

AnMed Health

Financial Statements

Years Ended December 31, 2019 and 2018

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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, 2019 and 2018, 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 audits 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, 2019 and 2018, 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.



Change in Accounting Principle

As discussed in Note 1 of the financial statements, AnMed Health adopted Financial Accounting Standards Board (“FASB”) ASU 2016-02, *Leases (Topic 842)* and ASU 2016-18, *Statement of Cash Flows (Topic 230)* in 2019. Our opinion is not modified with respect to these matters.

Dixon Hughes Goodman LLP

**Greenville, South Carolina
April 23, 2020**

AnMed Health
Balance Sheets
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 55,860,916	\$ 49,906,012
Patient accounts receivable, net	45,651,640	55,859,890
Other receivables, net	2,861,569	2,725,343
Due from related entities	10,767,387	11,093,661
Inventories of drugs and supplies	9,531,262	8,881,963
Prepaid expenses	9,311,933	7,165,997
Assets whose use is limited, required for current liabilities	10,829,676	10,677,625
Total current assets	<u>144,814,383</u>	<u>146,310,491</u>
Assets whose use is limited, excluding amounts required for current liabilities	562,331,297	456,524,986
Property, plant, and equipment, net	269,728,172	276,980,475
Cash surrender value of life insurance	12,438,001	11,900,530
Other assets	3,306,985	2,533,885
Operating lease right-of-use assets	1,508,374	–
Total assets	<u>\$ 994,127,212</u>	<u>\$ 894,250,367</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 18,015,893	\$ 15,675,081
Accrued payroll and employee benefits	35,290,273	36,207,013
Accrued liabilities	8,774,744	12,142,240
Estimated third-party payor settlements	8,946,878	7,292,390
Due to related entities	88,026	4,566
Current installments of long-term debt	8,035,000	7,640,000
Current portion of operating lease obligations	970,736	–
Total current liabilities	<u>80,121,550</u>	<u>78,961,290</u>
Interest rate swap instrument	7,182,607	5,491,597
Long-term debt, excluding current installments	242,906,579	251,691,204
Operating lease obligations, excluding current portion	485,989	–
Other long-term liabilities	181,261	199,397
Total liabilities	<u>330,877,986</u>	<u>336,343,488</u>
Net assets:		
Without donor restrictions	663,133,422	557,791,132
With donor restrictions	115,804	115,747
Total net assets	<u>663,249,226</u>	<u>557,906,879</u>
Total liabilities and net assets	<u>\$ 994,127,212</u>	<u>\$ 894,250,367</u>

See accompanying notes.

AnMed Health
Statements of Operations and Changes in Net Assets
Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Unrestricted revenues and other support:		
Net patient service revenue	\$ 523,566,228	\$ 529,401,062
Other operating revenue	8,073,383	12,194,884
Net assets released from restrictions used for operations	2,645,668	2,241,247
Total unrestricted revenues and other support	<u>534,285,279</u>	<u>543,837,193</u>
Operating expenses:		
Salaries	229,530,371	225,388,768
Benefits	40,650,165	49,532,902
Contract Labor	7,307,073	9,796,964
Professional fees	20,902,271	23,631,338
Supplies	97,686,436	94,923,671
Purchased services	39,069,146	38,720,935
Utilities	7,082,735	7,683,140
Other expenses	28,007,465	29,960,904
Bad debts	370,129	197,931
Depreciation	44,047,633	46,417,721
Interest	8,854,679	9,226,934
Total operating expenses	<u>523,508,103</u>	<u>535,481,208</u>
Income from operations	<u>10,777,176</u>	<u>8,355,985</u>
Nonoperating income (loss):		
Net change in the fair value of investments	70,361,262	(67,205,323)
Change in fair value of interest rate swap instrument	(1,691,010)	1,482,207
Net investment income	22,756,228	32,706,465
Net other income	70,241	235,924
Total nonoperating income (loss)	<u>91,496,721</u>	<u>(32,780,727)</u>
Excess (deficit) of revenues and gains over expenses and losses	<u>102,273,897</u>	<u>(24,424,742)</u>
Net assets without donor restrictions:		
Net assets released from restrictions used for purchase of property, plant, and equipment	116,388	127,996
Other, net	(47,995)	-
Transfers from related organizations	3,000,000	8,800,000
Increase (decrease) in net assets without donor restrictions	<u>\$ 105,342,290</u>	<u>\$ (15,496,746)</u>

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AnMed Health
Statements of Operations and Changes in Net Assets, continued
Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions:		
Investment income, net	\$ 58	\$ 58
Contributions, net	2,762,055	2,369,243
Net assets released from restrictions used for operations	(2,645,668)	(2,241,247)
Net assets released from restrictions used for purchase of property, plant, and equipment	<u>(116,388)</u>	<u>(127,996)</u>
Increase in net assets with donor restrictions	<u>57</u>	<u>58</u>
Change in net assets	105,342,347	(15,496,688)
Net assets at beginning of year	<u>557,906,879</u>	<u>573,403,567</u>
Net assets at end of year	<u>\$ 663,249,226</u>	<u>\$ 557,906,879</u>

AnMed Health
Statements of Cash Flows
Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>As Adjusted 2018</u>
Operating activities		
Change in net assets	\$ 105,342,347	\$ (15,496,688)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debts	370,129	197,931
Depreciation	44,047,633	46,417,721
Amortization expense for loan costs and bond discounts/premiums	(749,625)	(669,994)
Gain on disposal of property and equipment	(813,338)	(41,062)
Unrealized gains on joint ventures	(773,100)	(465,721)
Restricted contributions, net	(2,762,055)	(2,369,243)
Change in fair value of interest rate swap instrument	1,691,010	(1,482,207)
(Increase) decrease in:		
Patient accounts receivable, net	9,838,121	12,369,046
Other receivables, net	(136,226)	1,656,682
Inventories of drugs and supplies	(649,299)	748,753
Prepaid expenses and other assets	(2,197,585)	695,840
Assets whose use is limited	(108,376,321)	4,569,697
Increase (decrease) in:		
Accounts payable	(1,468,638)	(2,593,137)
Accrued payroll and employee benefits	(916,740)	3,975,529
Accrued liabilities	(4,260,413)	2,322,657
Estimated third-party payor settlements	1,654,488	(1,240,267)
Net cash provided by operating activities	<u>\$ 39,840,388</u>	<u>\$ 48,595,537</u>
Investing activities		
Acquisitions of property, plant, and equipment	(32,215,633)	(15,009,854)
Proceeds from sale of equipment	917,872	217,488
Change in cash surrender value of life insurance	(537,471)	863,073
Net cash used by investing activities	<u>\$ (31,835,232)</u>	<u>\$ (13,929,293)</u>

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AnMed Health
Statements of Cash Flows, continued
Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>As Adjusted 2018</u>
Financing activities		
Repayment of long-term debt	\$ (7,640,000)	\$ (7,265,000)
Change in due from related entities	326,274	(6,885,719)
Change in due to related entities	83,460	(361,792)
Receipt on debt service leveling agreement	-	1,674,531
Restricted contributions	2,762,055	2,369,243
Net cash used by financing activities	<u>(4,468,211)</u>	<u>(10,468,737)</u>
Net increase in cash and cash equivalents	3,536,945	24,197,507
Cash and cash equivalents at beginning of year	58,508,591	34,311,084
Cash and cash equivalents at end of year	<u>\$ 62,045,536</u>	<u>\$ 58,508,591</u>
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 55,860,916	\$ 49,906,012
Cash and cash equivalents in assets whose use is limited	6,184,620	8,602,579
	<u>\$ 62,045,536</u>	<u>\$ 58,508,591</u>
Noncash transactions:		
Property, plant, and equipment acquired through accounts payable	\$ 3,809,450	\$ 1,187,247
Property, plant, and equipment acquired through accrued liabilities	<u>\$ 874,781</u>	<u>\$ 1,021,719</u>

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 called for the Hospital to pay Atrium an annual management fee. In addition, Atrium was required to furnish key personnel. The Hospital reimbursed Atrium the salary and benefits cost of these key personnel. This agreement ended in September 2019.

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 was \$2,650,000. The initial term of the agreement was 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 when purchased, inclusive 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 net realizable value. Cost is determined using the first-in, first-out ("FIFO") method.

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 are 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 in the years ended December 31, 2019 or 2018.

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 or equity 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, 2019 and 2018.

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, 2019 and 2018, accumulated amortization of bond issuance costs were approximately \$1,249,000 and \$5,771,000, 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 without donor restrictions 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.

Net assets with donor restrictions are those whose use by the Hospital have 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.

AnMed Health
Notes to Financial Statements

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 net assets without donor restrictions 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 or equity securities, permanent transfers of assets to and from affiliates for items 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 with donor restrictions 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), net assets with donor restrictions are reclassified as net assets without donor restrictions 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, plant, and equipment.

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, gifts and bequests without donor restrictions, 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 cost of providing healthcare services have been summarized on a functional basis in Note 9. Certain costs have been allocated among services based on estimates made by management.

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 \$52,700,000. The fair value of the interest rate swap instrument is presented on the balance sheets as follows:

	Liability Derivative			
	December 31, 2019		December 31, 2018	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<i>Derivative not designated as hedging instrument</i>				
Interest rate swap	Interest rate swap instrument	\$ 7,182,607	Interest rate swap instrument	\$ 5,491,597

AnMed Health
Notes to Financial Statements

The unrealized gain (loss) for the year 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 (loss) recognized in income on the derivative	Amount of unrealized gain (loss) recognized in income on derivative	
		December 31, 2019	December 31, 2018
Interest rate swap	Change in fair value of interest rate swap instrument	\$(1,691,010)	\$1,482,207

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, 2019 and 2018:

	2019	2018
Medicare	27%	32%
Medicaid	14%	16%
Other third-party payors	28%	27%
Private pay	31%	25%
	<u>100%</u>	<u>100%</u>

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, 2019 and 2018 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

- *Bonds Payable:* Fair values for the Series 2009 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, 2014, and 2016 Bonds, described in Note 6, is estimated to be approximately \$201,066,000 and \$202,484,000 at December 31, 2019 and 2018, 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, 2019.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Recent Accounting Pronouncements

On January 1, 2019, the Hospital adopted the requirements of Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For lessees, the key difference of the new standard from the previous guidance (Topic 840) is the recognition of a right-of-use (“ROU”) asset and lease liability on the balance sheet. The most significant change is the requirement to recognize ROU assets and lease liabilities for leases previously classified as operating leases. The standard requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. As part of the transition to the new standard, the Hospital was required to measure and recognize leases that existed at January 1, 2019 using a modified retrospective approach. For leases existing at the effective date, the Hospital elected the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, did not reassess lease classification, and did not reassess what qualifies as an initial direct cost. Additionally, the Hospital elected, as a practical expedient, to use hindsight for purposes of determining lease term. The adoption of Topic 842 resulted in the recognition of an operating ROU asset and operating lease liability of approximately \$2,561,000 as of January 1, 2019.

In 2019, the Hospital adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU was issued to address diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash and amounts generally described as restricted cash, including assets whose use is limited. The 2018 financial statements have been adjusted to reflect retrospective application of the new accounting guidance.

AnMed Health
Notes to Financial Statements

A summary follows of the adjustments made to the statement of cash flows for the year ended December 31, 2018 as a result of the implementation of ASU 2016-18:

	As Previously Presented	Adjustment	As Adjusted
Net cash provided by operating activities	\$53,521,304	\$(4,925,767)	\$48,595,537
Net increase in cash and cash equivalents	\$29,123,274	\$(4,925,767)	\$24,197,507
Cash and cash equivalents at beginning of year	\$20,782,738	\$13,528,346	\$34,311,084
Cash and cash equivalents at end of year	\$49,906,012	\$ 8,602,579	\$58,508,591

Leases

At lease inception, the Hospital determines whether an arrangement is or contains a lease. Operating leases are included in operating lease right-of-use assets, current operating lease obligations, and noncurrent operating lease obligations on the balance sheet. ROU assets represent the Hospital's right to use leased assets over the term of the lease. Lease liabilities represent the Hospital's contractual obligation to make lease payments over the lease term. For operating leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured as the present value of the lease payments over the lease term. The Hospital uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the Hospital uses its incremental borrowing rate at the commencement date of the lease to determine the present value of the lease payments. Operating ROU assets are calculated as the present value of the remaining lease payments plus unamortized initial direct costs plus any prepayments less any unamortized lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to the Hospital if the option were not exercised. Lease expense is recognized on a straight-line basis over the lease term. The Hospital has elected not to recognize an ROU asset and obligation for leases with an initial term of twelve months or less. The expense associated with short term leases is included in purchased services in the statement of operations and changes in net assets. To the extent a lease arrangement includes both lease and non-lease components, the Hospital has elected to account for the components as a single lease component.

Subsequent Events

Subsequent events have been evaluated through April 23, 2020 which is the date the financial statements were issued. Subsequent to the balance sheet date, the World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of the outbreak on the Hospital's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Hospital's residents, employees and vendors, and governmental, regulatory and private sector responses. As of the balance sheet date, the Hospital has significant receivable balances outstanding, the majority of which are with governmental payers. The full economic impact of this pandemic has not been determined, including the impact on the creditworthiness of the Hospital's payors under these circumstances. Additionally, the Hospital carries a significant balance of marketable equity securities. As of the date of the financial statements were issued, the economic uncertainty caused by the outbreak has resulted in a decline in the value of marketable securities, including many of those held by the Hospital. The financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

AnMed Health
Notes to Financial Statements

2. Liquidity and Availability

The following represents Hospital's financial assets for general expenditure within one year of the balance sheet date as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 55,860,916	\$ 49,906,012
Patient accounts receivable, net	45,651,640	55,859,890
Other receivables, net	2,861,569	2,725,343
Assets whose use is limited, excluding Trustee designated and amounts required for current liabilities	<u>562,149,155</u>	<u>452,659,721</u>
	<u>\$ 666,523,280</u>	<u>\$ 561,150,966</u>

3. Assets Whose Use Is Limited

The composition of assets whose use is limited is set forth below as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
By Board for capital improvements:		
Cash and cash equivalents	\$ 6,130,989	\$ 2,703,686
Fixed income	40,980,751	109,822,028
Common stock	133,824,008	289,820,298
Mutual funds	342,256,900	29,011,814
Diversified investment fund	16,499,975	16,499,975
Accrued interest	283,907	342,359
	<u>539,976,530</u>	<u>448,200,160</u>
By Board for operating contingencies:		
Cash and cash equivalents	52,731	2,233,009
Fixed income	32,754,709	12,830,500
Accrued interest	194,861	73,677
	<u>33,002,301</u>	<u>15,137,186</u>
By Trustee for former and current employees:		
Cash and cash equivalents	19	16
Equities	102,456	103,467
Mutual funds – fixed income	44,195	54,298
Mutual funds – special strategies	34,591	41,616
	<u>181,261</u>	<u>199,397</u>
By Trustee for bond repayment:		
Cash and cash equivalents	881	3,665,868
Total assets whose use is limited	<u>573,160,973</u>	<u>467,202,611</u>
Less amounts required for current liabilities:		
Current installments of bond principal	8,035,000	7,640,000
Deferred compensation payable	181,261	199,397
Accrued interest and other	2,613,415	2,838,228
	<u>10,829,676</u>	<u>10,677,625</u>
	<u>\$ 562,331,297</u>	<u>\$ 456,524,986</u>

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Net investment income from assets whose use is limited, cash, and cash equivalents are comprised of the following for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 12,134,746	\$ 9,166,963
Unrealized gains on other investments	773,100	465,722
Net realized gains on sales of investments	<u>9,848,382</u>	<u>23,073,780</u>
Net investment income	<u>\$ 22,756,228</u>	<u>\$ 32,706,465</u>
Net change in fair value of investments	<u>\$ 70,361,262</u>	<u>\$ (67,205,323)</u>

4. Property, Plant, and Equipment

Property, plant, and equipment consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 23,931,953	\$ 23,031,763
Land improvements	6,120,978	6,335,081
Building and building service equipment	414,502,336	422,609,627
Major movable equipment	357,840,519	377,425,508
Construction in progress	<u>18,377,784</u>	<u>7,334,239</u>
	<u>820,773,570</u>	<u>836,736,218</u>
Less accumulated depreciation	<u>(551,045,398)</u>	<u>(559,755,743)</u>
	<u>\$ 269,728,172</u>	<u>\$ 276,980,475</u>

5. Leases

The Hospital has operating leases for equipment as well as commercial properties. The weighted average discount rate used to determine the operating lease right-of-use assets and operating lease obligations reported on the balance sheet as of December 31, 2019 is 2.14%. The weighted average remaining lease term of the operating leases reported as part of the operating lease right-of-use assets as of December 31, 2019 is 1.7 years. Operating cash flows for operating leases were approximately \$1,147,000 for the year ended December 31, 2019.

Future lease liability maturities for the operating leases reported on the balance sheet as operating lease obligations for years ending December 31 are:

2020	\$ 970,736
2021	447,247
2022	32,504
2023	<u>6,238</u>
Total	<u>\$ 1,456,725</u>

As of December 31, 2019, the Hospital has no operating leases that have not yet commenced.

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6. Long-Term Debt

A summary of long-term debt follows as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</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	513,939	552,801
	34,071,061	34,032,199
Series 2009B:		
Serial bonds, 5.00% interest, matured in February 2019	-	3,885,000
Series 2009C:		
Direct placement bonds, 81.5% of LIBOR Index Rate plus 1.23% (2.39% at December 31, 2019), maturing in amounts escalating from \$2,610,000 in February 2020 to \$5,480,000 in February 2033	53,675,000	56,050,000
Less bond issuance costs, net	447,845	506,831
	53,227,155	55,543,169
Series 2009D:		
Direct placement bonds, fixed rate of 2.83%, maturing in amounts escalating from \$95,000 in February 2020 to \$15,850,000 in February 2039	18,145,000	18,235,000
Less bond issuance costs, net	255,915	270,262
	17,889,085	17,964,738
Series 2014:		
Direct placement bonds, fixed interest rate securities, 3.37% assumed net interest, maturing in amounts escalating from \$1,320,000 in February 2020 to \$20,250,000 in 2029	33,710,000	35,000,000
Less bond issuance costs, net	80,683	92,108
	33,629,317	34,907,892
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	102,825,000	102,825,000
Add unamortized original issuance premium	10,200,913	11,158,756
Less bond issuance costs, net	900,952	985,550
	112,124,961	112,998,206
Total long-term debt	250,941,579	259,331,204
Less current installments	8,035,000	7,640,000
	\$ 242,906,579	\$ 251,691,204

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.

AnMed Health Notes to Financial Statements

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 were collateralized by gross revenues and substantially all of the assets of the Hospital. The Series 2009B bonds were 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. The Series 2009B bonds were paid off at maturity in February 2019.

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 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 began in 2019 and end in 2038.

AnMed Health
Notes to Financial Statements

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.

Trust agreements related to the 2009A, 2009C, 2009D, 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, 2019 and 2018 amounted to approximately \$9,841,000 and \$9,725,000, respectively.

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

2020	\$ 8,035,000
2021	8,340,000
2022	8,695,000
2023	9,100,000
2024	9,500,000
Thereafter	199,270,000
Total	<u>242,940,000</u>
Add bond premium	10,200,913
Less bond issuance costs, net	<u>(2,199,334)</u>
	<u>\$ 250,941,579</u>

7. 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, 2019 and 2018:

	<u>Fair value measurements at December 31, 2019 using:</u>			
	<u>Fair value at December 31, 2019</u>	<u>Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)</u>	<u>Quoted prices for similar assets and liabilities (Level 2 inputs)</u>	<u>Significant unobservable inputs (Level 3 inputs)</u>
<u>Assets measured at</u>				
<u>fair value:</u>				
Money market funds	\$ 2,855,712	\$ 2,855,712	\$ -	\$ -
U.S. treasury bill	3,328,027	3,328,027	-	-
Fixed income:				
U.S. treasury bonds	692,067	692,067	-	-
U.S. governmental agencies	14,558,228	14,558,228	-	-
Municipal bonds	813,552	813,552	-	-
Corporate bonds	32,192,711	32,192,711	-	-
Treasury notes	25,542,933	25,542,933	-	-
Mutual funds:				
Fixed income	88,462,511	88,462,511	-	-
Equities	239,350,841	239,350,841	-	-
Special strategies	14,521,209	14,521,209	-	-
Equities:				
Large cap	50,047,971	50,047,971	-	-
Mid cap	31,202,161	31,202,161	-	-
Small cap	36,748,069	36,748,069	-	-
International/Foreign	15,865,357	15,865,357	-	-
Total assets	\$ 556,181,349	\$ 556,181,349	\$ -	\$ -
<u>Liabilities measured</u>				
<u>at fair value:</u>				
Interest rate swap instrument	\$ 7,182,607	\$ -	\$ 7,182,607	\$ -

Assets whose use is limited, described in Note 3, 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 cost, cash and cash equivalents totaling approximately \$1,000, and accrued interest of approximately \$479,000.

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Notes to Financial Statements

	<u>Fair value measurements at December 31, 2018 using:</u>			
	<u>Fair value at December 31, 2018</u>	<u>Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)</u>	<u>Quoted prices for similar assets and liabilities (Level 2 inputs)</u>	<u>Significant unobservable inputs (Level 3 inputs)</u>
<u>Assets measured at</u>				
<u>fair value:</u>				
Money market funds	\$ 4,936,710	\$ 4,936,710	\$ -	\$ -
Fixed income:				
U.S. governmental agencies	2,586,873	2,586,873	-	-
Municipal bonds	875,710	875,710	-	-
Corporate bonds	41,494,276	41,494,276	-	-
Treasury notes	8,167,045	8,167,045	-	-
Mutual funds:				
Fixed income	79,989,812	79,989,812	-	-
Equities	199,687,676	199,687,676	-	-
Special strategies	8,250,547	8,250,547	-	-
Equities:				
Large cap	51,042,769	51,042,769	-	-
Small cap	45,342,452	45,342,452	-	-
International/Foreign	4,246,862	4,246,862	-	-
Total assets	<u>\$ 446,620,732</u>	<u>\$ 446,620,732</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Liabilities measured</u>				
<u>at fair value:</u>				
Interest rate swap instrument	<u>\$ 5,491,597</u>	<u>\$ -</u>	<u>\$ 5,491,597</u>	<u>\$ -</u>

Assets whose use is limited, described in Note 3, 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 cost, cash and cash equivalents totaling approximately \$3,666,000, and accrued interest of approximately \$416,000.

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.

8. Net Patient Service Revenue and Patient Accounts Receivable

The Hospital will bill patients for all services during their stay. These various services are billed to patients once the treatment has been provided. Management has determined that the Hospital has an unconditional right to payment only subject to the passage of time for such services. Accordingly, the Hospital accrues revenues and the related accounts receivable for services performed but not yet billed at the balance sheet date for in-house patients. Thus, management has determined that the Hospital does not have any amounts that should be reflected separately as contract assets.

Net patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. As noted above, 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 payors and patients. Generally, the Hospital bills the patients and third-party payors days after the services are performed and/or the patient is discharged from the facility. For amounts due from third-party payors, net patient service revenue and accounts receivable are recorded based on explicit price concessions or regulated discounted reimbursement rates for services rendered. For amounts due from patients, net patient service revenue and accounts receivable are recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a faithful 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 in our Hospital(s) receiving inpatient acute care services. The Hospital 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. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Hospital does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital 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 Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors (i.e. explicit price concessions), discounts provided to uninsured patients in accordance with the Hospital's policy (i.e. explicit price concessions), and/or implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy(ies), and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

The use of estimates in determining net patient service revenue for third-party payors 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.

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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 (i.e. explicit price concessions), 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 \$211,000 and \$1,394,000 for the years ended December 31, 2019 and 2018, 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.

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimated the transactions price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient services revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2019 and 2018 was not significant.

Provisions from gross patient service charges for Medicare and Medicaid contractual adjustments totaled approximately \$1,260,000,000 and \$1,292,000,000 for the years ended December 31, 2019 and 2018, 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 45% and 43% of the Hospital's net patient service revenue for the years ended December 31, 2019 and 2018, 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 2014. Fiscal years 2011 and 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, 2019 and 2018, respectively, was derived from Medicaid. The Hospital's Medicaid cost reports have been audited through 2012.

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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 basis for payments to the Hospital under these agreements include prospectively determined daily rates per discharge, discounts from established charges, and prospectively determined daily rates.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients. A 50% discount is applied to uninsured patients at the Hospital. All patients that have no insurance receive this discount. This discount is considered an explicit price concession.

For uninsured and underinsured patients that do not qualify for financial assistance (see Note 10 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 (i.e. implicit price concessions). 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 the portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Based on these historical collection analyses, the Hospital records a provision for contractually and an allowance for uncollectible accounts (implicit price concessions) for third-party and uninsured patient accounts receivable balances for which the patient is responsible.

The components of net patient service revenue for the years ended December 31, 2019 and 2018 are (in 000's):

	Hospital Based		Ambulatory		Home Health		AnMed Health	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018	2019	2018	2019	2018
Medicare	\$ 200,907	\$ 193,312	\$ 31,445	\$ 31,900	\$ 2,955	\$ 3,304	\$ 235,307	\$ 228,516
Medicaid	53,880	54,988	14,010	13,439	156	198	68,046	68,625
Managed Care and Commercial	182,824	187,257	29,968	24,320	162	238	212,954	211,815
Private Pay and Other	6,303	18,687	906	1,522	50	236	7,259	20,445
	\$ 443,914	\$ 454,244	\$ 76,329	\$ 71,181	\$ 3,323	\$ 3,976	\$ 523,566	\$ 529,401

The State issues payment to assist the Hospital for servicing a disproportionate share of low-income patients. The Hospital received approximately \$16,945,000 and \$22,026,000 of Medicaid disproportionate share program reimbursement for the years ended December 31, 2019 and 2018, respectively. The 2019 amounts include approximately \$1,310,000 of funds received as the result of a 2014 and 2015 DSH settlements. The 2018 amounts include approximately \$2,127,000 of funds received as the result of a 2012 DSH settlement. These amounts have been included in net patient service revenue. The Hospital paid approximately \$8,995,000 and \$9,032,000 of Medicaid disproportionate share program tax payments for the years ended December 31, 2019 and 2018, respectively. The program contains a provision requiring the repayment of disproportionate funds received if the participating hospital is determined to be ineligible. The Hospital's Medicaid disproportionate share data is subject to audit and as such, any Medicaid disproportionate share program audit results and anticipated settlements from the South Carolina Department of Health and Human Services ("SCDHHS") may result in significant impacts to net patient service revenue in the year of recognition. 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. The Hospital has received settlement notifications for all fiscal years through 2016.

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9. Statements of Functional Expenses

The Hospital's functional expenses were as follows for the years ended December 31, 2019 and 2018:

	Year ended December 31, 2019:				
	Health Care Services			Support Services	
	Acute	Ambulatory	Post Acute	MG&A	Total
Operating expenses:					
Salaries	\$ 83,415,113	\$ 91,639,568	\$ 3,205,934	\$ 51,269,756	\$ 229,530,371
Benefits	14,772,939	16,229,501	567,776	9,079,949	40,650,165
Contract Labor	338,222	4,520,727	-	2,448,124	7,307,073
Professional fees	6,987,053	5,687,992	2,094	8,225,132	20,902,271
Supplies	68,958,364	24,127,396	378,766	4,221,910	97,686,436
Purchased services	11,500,267	4,360,725	263,349	22,944,805	39,069,146
Utilities	13,695	610,756	54,412	6,403,872	7,082,735
Other expenses	10,110,007	1,712,267	166,810	16,018,381	28,007,465
Bad debts	338,478	31,651	-	-	370,129
Depreciation	11,678,401	8,472,261	338,385	23,558,586	44,047,633
Interest	2,347,652	1,703,137	68,024	4,735,866	8,854,679
Total operating expenses	\$ 210,460,191	\$ 159,095,981	\$ 5,045,550	\$ 148,906,381	\$ 523,508,103

	Year ended December 31, 2018:				
	Health Care Services			Support Services	
	Acute	Ambulatory	Post Acute	MG&A	Total
Operating expenses:					
Salaries	\$ 80,891,200	\$ 90,899,845	\$ 3,023,717	\$ 50,574,006	\$ 225,388,768
Benefits	17,777,175	19,976,742	664,512	11,114,473	49,532,902
Contract Labor	543,596	4,755,805	-	4,497,563	9,796,964
Professional fees	7,566,268	9,885,713	4,506	6,174,851	23,631,338
Supplies	65,057,510	25,286,999	394,215	4,184,947	94,923,671
Purchased services	11,886,662	4,947,917	309,863	21,576,493	38,720,935
Utilities	14,682	630,678	56,825	6,980,955	7,683,140
Other expenses	10,144,852	1,458,024	154,059	18,203,969	29,960,904
Bad debts	177,962	19,969	-	-	197,931
Depreciation	12,306,785	8,928,131	356,593	24,826,212	46,417,721
Interest	2,446,349	1,774,737	70,884	4,934,964	9,226,934
Total operating expenses	\$ 208,813,041	\$ 168,564,560	\$ 5,035,174	\$ 153,068,433	\$ 535,481,208

Clinical areas have been allocated to one of the three Health Care Service areas separately from Management, General and Administrative areas. Depreciation and Interest have been allocated to the four areas based on square footage.

10. 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 \$9,372,000 and \$18,612,000 for the years ended December 31, 2019 and 2018, respectively.

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, 2019 and 2018 is approximately:

	<u>2019</u>	<u>2018</u>
Cost of financial assistance to uninsured patients	\$ 9,372,000	\$ 18,612,000
Cost of care extended to uninsured and underinsured patients who do not qualify for financial assistance	30,188,000	22,888,000
Unpaid cost of Medicare and Medicaid services	43,500,000	43,572,000
Community benefit programs	8,800,000	8,818,000
	<u>\$ 91,860,000</u>	<u>\$ 93,890,000</u>

11. Defined Contribution Plan

The Hospital maintains a defined contribution plan. The Hospital makes annual contributions equal to 25% of employee's salary deferrals to AnMed Health Retirement Savings 403(b) plan. The Hospital's estimated contribution for the year ended December 31, 2019 was approximately \$6,471,000. The contribution for the year ended December 31, 2018 was approximately \$5,780,000.

12. 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 \$2,397,000 and \$3,374,000 at December 31, 2019 and 2018, 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 \$10,000,000 for any one claim and \$10,000,000 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, 2019. At December 31, 2019, 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

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, 2019, \$5,965,000 of the bonds were issued and outstanding.

13. Related-Party Transactions

The Hospital's receivables from related entities of approximately \$10,767,000 and \$11,094,000 at December 31, 2019 and 2018, respectively, are noninterest-bearing and are expected to be repaid within one year and therefore have been classified as current.