash, and cash equivalents are comprised of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 7,520,509	\$ 8,238,878
Unrealized gains on other investments	332,930	410,849
Net realized gains on sales of investments	14,472,227	15,475,469
Net investment income	<u>\$ 22,325,666</u>	<u>\$ 24,125,196</u>

### 3. Property, Plant, and Equipment

Property, plant, and equipment consist of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 22,475,443	\$ 22,521,012
Land improvements	6,211,842	6,117,151
Building and building service equipment	427,781,035	398,843,952
Major movable equipment	371,163,300	306,139,197
Construction in progress	5,237,818	69,683,292
	<u>832,869,438</u>	<u>803,304,604</u>
Less accumulated depreciation	<u>(526,513,636)</u>	<u>(505,982,578)</u>
	<u>\$ 306,355,802</u>	<u>\$ 297,322,026</u>

At December 31, 2015, AnMed Health had signed a contract for approximately \$82,300,000 for the implementation of a new electronic health records system. As of December 31, 2017 approximately \$1,784,000 was recorded as a current liability and approximately \$892,000 due in 2019 was recorded as a long term liability. Approximately \$13,800,000 of the original capital budget was determined not to meet the requirements for capitalization and was expensed.

### 4. Long-Term Debt

A summary of long-term debt follows as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Series 2009A:		
Direct placement bonds, fixed rate of 1.98%, maturing in amounts escalating from \$3,600,000 in February 2030 to \$10,000,000 in February 2035	\$ 34,585,000	\$ 34,585,000
Less bond issuance costs, net	591,662	630,515
	<u>33,993,338</u>	<u>33,954,485</u>
Series 2009B:		
Serial bonds, 4.25% to 5.00% interest, maturing in amounts escalating from \$1,145,000 in February 2018 to \$3,885,000 in February 2019	5,030,000	5,655,000
Less unamortized original issue discount	30,277	84,398
Less bond issuance costs, net	46,494	129,605
	<u>4,953,229</u>	<u>5,440,997</u>
Series 2009C:		
Direct placement bonds, LIBOR Index Rate (1.36 at December 31, 2017), maturing in amounts escalating from \$100,000 in February 2018 to \$5,480,000 in February 2033	56,150,000	56,200,000
Less bond issuance costs, net	568,208	629,675
	<u>55,581,792</u>	<u>55,570,325</u>
Series 2009D:		
Direct placement bonds, fixed rate of 2.43%, maturing in amounts escalating from \$85,000 in February 2018 to \$15,850,000 in February 2039	18,320,000	18,400,000
Less bond issuance costs, net	284,681	299,163
	<u>18,035,319</u>	<u>18,100,837</u>

**AnMed Health**  
**Notes to Financial Statements**

Series 2010:		
Serial bonds, 5.00% interest, maturing in in February 2018	<b>5,935,000</b>	11,595,000
Add unamortized original issue premium	-	78,647
Less bond issuance costs, net	-	20,325
	<u><b>5,935,000</b></u>	<u>11,653,322</u>
Series 2014:		
Direct placement bonds, fixed interest rate securities, 2.88% assumed net interest, maturing in amounts escalating from \$1,290,000 in February 2019 to \$20,250,000 in 2029	<b>35,000,000</b>	35,000,000
Less bond issuance costs, net	<b>103,930</b>	115,750
	<u><b>34,896,070</b></u>	<u>34,884,250</u>
Series 2016:		
Serial bonds, 3.375% to 5% interest, maturing in amounts escalating from \$4,010,000 in February 2020 to \$14,355,000 in February 2038	<b>102,825,000</b>	102,825,000
Add unamortized original issuance premium	<b>12,116,597</b>	13,074,437
Less bond issuance costs, net	<b>1,070,147</b>	1,057,629
	<u><b>113,871,450</b></u>	<u>114,841,808</u>
Total long-term debt	<b>267,266,198</b>	274,446,024
Less current installments	<b>7,265,000</b>	6,415,000
	<u><b>\$ 260,001,198</b></u>	<u>\$ 268,031,024</u>

The Trust agreement names a bank as Trustee to receive, transfer, and disburse all monies. Under the terms of the Trust agreement, the Hospital is required to maintain certain deposits with the Trustee. Such deposits are included with assets whose use is limited.

On April 20, 2009, the Hospital issued \$34,585,000 of South Carolina Jobs-Economic Development Authority Hospital Refunding Revenue Bonds, Series 2009A. On December 1, 2017, the Series 2009A was converted from letter of credit backed bonds to unenhanced bonds in a direct placement transaction with Wells Fargo Bank, National Association. The Series 2009A Bonds are collateralized by gross revenues and substantially all of the assets of the Hospital. The Series 2009A bonds have sinking fund requirements beginning in 2030 and ending in 2035. The proceeds of the Series 2009A were used to refund the \$33,890,000 principal amount outstanding on the Series 2007 and for paying certain expenses incurred in connection with the issuance of the Bonds.

On May 1, 2009, the Hospital issued \$112,000,000 of South Carolina Jobs-Economic Development Authority Hospital Refunding Revenue Bonds, Series 2009B. The proceeds of the Series 2009B were used in the financing of renovations and improvements to the expansion of hospital facilities and improvements located at the Hospital's main hospital campus and related machinery and equipment, including, but not limited to, the upgrade of the campus electrical system, patient room renovations, cardiology, NICU, neurosciences, family practice center and operating room facilities expansion and renovation, the construction of parking facilities and a helipad, to refund \$54,250,000 of the principal amount of the 2003B Series, and paying certain expenses incurred in connection with the issuance of the Bonds. The 2009B Bonds are collateralized by gross revenues and substantially all of the assets of the Hospital. The Series 2009B bonds are secured by municipal bond insurance. On November 1, 2016, \$104,260,000 of the Series 2009B bonds were advance refunded with the proceeds from the Series 2016 South Carolina Jobs-Economic Development Authority Hospital Revenue Bonds.

## **AnMed Health**

### **Notes to Financial Statements**

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On May 1, 2009, the Hospital issued \$56,800,000 of South Carolina Jobs-Economic Development Authority Hospital Refunding Revenue Bonds, Series 2009C. On December 1, 2013, the Series 2009C was converted from letter of credit backed bonds to unenhanced bonds in a direct placement transaction with Wells Fargo Bank, National Association. On February 1, 2017, the Series 2009C were tendered for mandatory purchase and, upon such mandatory tender, were purchased in a direct-purchase transaction by TD Bank, N.A. The Series 2009C Bonds are collateralized by gross revenues and substantially all of the assets of the Hospital. The Series 2009C bonds have sinking fund requirements that began in 2010 and end in 2033. The proceeds of the Series 2009C were used to refund the \$55,850,000 principal amount outstanding on the Series 2003A and for paying certain expenses incurred in connection with the issuance of the Bonds.

On May 1, 2009, AnMed Health issued \$18,805,000 of South Carolina Jobs-Economic Development Authority Hospital Refunding Revenue Bonds, Series 2009D. The Series 2009D Bonds was secured by a letter of credit totaling \$18,829,200. The bonds were tendered for mandatory purchase on February 1, 2017 and, upon such mandatory tender, were purchased in a direct-purchase transaction by TD Bank, N.A. In connection with the tender and resale of the Series 2009D Bonds, the letter of credit of Wells Fargo Bank, National Association was terminated. The Series 2009D Bonds are collateralized by gross revenues and substantially all of the assets of the Hospital. The Series 2009D bonds have sinking fund requirements that began in 2011 and end in 2039. The proceeds of the Series 2009D were used to refund a portion of the \$73,500,000 principal amount on the Series 2003B and for paying certain expenses incurred in connection with the issuance of the Bonds.

On March 1, 2010, the Hospital issued \$41,080,000 of South Carolina Jobs-Economic Development Authority Hospital Revenue Bonds – Series 2010. The proceeds of the Series 2010 Bonds were used to refund the \$60,600,000 original principal amount outstanding on the Hospital Revenue Bonds Series 1999 and paying certain expenses incurred in connection with the issuance of the Bonds. The Series 2010 Bonds are collateralized by gross revenues and substantially all of the assets of the Hospital.

On June 1, 2014, the Hospital issued \$35,000,000 of South Carolina Jobs-Economic Development Authority Hospital Revenue Bonds –Series 2014 in a direct placement transaction with TD Bank, N.A. The proceeds of the Series 2014 Bonds were used to finance the cost of renovations and improvements to and the expansion of hospital facilities and improvements located at the Main and North hospital campuses and paying certain expenses incurred in connection with the issuance of the Bonds. The Series 2014 is subject to mandatory tender and remarketing at the end of the fifteen-year committed term in 2029 in accordance with the terms of the Amended and Restated Series 2014 Trust Agreement. The Series 2014 Bonds are collateralized by gross revenues and substantially all of the assets of the Hospital. The Series 2014 bonds have sinking fund requirements that begin in 2019 and end in 2038.

On November 1, 2016, the Hospital issued \$102,825,000 of South Carolina Jobs-Economic Development Authority Hospital Revenue Bonds. The proceeds of the Series 2016 Bonds were used to refund a portion of the \$109,915,000 outstanding of the \$112,000,000 original principal amount Hospital Refunding and Improvement Revenue Bonds (AnMed Health Project), Series 2009B (the “Series 2009B Bonds,” and the portion of the Series 2009B bonds being refunded herein as the “Refunded Series 2009B Bonds”), and to pay certain expenses incurred in connection with the issuance of the Bonds. The Series 2016 Bonds are collateralized by gross revenues and substantially all of the assets of the Hospital.

On June 1, 2017, the Hospital opened a line of credit with TD Bank, N.A. No draws were made from the line of credit and there was no balance owed at December 31, 2017. The line of credit was closed in 2018.

Trust agreements related to the 2009A, 2009B, 2009C, 2009D, 2010, 2014, and 2016 Bonds contain certain restrictive covenants, which among other matters, require the Hospital to maintain its rates, fees, and charges to the extent necessary in order to maintain certain liquidity and debt service coverage ratios, as defined.

Interest paid in the years ended December 31, 2017 and 2016 amounted to approximately \$8,112,000 and \$11,679,000, respectively.

**AnMed Health**  
**Notes to Financial Statements**

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Future principal payments under the Hospital's long-term debt agreements for the years ending December 31 are:

2018	\$ 7,265,000
2019	7,640,000
2020	8,035,000
2021	8,340,000
2022	8,695,000
Thereafter	217,870,000
Total	<u>257,845,000</u>
Less bond discount	(30,277)
Add bond premium	12,116,597
Less bond issuance costs, net	<u>(2,665,122)</u>
	<u>\$ 267,266,198</u>

**5. Fair Value Disclosures**

The Fair Value Measurement standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provision does not require any new fair value measurements, but clarifies and standardizes some divergent practices that have emerged since prior guidance was issued. The provision creates a three-level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation.

The provision defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, the Hospital considers the principal or most advantageous market in which those assets or liabilities are sold and considers assumptions that market participants would use when pricing those assets or liabilities. Fair values determined using level 1 inputs rely on active and observable markets to price identical assets or liabilities. In situations where identical assets and liabilities are not traded in active markets, fair values may be determined based on level 2 inputs, which exist when observable data exists for similar assets and liabilities. Fair values for assets and liabilities that are not actively traded in observable markets are based on level 3 inputs, which are considered to be unobservable.

Among the Hospital's assets and liabilities, investment trading securities and an interest rate swap instrument were reported at their fair values on a recurring basis.

**AnMed Health**  
**Notes to Financial Statements**

For assets and liabilities carried at fair value, the following tables provide fair value information as of December 31, 2017 and 2016:

	Fair value measurements at December 31, 2017 using:			
	Fair value at December 31, 2017	Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)	Quoted prices for similar assets and liabilities (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
<u>Assets measured at</u>				
<u>fair value:</u>				
Money market funds	\$ 2,290,130	\$ 2,290,130	\$ -	\$ -
US Treasury Bill	4,484,744	4,484,744	-	-
Fixed income:				
U.S. governmental agencies	5,189,836	5,189,836	-	-
Municipal bonds	899,159	899,159	-	-
Corporate bonds	32,169,492	32,169,492	-	-
Treasury notes	3,595,608	3,595,608	-	-
Mutual funds:				
Fixed income	75,395,887	75,395,887	-	-
Equities	193,347,623	193,347,623	-	-
Special strategies	14,034,640	14,034,640	-	-
Equities:				
Large cap	60,648,012	60,648,012	-	-
Mid cap	49,738,437	49,738,437	-	-
Small cap	3,316,161	3,316,161	-	-
International/Foreign	7,980,076	7,980,076	-	-
Total assets	<u>\$ 453,089,805</u>	<u>\$ 453,089,805</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Liabilities measured</u>				
<u>at fair value:</u>				
Interest rate swap instrument	<u>\$ 6,973,804</u>	<u>\$ -</u>	<u>\$ 6,973,804</u>	<u>\$ -</u>

Assets whose use is limited, described in Note 2, are held at fair value and included in the table above except a diversified investment fund totaling approximately \$16,500,000 which is held at the lower of cost or market, cash and cash equivalents totaling approximately \$6,753,000, and accrued interest of approximately \$355,000.

**AnMed Health**  
**Notes to Financial Statements**

	Fair value measurements at December 31, 2016 using:			
	Fair value at December 31, 2016	Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)	Quoted prices for similar assets and liabilities (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
<u>Assets measured at fair value:</u>				
Money market funds	\$ 8,762,434	\$ 8,762,434	\$ -	\$ -
Fixed income:				
U.S. treasury bonds	1,467,097	1,467,097	-	-
U.S. governmental agencies	30,096,749	30,096,749	-	-
Municipal bonds	900,687	900,687	-	-
Corporate bonds	46,217,416	46,217,416	-	-
Treasury notes	31,398,361	31,398,361	-	-
Mutual funds:				
Fixed income	16,632,132	16,632,132	-	-
Equities	182,334,381	182,334,381	-	-
Special strategies	11,591,458	11,591,458	-	-
Equities:				
Large cap	59,986,628	59,986,628	-	-
Mid cap	41,869,948	41,869,948	-	-
Small cap	15,456,966	15,456,966	-	-
Total assets	<u>\$ 446,714,257</u>	<u>\$ 446,714,257</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Liabilities measured at fair value:</u>				
Interest rate swap instrument	<u>\$ 7,988,314</u>	<u>\$ -</u>	<u>\$ 7,988,314</u>	<u>\$ -</u>

Assets whose use is limited, described in Note 2, are held at fair value and included in the table above except a diversified investment fund totaling approximately \$16,500,000 which is held at the lower of cost or market, cash and cash equivalents totaling approximately \$6,767,000, and accrued interest of approximately \$685,000.

Prices for government securities, corporate bonds, common stock, and mutual funds are readily available in the active markets in which those securities are traded, and the resulting fair values are shown in the 'Level 1 input' column.

Under the terms of the existing interest rate swap instrument, the Hospital pays a fixed payment to the counterparty in exchange for receipt of a variable payment that is determined based on the 1-month LIBOR rate. The fair value of the interest rate swap instrument is therefore based on projected LIBOR rates for the duration of the hedge values that, while observable in the market, are subject to adjustment due to pricing considerations for the specific instrument and the resulting fair value is shown in the 'Level 2 input' column.

**6. Net Patient Service Revenue and Patient Accounts Receivable**

Net patient service revenue and accounts receivable are recorded when patient services are performed and are estimated at net realizable amounts due from third-party payers and patients. For amounts due from third-party payers, net patient service revenue and accounts receivable are recorded based on contractual or regulated discounted reimbursement rates for services rendered. For amounts due from patients, net patient service revenue and accounts receivable are recorded based on current policy.

## AnMed Health Notes to Financial Statements

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The use of estimates in determining net patient service revenue for third-party payers is very common for health systems, since, with increasing frequency, even non-cost-based governmental programs have become subject to retrospective adjustments. Often such adjustments are not known for a considerable period of time after the related services are rendered. The lengthy period of time between rendering services and reaching final settlement, compounded further by the complexities and ambiguities of governmental reimbursement regulations, makes it difficult to estimate the net patient service revenue associated with these programs. This situation has been compounded by the frequency of changes in federal program guidelines.

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Third-party contractual adjustments are recorded on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as cost report years are no longer subject to such audits, reviews, and investigations.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Net patient service revenue decreased approximately \$115,000 and \$1,346,000 for the years ended December 31, 2017 and 2016, respectively, due to changes in the allowances previously estimated that are no longer necessary as a result of final settlements, and years that are no longer subject to audits, reviews, and investigations.

A 50% discount is applied to uninsured patients at the Hospital. All patients that have no insurance receive this discount.

Provisions from gross patient service charges for Medicare and Medicaid contractual adjustments totaled approximately \$1,241,000,000 and \$1,182,000,000 for the years ended December 31, 2017 and 2016, respectively.

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

- **Medicare:** Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on a Diagnosis Related Group (“DRG”) system. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Approximately 39% and 37% of the Hospital’s net patient service revenue for the years ended December 31, 2017 and 2016, respectively, was derived from Medicare. The Hospital is also reimbursed for several cost reimbursable components 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 classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization. The Hospital’s Medicare cost reports have been audited by the Medicare fiscal intermediary through 2013. Fiscal years 2011 through 2012 have been reopened for certain issues and are subject to audit regarding those issues.
- **Medicaid:** The South Carolina Department of Health and Human Services (“SCDHHS”) reimburses inpatient Medicaid services at prospective payment rates per discharge, with case-mix adjustments based on a DRG system. Outpatient Medicaid services are also reimbursed at prospective payment rates. Effective November 1, 2012, SCDHHS has eliminated retrospective cost report settlements. The Hospital’s cost report data is utilized in determining Medicaid cost of services as well as for developing hospital specific adjustment factors to the prospective payment system. Approximately 13% of the Hospital’s net patient service revenue for the years ended December 31, 2017 and 2016, was derived from Medicaid. The Hospital’s Medicaid cost reports have been audited through 2012.

**AnMed Health**  
**Notes to Financial Statements**

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- **Other:** The Hospital also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The bases for payments to the Hospital under these agreements include prospectively determined daily rates per discharge, discounts from established charges, and prospectively determined daily rates.

For uninsured and underinsured patients that do not qualify for financial assistance (see Note 7 for further detail regarding the Hospital’s financial assistance policies), the Hospital recognizes revenue on the basis of its standard rates, discounted according to policy, for services rendered. Historical experience has shown a significant proportion of the Hospital’s uninsured patients, in addition to a growing proportion of the Hospital’s insured patients, will be unable or unwilling to pay for their responsible amounts for the services provided. In order to estimate the net realizable value of the revenues and accounts receivable associated with third-party payers and uninsured patients, management regularly analyzes collection history. Based on these historical collection analyses, the Hospital records a provision for bad debts and an allowance for uncollectible accounts for third-party and uninsured patient accounts receivable balances for which the patient is responsible.

Patient accounts receivable is recorded net of allowances for uncollectible accounts of approximately \$80,733,000 and \$63,724,000 at December 31, 2017 and 2016, respectively. The increase was the result of a higher value in the self pay accounts receivable financial class at the year ended December 31, 2017 when compared to the year ended December 31, 2016 and additional reserves for legacy accounts receivable.

Net patient service revenue, net of contractual adjustments and discounts, but before provision for bad debts, recognized in the years ended December 31, 2017 and 2016 is approximately:

	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
<b>2017 Net patient service revenue</b>	<b>\$ 500,805,000</b>	<b>\$ 63,869,000</b>	<b>\$ 564,674,000</b>
2016 Net patient service revenue	\$ 513,010,000	\$ 57,046,000	\$ 570,056,000

The Hospital receives payments for serving a disproportionately high volume of Medicaid patients. The Hospital received approximately \$12,361,000 and \$14,076,000 of Medicaid disproportionate share program reimbursement for the years ended December 31, 2017 and 2016, respectively. These amounts have been included in net patient service revenue. The program contains a provision requiring the repayment of disproportionate funds received if the participating hospital is determined to be ineligible. The South Carolina Department of Health and Human Services (“SCDHHS”) has selected the option to redistribute all Medicaid disproportionate share program funds for fiscal year 2012 and forward to/from all hospitals participating in the Medicaid disproportionate share program based on final audit results. The Hospital anticipates that any Medicaid disproportionate share program audit results and anticipated settlements from SCDHHS may result in significant impacts to net patient service revenue in the year of recognition.

**7. Financial Assistance and Community Benefit**

The Hospital, under its financial assistance policies, provides care without charge or at discounted rates to uninsured patients, including any uninsured patient who experiences catastrophic related illness or injury. Key elements used to determine eligibility for financial assistance include a patient’s demonstrated inability to pay based on family size and household income relative to federal income poverty guidelines. Patients potentially eligible for other governmental programs, such as Medicaid, must pursue those options before receiving financial assistance from the Hospital. The Hospital’s cost (estimated using applicable cost to charge ratio) of providing financial assistance to uninsured patients was \$14,429,000 and \$17,002,000 for the years ended December 31, 2017 and 2016, respectively.

**AnMed Health**  
**Notes to Financial Statements**

In addition to providing financial assistance to uninsured patients and in furtherance of its mission, the Hospital provides a broad range of benefits and services, including education and research opportunities, to the community spanning the geographic region within which the Hospital operates. These community benefits can be measured and categorized as follows:

- Cost of care extended to uninsured and underinsured patients who do not qualify for financial assistance, estimated using applicable cost to charge ratios.
- Unpaid cost of Medicare and Medicaid services – Represents the net unreimbursed cost, estimated using the applicable cost to charge ratios, of services provided to patients who qualify for federal and/or state government healthcare benefits.
- Community benefit programs – Includes the unreimbursed cost of various medical education programs, and costs of various research programs, non-billed medical services, in-kind donations, and other services that meet a community need, but do not pay for themselves and would not be provided if based solely on financial considerations alone.
- The total estimated cost of financial assistance and the aforementioned programs and services that benefit the community is as follows for the years ended December 31, 2017 and 2016 is approximately:

	<u>2017</u>	<u>2016</u>
Cost of financial assistance to uninsured patients	<b>\$ 14,429,000</b>	\$ 17,002,000
Cost of care extended to uninsured and underinsured patients who do not qualify for financial assistance	<b>27,567,000</b>	29,434,000
Unpaid cost of Medicare and Medicaid services	<b>75,000,000</b>	75,341,000
Community benefit programs	<b>11,045,000</b>	11,071,000
	<b><u>\$ 128,041,000</u></b>	<b><u>\$ 132,848,000</u></b>

**8. Pension Plan**

The Hospital had a defined benefit, noncontributory pension plan (the “Plan”) covering substantially all of its employees hired prior to January 1, 2007. Effective December 31, 2009, the Hospital froze its defined benefit plan and started a 3% safe harbor contribution on its defined contribution plan. No further benefits accrued to the employees after December 31, 2009. The Plan continued to operate for those employees who were already enrolled. The Plan benefits were based on years of service and the employees’ compensation during the last five years of covered employment. Contributions were intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

Under the defined contribution plan, the Hospital contributed approximately \$5,904,000 and \$5,519,000, for the years ended December 31, 2017 and 2016, respectively.

In March of 2015, the Board agreed to terminate the previously frozen defined benefit plan by March of 2017. This decision resulted in approximately \$4,500,000 of curtailment expense, as well as a change in assumptions for the year ended December 31, 2015. In November of 2016, lump-sum distributions were made and in December 2016, annuities were purchased for all remaining participants in the Plan. Plan assets were liquidated by the end of 2016.

**AnMed Health**  
**Notes to Financial Statements**

The following table presents a reconciliation of the beginning and ending balances of the Plan's projected benefit obligation, the fair value of the plan assets, and the funded status of the Plan for the year ended December 31, 2016:

	<u>2016</u>
<b>Change in benefit obligation</b>	
Projected benefit obligation at beginning of year	\$ 180,604,778
Interest cost	7,966,309
Actuarial losses (gains)	(4,842,957)
Benefits paid	(183,728,130)
Projected benefit obligation at end of year	<u>\$ -</u>
<b>Change in plan assets</b>	
Fair value of plan assets at beginning of year	\$ 176,967,379
Actual return on plan assets	4,931,484
Employer contributions	2,481,419
Actual expenses paid	(652,152)
Benefits paid	(183,728,130)
Fair value of plan assets at end of year	<u>\$ -</u>
<b>Net amount recognized as noncurrent liabilities</b>	
Funded status of the plan	<u>\$ -</u>

The actuarial assumptions used to determine benefit obligations for the Plan for the year ended December 31, 2016, was as follows:

	<u>2016</u>
Discount rate	0%

The actuarial assumptions used to determine net periodic benefit cost for the Plan for the year ended December 31, 2016, was as follows:

	<u>2016</u>
Weighted average discount rate	4.5%
Expected long-term rate of return on assets	4.5%

Net periodic pension cost for the year ended December 31, 2016, includes the following components:

	<u>2016</u>
Interest cost on projected benefit obligation	\$ 7,966,309
Expected return on plan assets	(7,802,626)
Recognized net actuarial loss	1,440,348
Settlement/curtailment expense	64,013,035
Net periodic pension cost	<u>\$ 65,617,066</u>

## **9. Commitments and Contingencies**

### ***Insurance Programs***

The Hospital is self-insured for employee health care. An estimate for health claims incurred but unpaid at year-end is recorded in accrued payroll and employee benefits on the balance sheets and totaled approximately \$4,131,000 and \$4,223,000 at December 31, 2017 and 2016, respectively.

The Hospital participates in a multiprovider captive for professional and general liability insurance coverage on a claims made basis. Liabilities are joint and several among participating providers. The Hospital's premiums are accrued based on the experience to date of the participating health care providers. The Hospital is insured (claims made policy) for general and professional liability claims with limits of coverage of \$4,000,000 in the general annual aggregate and \$300,000 per person. The Hospital is insured (claims made policy) for common umbrella claims with limits of coverage of \$20,000,000 for any one claim and \$30,000,000 in the annual aggregate.

Malpractice claims have been asserted against the Hospital and other members of the multiprovider captive by various claimants, and additional claims could be asserted for incidents occurring through December 31, 2017. At December 31, 2017, management is aware of no incidents that might lead to significant claims that are not adequately covered by insurance or that would have a material adverse effect on the financial position of the Hospital. Accordingly, no provision has been made in the accompanying financial statements for any such claims.

### ***Industry Regulation***

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, and government health care program participation requirements, reimbursement 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 regulation 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 billed.

### ***Litigation***

AnMed Health entered into a settlement agreement with the Office of Inspector General, effective September 25, 2017, resulting in a five-year Corporate Integrity Agreement (CIA). The CIA requires annual reports and annual claims reviews performed by an Independent Review Organization. The CIA expires on September 24, 2022.

### ***Other***

In a prior year, the Hospital made a commitment to provide a guarantee of up to \$8,000,000 of bond indebtedness for the YMCA of Anderson County. The original outstanding debt of \$4,170,000 was paid. At June 30, 2016 the Hospital made a commitment to provide a guarantee of \$7,000,000 on the Series 2016, bond indebtedness for the YMCA of Anderson County. At December 31, 2017 \$6,565,000 of the bonds were issued and outstanding.

## **10. Related-Party Transactions**

The Hospital's receivables from related entities of approximately \$4,208,000 and \$3,178,000 at December 31, 2017 and 2016, respectively, are noninterest-bearing and are expected to be repaid within one year and therefore have been classified as current.

The Hospital's payables to related entities of approximately \$366,000 and \$1,682,000 at December 31, 2017 and 2016, respectively, are expected to be repaid within one year and therefore have been classified as current.