



Cabell Huntington Hospital, Inc. and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

September 30, 2018 and 2017



Cabell Huntington Hospital, Inc. and Subsidiaries

Table of Contents

September 30, 2018 and 2017

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Supplementary Information	
Consolidating Schedules for 2018:	
Consolidating Schedule, Balance Sheet	42
Consolidating Schedule, Statement of Operations	44
Consolidating Schedule, Statement of Change in Net Assets	45
Combining Schedules for 2018:	
Combining Schedule - All Other, Balance Sheet	46
Combining Schedule - All Other, Statement of Operations	48
Combining Schedule - All Other, Statement of Changes in Net Assets	49

Independent Auditors' Report

Board of Directors
Cabell Huntington Hospital, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Cabell Huntington Hospital, Inc. and subsidiaries, which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cabell Huntington Hospital Inc. and subsidiaries as of September 30, 2018 and 2017, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 3 to the consolidated financial statements, Cabell Huntington Hospital, Inc. and subsidiaries acquired the assets of St. Mary's Medical Center, Inc. and subsidiaries during 2018. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidating and combining information on pages 42-49 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Pittsburgh, Pennsylvania
January 21, 2019

Cabell Huntington Hospital, Inc. and Subsidiaries

Consolidated Balance Sheets
September 30, 2018 and 2017

	2018	2017		2018	2017
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 142,785,484	\$ 70,543,249	Lines of credit	\$ 361,344	\$ 365,955
Patient accounts receivable (net of estimated allowance for doubtful accounts of \$71,460,000 in 2018 and \$30,212,000 in 2017)	134,546,574	70,424,748	Current maturities of long-term debt	4,830,118	5,561,026
Inventories of supplies	19,975,208	8,266,673	Accounts payable	36,373,349	8,001,259
Estimated third-party payor settlements	18,935,797	8,742,931	Accrued expenses	104,914,004	62,468,465
Prepaid expenses and other current assets	23,427,811	13,302,070	Estimated third-party payor settlements	2,707,354	2,826,899
Total current assets	339,670,874	171,279,671	Total current liabilities	149,186,169	79,223,604
Investments			Long-Term Debt, Net	356,397,035	95,479,892
Board designated	310,129,230	201,082,206	Derivative Financial Instruments	7,535,120	11,916,091
Funds held by trustee	36,967,222	-	Other Liabilities	2,823,901	1,840,789
Funds held by Foundations	1,726,934	167,219	Accrued Professional Liability	17,164,000	11,038,000
Total investments	348,823,386	201,249,425	Accrued Pension and Postretirement Liabilities	229,666,723	134,335,198
Property and Equipment, Net	443,766,869	230,787,015	Total liabilities	762,772,948	333,833,574
Partnership Investments	13,189,768	9,809,084	Net Assets		
Other Assets, Net	21,173,859	12,666,146	Controlling interest	397,284,956	288,473,721
			Noncontrolling interest	1,101,857	206,734
			Total unrestricted	398,386,813	288,680,455
			Temporarily restricted	5,464,995	3,277,312
			Total net assets	403,851,808	291,957,767
Total assets	\$ 1,166,624,756	\$ 625,791,341	Total liabilities and net assets	\$ 1,166,624,756	\$ 625,791,341

See notes to consolidated financial statements

Cabell Huntington Hospital, Inc. and Subsidiaries

Consolidated Statements of Operations

Years Ended September 30, 2018 and 2017

	2018	2017
Unrestricted Revenues		
Patient service revenues (net of contractual allowances and discounts)	\$ 779,223,364	\$ 568,141,861
Provision for bad debts	(39,917,426)	(26,666,099)
Net patient service revenues	739,305,938	541,475,762
Other revenues, including net assets released from restrictions for operations	66,860,349	46,043,445
Total unrestricted revenues	806,166,287	587,519,207
Expenses		
Salaries and wages	250,235,270	168,070,390
Employee benefits	94,813,225	65,420,830
Supplies	159,050,789	104,139,058
Professional fees	89,723,667	70,180,301
Purchased services	59,453,259	45,151,471
Plant operations	46,401,871	33,558,903
Interest	8,809,238	5,247,183
Depreciation and amortization	27,371,814	19,676,346
Provider tax	19,108,166	13,659,900
Insurance	4,218,073	4,976,224
Other	19,278,055	16,935,528
Total expenses	778,463,427	547,016,134
Operating income	27,702,860	40,503,073
Other Income (Loss)		
Investment income	16,826,262	12,030,684
Change in fair value of derivative financial instruments	4,570,008	5,705,190
Equity income from partnership investments	1,723,763	209,355
Inherent contribution in acquisition of St. Mary's Medical Center (Note 3)	27,528,609	-
Acquisition costs	(4,169,246)	(328,964)
Revenues in excess of expenses	74,182,256	58,119,338
Pension and Postretirement Liabilities Adjustment	33,657,533	16,992,119
Net Assets Released from Restrictions for Property and Equipment	1,303,421	964,664
Equity Distributions	(378,004)	(238,281)
Change in Noncontrolling Interest in Acquiree	941,152	-
Increase in unrestricted net assets	\$ 109,706,358	\$ 75,837,840

See notes to consolidated financial statements

Cabell Huntington Hospital, Inc. and Subsidiaries

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted Net Assets		
Revenues in excess of expenses	\$ 74,182,256	\$ 58,119,338
Pension and postretirement liabilities adjustment	33,657,533	16,992,119
Net assets released from restrictions for property and equipment	1,303,421	964,664
Equity distributions	(378,004)	(238,281)
Change in noncontrolling interest in acquiree	941,152	-
	<u>109,706,358</u>	<u>75,837,840</u>
Temporarily Restricted Net Assets		
Contributions and investment income, net	2,189,496	1,889,221
Net assets released from restrictions	(2,155,627)	(1,537,282)
Inherent contribution in acquisition of St. Mary's Medical Center (Note 3)	2,153,814	-
	<u>2,187,683</u>	<u>351,939</u>
Change in net assets	111,894,041	76,189,779
Net Assets, Beginning of Year	<u>291,957,767</u>	<u>215,767,988</u>
Net Assets, End of Year	<u>\$ 403,851,808</u>	<u>\$ 291,957,767</u>

See notes to consolidated financial statements

Cabell Huntington Hospital, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 111,894,041	\$ 76,189,779
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	39,917,426	26,666,099
Depreciation and amortization	27,371,814	19,676,346
Amortization of debt issuance costs, accretion of bond discount, and loss on refinancing	1,946,682	82,320
Pension and postretirement liabilities adjustment	(33,657,533)	(16,992,119)
Net realized and unrealized gains on investments	(12,034,029)	(9,154,585)
Change in fair value of derivative financial instruments	(4,380,971)	(5,705,190)
Change in noncontrolling interest in acquiree	(941,152)	-
Equity income from partnership investments	(1,723,763)	(209,355)
Distributions received from partnership investments	861,750	935,550
Restricted contributions and investment income	(2,189,496)	(1,889,221)
Other operating activities	323,996	104,782
Inherent contribution in acquisition of St. Mary's Medical Center	(21,105,719)	-
Changes in assets and liabilities:		
Patient accounts receivable	(38,993,486)	(29,118,391)
Inventories of supplies	(1,332,856)	(1,192,990)
Prepaid expenses and other current assets	10,722,776	(1,170,582)
Estimated third-party payor settlements	(10,687,343)	(2,802,904)
Other assets	1,356,000	(146,363)
Accounts payable	(20,170,613)	(4,537,300)
Accrued expenses	43,428,651	2,142,564
Other liabilities	(16,650,955)	(403,068)
Net cash provided by operating activities	73,955,220	52,475,372
Cash Flows from Investing Activities		
Cash paid in connection with acquisition of St. Mary's Medical Center, net of cash acquired	(106,473,577)	-
Net purchases of investments	(44,566,529)	(40,648,211)
Purchases of property and equipment	(42,887,188)	(36,586,461)
Change in other assets	563,832	-
Net cash used in investing activities	(193,363,462)	(77,234,672)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt, including premium of \$15,737,163	266,391,693	-
Repayment of long-term debt	(72,243,390)	(4,823,745)
Payment of financing costs	(4,682,711)	-
Restricted contributions and investment income	2,189,496	1,889,221
Net repayment of line of credit	(4,611)	(4,780)
Net cash provided by (used in) financing activities	191,650,477	(2,939,304)
Net increase (decrease) in cash and cash equivalents	72,242,235	(27,698,604)
Cash and Cash Equivalents, Beginning of Year	70,543,249	98,241,853
Cash and Cash Equivalents, End of Year	\$ 142,785,484	\$ 70,543,249
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 6,452,576	\$ 5,189,946
Supplemental Disclosure of Non-Cash Financing Activities		
Long-term debt refinanced	\$ 20,920,470	\$ -

See notes to consolidated financial statements

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

1. Nature of Operations and Basis of Presentation

Cabell Huntington Hospital, Inc. ("CHHI") is an acute care hospital facility in Huntington, West Virginia, that provides integrated health care solutions to residents of Cabell County and surrounding communities.

On May 1, 2018, CHHI became the sole member of St. Mary's Medical Center, Inc. ("SMMC"), an acute care hospital facility in Huntington, West Virginia, that provides integrated health care solutions to residents of Cabell County and surrounding communities (Note 3).

The consolidated financial statements include the accounts of CHHI and SMMC and their subsidiaries (collectively, the "System"), as described below:

- Cabell Huntington Hospital Foundation, Inc. ("CHHF") - raises and holds funds for the support and benefit of CHHI.
- CHH-Cabell Development Corporation ("CHH-DEV") - owns certain long-lived assets used for outpatient surgery.
- Cabell Huntington Hospital Auxiliary, Inc. ("Auxiliary") - operates solely for the benefit of CHHI by providing services to and coordinating fund raising activities for CHHI.
- St. Mary's Medical Center Foundation, Inc. ("SMMCF") - raises and holds funds for the support and benefit of SMMC.
- St. Mary's Medical Management, LLC ("SMMM") and Subsidiaries - employed physician group of SMMC. Its subsidiaries include:
 - St. Mary's Hospitalist Services, LLC ("SMH") - employed hospitalist group of SMMM.
 - Three Gables Surgery Center, LLC ("TGSC") - SMMM maintains a 52.34% equity interest in TGSC, a for-profit hospital located in Proctorville, Ohio.
- Mountain Regional Services, Inc. ("MRS") - owns certain real estate located in the vicinity of CHHI and used for parking or held for future expansion.
- Tri-State MRI ("TSM") - operates a magnetic resonance imaging unit.
- Mountain Health Network ("MHN") - provides management services for the System.
- Occumed, LLC ("Occumed") - CHHI maintains a 68.46% equity interest in Occumed, which provides urgent care and occupational medicine and related services.
- Vanguard Financial Services, Inc. ("VFS") - collection agency specializing in the area of health care debt collection.

The minority ownership interest of the subsidiaries is treated as a noncontrolling interest in the consolidated financial statements. All significant intercompany balances and transactions and amounts have been eliminated in consolidation.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

2. Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and temporary investments with financial institutions, which have original maturities of three months or less at the date of purchase. The carrying amount of cash equivalents approximates fair value.

The System maintains cash and cash equivalent accounts which may at times exceed federally insured limits. The System has not experienced any losses from maintaining these accounts in excess of federally insured limits. Management believes it is not subject to significant risks associated with these accounts.

Patient Accounts Receivable

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for doubtful accounts.

The System has demonstrated successful results in collecting receivables from patients who have agreed to a payment plan, and these amounts will remain in patient accounts receivable at their estimated net realizable amounts and will be evaluated as part of management's assessment of the adequacy of the allowance for doubtful accounts.

The System's allowance for doubtful accounts for self-pay patients was 79% of self-pay accounts receivable at September 30, 2018 and 72% of self-pay accounts receivable at September 30, 2017. The System's self-pay account write-offs (net of recoveries) were approximately \$39,178,000 in 2018 and \$21,720,000 in 2017. The increase was the result of the SMMC acquisition (Note 3) and slightly higher exposure to self-pay balances from high deductible third-party insurance plans.

The System has not changed its financial assistance policies in 2018 and 2017, other than to incorporate the existing policies of SMMC and its subsidiaries during 2018 (Note 3). The financial assistance policies of SMMC do not differ significantly from those of CHHI. The System does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Inventories

Inventories are stated at the lower of cost or net realizable value. Certain costs are determined on a weighted average basis and other costs are determined on a first-in, first-out basis.

Pledges Receivable

Unconditional pledges to contribute cash and other assets are reported at their estimated fair value at the date the promise is received. Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated net realizable future cash flows. The current portion of pledges receivable was approximately \$390,000 in 2018 and \$402,000 in 2017, and is included in prepaid expenses and other current assets in the consolidated balance sheets. The long-term portion of pledges receivable was approximately \$557,000 in 2018 and \$952,000 in 2017, and is included in other assets, net in the consolidated balance sheets.

The System annually evaluates the collectability of its pledges receivable and either reserves for or writes off uncollectible pledges when it is determined the pledge is uncollectible. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received.

Investments and Investment Risk

Investments include funds set aside by the Board of Directors (the "Board"), primarily for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes; funds held by trustees under debt agreements; and funds held by the foundations.

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

The System's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the consolidated balance sheet are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the consolidated financial statements could change materially in the near term.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets, generally ranging from 3 to 40 years, on a straight-line basis. Such lives, in the opinion of management, are adequate to allocate asset costs over their productive lives. Maintenance, repairs, and minor improvements are expensed as incurred. Equipment under capital leases is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated statements of operations.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Net interest costs on borrowed funds in the period of construction of capital assets are capitalized as a component of the cost of those constructed assets. No interest costs were capitalized in 2018 or 2017.

Gifts of long-lived assets such as land, buildings, or equipment are recorded at fair value and reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Property and Equipment

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. No impairment losses were recognized in 2018 or 2017.

Partnership Investments

Partnership investments include the System's investment in several entities in which the System has a financial interest. Where the System has the ability to influence management, or has a twenty percent but not more than fifty percent interest in the entity, the investment is recorded using the equity method and adjusted for the System's proportionate share of the entity's undistributed earnings or losses. All other investments in such entities are recorded at cost.

Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the term of the related debt using the straight-line method, which approximates the effective interest method. Such costs are reflected as a reduction of long-term debt in the consolidated balance sheets. Amortization of debt issuance costs was approximately \$855,000 in 2018 and \$74,000 in 2017, and is included in interest expense in the consolidated statements of operations.

In conjunction with the issuance of the 2018 Series Bonds (Note 11), the System wrote off debt issuance costs totaling approximately \$1,091,000, which is included in interest expense in the consolidated statements of operations.

Derivative Financial Instruments

The System entered into interest rate swap agreements, which are considered derivative financial instruments, to manage its interest rate risk on certain long-term debt obligations (Note 12). The interest rate swap agreements are reported at fair value in the consolidated balance sheets and related changes in fair value are reported in the consolidated statements of operations as a change in fair value of derivative financial instruments.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Estimated Professional Liability

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported including costs associated with litigation or settling claims. Anticipated insurance recoveries associated with reported claims are reported separately in the System's consolidated balance sheets at net realizable value, and are included in other assets, net.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use has been specifically limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity. There are no permanently restricted net assets at September 30, 2018 or 2017. The System records restricted contributions whose restrictions are met in the same reporting period as unrestricted.

Revenues in Excess of Expenses

The consolidated statements of operations include the determination of revenues in excess of expenses. Changes in unrestricted net assets that are excluded from the determination of revenues in excess of expenses, consistent with industry practice, include changes in pension and postretirement benefit obligations, contributions of long-lived assets (including assets acquired using contributions that by donor restrictions are to be used for the purpose of acquiring such assets), equity distributions, change in noncontrolling interest in acquiree, and permanent transfers of assets to and from affiliates for other than goods and services.

Net Patient Service Revenues

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted, as necessary, in future periods as tentative and final settlements are received. It is reasonably possible that the estimates used could change in the near term.

For uninsured patients, the System recognizes revenues on the basis of its standard rates, discounted in accordance with its policy. On the basis of historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the System records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Patient service revenues, net of contractual allowances and discounts (but before the provision for bad debts), recognized in 2018 and 2017 from these major payor sources, are as follows:

	<u>2018</u>	<u>2017</u>
Third-party payors	\$ 750,631,357	\$ 547,823,755
Self-pay	<u>28,592,007</u>	<u>20,318,106</u>
Total	<u>\$ 779,223,364</u>	<u>\$ 568,141,861</u>

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as patient service revenues (Note 5).

Medicaid Provider Tax

The West Virginia Broad Based Health Care Related Tax of 1993 assesses a tax on net patient service revenues at rates ranging from 1.75% to 5.50%, depending on the type of services provided. Additionally, the West Virginia Department of Tax and Revenue assesses a tax on net patient service revenues related to the Directed Payment Program ("DPP"), formerly known as the Upper Payment Limit ("UPL") program (Note 5). The System incurred related taxes of approximately \$19,077,000 in 2018 and \$13,660,000 in 2017.

Federal and State Income Taxes

CHHI, SMMC, CHHF, SMMCF and Auxiliary are tax-exempt organizations and are not subject to federal or state income taxes in accordance with Section 501(c)(3) of the Internal Revenue Code. On such basis, they will not incur any liability for income taxes, except for possible unrelated business income.

CHH-DEV, MRS, TSM, MHN, and VFS are organizations subject to federal and/or state income taxes. SMMM and SMH are treated as single member LLC's for tax purposes. Occumed and TGSC are treated as partnerships for tax purposes.

Management annually reviews its tax provisions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements at September 30, 2018 and 2017.

Health Insurance Benefits

The System self-insures its employee health insurance coverages and accrues the estimated costs of incurred and reported and incurred but not reported claims, after consideration of its individual and aggregate stop-loss insurance coverages, based upon data provided by the third-party administrators of the programs and its historical claims experience.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Subsequent Events

The System evaluated subsequent events for recognition or disclosure through January 21, 2019, the date the consolidated financial statements were issued.

Reclassifications

Certain reclassifications were made to the 2017 consolidated financial statements to conform with the 2018 presentation.

New Accounting Pronouncements

In 2017, the System adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2015-11, *Simplifying the Measurement of Inventory*. As a result of ASU No. 2015-11, the System is required to measure inventory, other than inventory measured using the last-in, first-out or retail inventory methods, at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonable predictable costs of completion, disposal, and transportation. The effect of the required prospective application of this change did not impact the System's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The System will be required to retrospectively adopt the guidance in ASU No. 2014-09 for its year ending September 30, 2019; early application is permitted. The System is currently assessing the effect that ASU No. 2014-09 will have on their consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. The System will be required to retrospectively adopt the guidance in ASU No. 2016-14 for its year ending September 30, 2019; early application is permitted. The System is currently assessing the effect that the adoption of ASU No. 2016-14 will have on their consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in ASU No. 2018-08 should assist entities in: (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and; (2) determining whether a contribution is conditional. The System will be required to adopt the guidance in ASU No. 2018-08 for its year ending September 30, 2019; early application is permitted. The System is currently assessing the effect that the adoption of ASU No. 2018-08 will have on their consolidated financial statements.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU No. 2017-07 was issued to provide guidance on the presentation of net periodic pension/postretirement benefit cost in the income statement and the components that are eligible for capitalization in assets. ASU No. 2017-07 requires that an employer report the service cost component of net periodic pension/postretirement benefit cost in the same line item used to record compensation expense for the related employees during the period. The other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item is used to present the other components, it must be appropriately described. If a separate line item is not used, then the line item(s) used in the income statement must be disclosed in the footnotes. The System will be required to retrospectively adopt the guidance in ASU No. 2017-07 for its year ending September 30, 2020; early application is permitted. The System is currently assessing the effect that the adoption of ASU No. 2017-07 will have on their consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the System's leasing activities. The System will be required to retrospectively adopt the guidance in ASU No. 2016-02 for its year ending September 30, 2020; early application is permitted. The System is currently assessing the effect that the adoption of ASU No. 2016-02 will have on their consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. ASU No. 2016-18 requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts showing on the statement of cash flows. The System will be required to retrospectively adopt the guidance in ASU No. 2016-18 for its year ending September 30, 2020; early application is permitted. The System is currently assessing the effect that the adoption of ASU No. 2016-18 will have on their cash flows.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

3. Acquisition

Effective May 1, 2018, the Corporation acquired the assets of SMMC and its subsidiaries (SMMM, SMMCF, and VFS). The overall purpose of this merger was the creation of a single hospital system in Huntington, WV with two campuses. The System seeks to improve the health of residents of western WV, eastern Kentucky and southern Ohio and surrounding area through the delivery of quality, cost-effective health care services. It is anticipated that the formation of a single system in the area will allow for (1) development of synergies in service delivery; (2) improved access to quality and technologically advanced health care services; (3) enhanced recruitment of health professionals and development of resources for expanded programs; (4) cost efficiencies, capital and other cost savings; (5) better access to capital for support services enhancements; (6) enhanced training programs for allied health professionals and graduated medical education; and (7) renewed focus on community health.

The purchase price was based upon the agreed-upon sale price between CHHI and the sellers. This sales price was negotiated in 2014, and due to regulatory approval and other legal setbacks, closing on this transaction did not take place until 2018. The provisions of the affiliation and acquisition were absent of any significant contingency payments, options, or commitments.

The Corporation incurred non-recurring acquisition costs since 2014 related to this acquisition; such costs have been expensed as incurred. Acquisition costs incurred during 2018 and 2017, as reflected in the accompanying consolidated statement of operations, totaled \$4,226,333 in 2018 and \$328,964 in 2017.

Assets acquired and liabilities assumed in the acquisition were recorded in the consolidated financial statements as of the acquisition date based upon their estimated fair values. The Corporation recorded inherent contributions totaling \$29,682,423 in 2018 which represents the excess of the net acquisition date fair value of assets acquired and liabilities assumed over the aggregate consideration transferred and the fair value of noncontrolling interest in the acquiree. Such inherent contributions are reported in the accompanying consolidated statements of operations and changes in net assets as inherent contribution in the acquisition of St. Mary's Medical Center. These inherent contributions increased the performance indicator by \$27,528,609 and increased temporarily restricted net assets by \$2,153,814 in 2018.

The purchase price and assumed debt was financed with proceeds of an interim bridge loan, which was then refinanced during 2018 with proceeds from the issuance of the 2018 Series Bonds (Note 11). As part of this transaction, the Corporation also assumed certain operating leases in effect, of which approximately \$3,892,000 was expensed during 2018. The future maturities of these leases are included in the amounts disclosed in Note 16.

Consideration consisted of cash payments totaling \$106,473,577 and fair value of noncontrolling interest in acquiree of \$941,152. No goodwill or other intangible assets were recognized as a result of this acquisition. The unrestricted net assets are recognized as inherent contribution from acquisition of St. Mary's Medical Center in the accompanying consolidated statement of operations and changes in net assets, and is included in the excess of revenues over expenses.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The fair value of assets acquired and liabilities assumed at May 1, 2018 were as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Totals
Assets:			
Cash and cash equivalents	\$ 7,912,463	\$ 664,241	\$ 8,576,704
Accounts receivable:			
Patients, net	65,045,766	-	65,045,766
Other	16,314,505	-	16,314,505
Inventories	10,375,679	-	10,375,679
Prepaid expenses and other current assets	4,534,012	-	4,534,012
Assets limited as to use, trustee held funds	2,842,667	-	2,842,667
Investments:			
Board designated	85,209,977	-	85,209,977
Externally designated	4,273,853	1,489,573	5,763,426
Property and equipment	197,464,480	-	197,464,480
Other assets	10,427,545	-	10,427,545
Total assets	404,400,947	2,153,814	406,554,761
Less liabilities assumed:			
Current and long-term debt	(68,773,961)	-	(68,773,961)
Accounts payable and accrued expenses	(48,542,703)	-	(48,542,703)
Estimated third-party payor settlements	(374,932)	-	(374,932)
Pension liability (net of plan assets, Note 13)	(132,425,875)	-	(132,425,875)
Derivative financial instruments	(3,974,037)	-	(3,974,037)
Other (current and long-term)	(15,366,101)	-	(15,366,101)
Total liabilities	(269,457,609)	-	(269,457,609)
Net	134,943,338	2,153,814	137,097,152
Consideration transferred	107,414,729	-	107,414,729
Inherent contribution	\$ 27,528,609	\$ 2,153,814	\$ 29,682,423

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The results of operations of these entities have been included in the accompanying consolidated statements of operations and changes in net assets since the acquisition date. Certain financial information related to these entities since the date of acquisition through September 30, 2018 are as follows:

Unrestricted revenues	<u>\$ 184,015,569</u>
Revenues in excess of expenses	<u>\$ 24,762,838</u>
Increase in net assets:	
Unrestricted	\$ 38,798,225
Temporarily restricted	<u>1,946,808</u>
Total	<u>\$ 40,745,033</u>

The following table presents certain pro-forma financial information for the years ending September 30, 2018 and 2017 to reflect consolidated revenues, the performance indicator and changes in net assets (by class) as if this merger had taken place effective October 1, 2017 and October 1, 2016, respectively:

	<u>2018</u>	<u>2017</u>
Unrestricted revenues	<u>\$ 1,059,954,106</u>	<u>\$ 1,027,857,651</u>
Revenues in excess of expenses	<u>\$ 71,923,873</u>	<u>\$ 65,890,524</u>
Increase in net assets:		
Unrestricted	\$ 106,273,512	\$ 103,542,652
Temporarily restricted	<u>2,449,426</u>	<u>1,951,551</u>
Total	<u>\$ 108,722,938</u>	<u>\$ 105,494,203</u>

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

4. Edwards Comprehensive Cancer Center

The Edwards Foundation was established in 2002 as a supporting nonprofit organization to CHHI and the Marshall University School of Medicine through a \$16,000,000 endowment funded by James F. Edwards and Joan C. Edwards. The members of the Edwards Foundation include representatives of CHHI, the Marshall University School of Medicine, and designees selected by the Edwards family.

In September 2003, CHHI and the Edwards Foundation executed a 99-year ground lease whereby the Edwards Foundation leases land from CHHI for \$1 per year. During the year ended September 30, 2005, the Edwards Foundation commenced construction of the Edwards Comprehensive Cancer Center ("ECCC") on the campus of CHHI pursuant to the ground lease.

In January 2006, CHHI and the Edwards Foundation executed a 97-year lease whereby CHHI leases the building and associated equipment for the purpose of operating the ECCC. During the term of the building and equipment lease, CHHI is required to make annual lease payments to the Edwards Foundation in an amount equal to the sum of \$12 per year plus 50% of annual net profit, as defined in the lease agreement, generated by the operations of the ECCC. Additionally, the Edwards Foundation obtained a bank loan to finance a portion of the construction costs and equipment. As long as any portion of the loan, or any extensions or renewals thereof, remains outstanding, CHHI shall make annual lease payments up to 100% of the amount necessary to amortize the loan over a period of 15 years, as defined in the lease agreement. The loan had a balance of \$3,633,650 at September 30, 2018 and matures in August 2021. The loan is secured by the property and equipment of the ECCC.

Under the ground lease, the title to the building and equipment associated with the ECCC will transfer to CHHI and perfect upon the expiration or early termination of the lease. Construction and equipping of the ECCC was completed by the Edwards Foundation in 2006 at a total cost of approximately \$31,605,000. This amount, net of accumulated amortization, is classified in property and equipment in the consolidated balance sheets (Note 9).

The building and equipment related to the ECCC are being amortized over their estimated useful lives, which is included in depreciation and amortization in the consolidated statements of operations (Note 9). Additionally, any rent payment due under the terms of the building and equipment lease is recorded as rental expense, which approximated \$5,352,000 in 2018 and \$3,667,000 in 2017, and is included in other expense in the consolidated statements of operations.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

5. Charity Care

The System estimates the cost of providing charity care using the ratio of average patient care cost to gross charges and then applies that ratio to the gross uncompensated charges associated with providing charity care. The amount of charges forgone for services and supplies furnished under the System's charity care policies follows for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Charges forgone, based on established rates	<u>\$ 14,543,000</u>	<u>\$ 14,891,000</u>
Management's estimate of expenses incurred to provide charity care	<u>\$ 4,677,000</u>	<u>\$ 4,807,000</u>
Equivalent percentage of charity care services to gross patient service revenues, based on established rates	<u>0.6%</u>	<u>0.9%</u>

6. Net Patient Service Revenues

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. A significant portion of the System's net patient service revenues are derived from these third-party payor programs. Revenues received under third-party arrangements are subject to audit and retroactive adjustment. The following summarizes the significant payment arrangements with major third-party payors:

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid primarily at prospectively determined rates. The System receives additional reimbursement for disproportionate share based on the level of Medicaid and Supplementary Security Income patients it serves. The System also receives payments for direct and indirect medical education from the Medicare program.

The System's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a Medicare quality improvement organization. The System's cost reports have been audited by the Medicare fiscal intermediary through September 30, 2013. Revenue from Medicare was 35% in 2018 and 24% in 2017 of total net patient service revenues.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Medicaid

Payments for inpatient acute care services rendered to Medicaid program beneficiaries are based primarily upon a prospectively determined rate per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid on a published fee schedule. Revenue from Medicaid was 15% in 2018 and 22% in 2017 of total net patient service revenues.

The State of West Virginia's disproportionate share plan reimburses hospitals in the state that provide Medicaid services and meet other eligibility criteria. Under the disproportionate share program, the System received approximately \$14,817,000 in 2018 and \$18,215,000 in 2017, which is included in patient service revenues in the consolidated statements of operations.

The State of West Virginia increases Medicaid reimbursement to qualified public safety net hospitals for services to Medicaid-eligible patients. Supplemental payments may be received in an amount up to the difference between current reimbursement and the maximum permissible payments under DPP (formerly known as UPL) regulations. The first payment was made in August 2012 and periodic payments have been made subsequent to that date. Additionally, in 2016 a supplemental program was introduced to include the Medicaid expansion beneficiaries known as the "Bridge" population.

The DPP payments are recorded in the period they are received. Under the DPP program, the System received payments of approximately \$24,964,000 in 2018 and \$23,514,000 in 2017, which is included in patient service revenues in the consolidated statements of operations.

The laws and regulations governing the DPP program are complex and subject to interpretation. The DPP reimbursement is funded by a portion of the Medicaid Provider Tax (Note 2). There is risk that Congress may change federal policy in the future in a way that might limit or eliminate the DPP payments but maintain the Medicaid Provider Tax.

Blue Cross

Inpatient and outpatient services rendered to Blue Cross subscribers are paid at either prospectively determined rates per case or discounts from established charges. Revenue from Blue Cross was 29% in 2018 and 33% in 2017 of total net patient service revenues.

Other Payors

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

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Health Care Authority

Effective June 5, 2016, legislation was enacted that eliminated the rate setting powers of the Health Care Authority ("HCA"). However, the HCA was given the power to review, approve and regulate "cooperative agreements" between qualified hospitals which are members of academic medical centers and one or more other hospitals or other health care providers. The System is subject to the regulatory powers of the HCA as part of the cooperative agreement entered into as part of the acquisition. Those regulatory powers include annual reporting requirements, rate setting controls, and the authority to order rebates for failure to meet quality metrics or consumer price increase targets.

7. Investments

The composition of investments at September 30, 2018 and 2017 is as follows:

	2018	2017
Cash and cash equivalents	\$ 92,109,286	\$ 36,146,181
Marketable equity securities	162,844,401	96,935,596
U.S. government and agency obligations	43,195,874	34,861,036
Corporate bonds	30,635,914	23,393,196
Mutual funds, fixed income	20,037,911	9,913,416
Total	<u>\$ 348,823,386</u>	<u>\$ 201,249,425</u>

Unrestricted investment income, gains, and losses are comprised of the following in 2018 and 2017:

	2018	2017
Interest and dividend income	\$ 5,538,281	\$ 3,463,395
Net unrealized gains on trading securities	7,157,194	7,716,974
Net realized gains on sales of securities	4,876,835	1,437,611
Investment manager and trustee fees	(746,048)	(587,296)
Net unrestricted investment income	<u>\$ 16,826,262</u>	<u>\$ 12,030,684</u>

8. Fair Value Measurements and Financial Instruments

The System measures its investments and derivative financial instruments on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the same term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The fair value of financial instruments listed below was determined using the following valuation hierarchy at September 30, 2018:

	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets - recurring fair value measurements:					
Investments:					
Cash and cash equivalents	\$ 92,109,286	\$ 92,109,286	\$ 92,109,286	\$ -	\$ -
Marketable equity securities:					
Consumer discretionary	14,459,933	14,459,933	14,459,933	-	-
Consumer staples	6,609,550	6,609,550	6,609,550	-	-
Energy	12,042,033	12,042,033	12,042,033	-	-
Financials	20,843,525	20,843,525	20,843,525	-	-
Healthcare	26,602,599	26,602,599	26,602,599	-	-
Industrials	14,597,048	14,597,048	14,597,048	-	-
Information technology	26,392,205	26,392,205	26,392,205	-	-
Materials	5,312,767	5,312,767	5,312,767	-	-
Other	20,386,971	20,386,971	20,386,971	-	-
Real estate	1,030,514	1,030,514	1,030,514	-	-
Telecommunications	11,520,197	11,520,197	11,520,197	-	-
Utilities	3,047,059	3,047,059	3,047,059	-	-
U.S. government and agency obligations	43,195,874	43,195,874	-	43,195,874	-
Corporate bonds	30,635,914	30,635,914	-	30,635,914	-
Mutual funds, fixed income	20,037,911	20,037,911	20,037,911	-	-
Total investments	<u>\$ 348,823,386</u>	<u>\$ 348,823,386</u>	<u>\$ 274,991,598</u>	<u>\$ 73,831,788</u>	<u>\$ -</u>
Liabilities - recurring fair value measurements:					
Derivative financial instruments	<u>\$ 7,535,120</u>	<u>\$ 7,535,120</u>	<u>\$ -</u>	<u>\$ 7,535,120</u>	<u>\$ -</u>
Assets disclosed at fair value:					
Cash and cash equivalents	\$ 142,785,484	\$ 142,785,484	\$ 142,785,484	\$ -	\$ -
Pledges receivable	947,733	947,733	-	-	947,733
Total	<u>\$ 143,733,217</u>	<u>\$ 143,733,217</u>	<u>\$ 142,785,484</u>	<u>\$ -</u>	<u>\$ 947,733</u>
Liabilities disclosed at fair value:					
Bonds payable	\$ 362,914,005	\$ 363,032,276	\$ -	\$ 363,032,276	\$ -
Other notes payable	1,992,858	1,992,858	-	-	1,992,858
Total	<u>\$ 364,906,863</u>	<u>\$ 365,025,134</u>	<u>\$ -</u>	<u>\$ 363,032,276</u>	<u>\$ 1,992,858</u>

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The fair value of financial instruments listed below was determined using the following valuation hierarchy at September 30, 2017:

	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets - recurring fair value measurements:					
Investments:					
Cash and cash equivalents	\$ 36,146,181	\$ 36,146,181	\$ 36,146,181	\$ -	\$ -
Marketable equity securities:					
Consumer discretionary	8,726,268	8,726,268	8,726,268	-	-
Consumer staples	6,544,062	6,544,062	6,544,062	-	-
Energy	8,243,463	8,243,463	8,243,463	-	-
Financials	14,385,727	14,385,727	14,385,727	-	-
Healthcare	17,143,050	17,143,050	17,143,050	-	-
Industrials	10,580,147	10,580,147	10,580,147	-	-
Information technology	17,846,338	17,846,338	17,846,338	-	-
Materials	3,459,050	3,459,050	3,459,050	-	-
Other	4,424,417	4,424,417	4,424,417	-	-
Real estate	1,384,312	1,384,312	1,384,312	-	-
Telecommunications	2,857,135	2,857,135	2,857,135	-	-
Utilities	1,341,627	1,341,627	1,341,627	-	-
U.S. government and agency obligations	34,861,036	34,861,036	-	34,861,036	-
Corporate bonds	23,393,196	23,393,196	-	23,393,196	-
Mutual funds, fixed income	9,913,416	9,913,416	9,913,416	-	-
Total investments	<u>\$ 201,249,425</u>	<u>\$ 201,249,425</u>	<u>\$ 142,995,193</u>	<u>\$ 58,254,232</u>	<u>\$ -</u>
Liabilities - recurring fair value measurements:					
Derivative financial instruments	<u>\$ 11,916,091</u>	<u>\$ 11,916,091</u>	<u>\$ -</u>	<u>\$ 11,916,091</u>	<u>\$ -</u>
Assets disclosed at fair value:					
Cash and cash equivalents	\$ 70,543,249	\$ 70,543,249	\$ 70,543,249	\$ -	\$ -
Pledges receivable	1,353,648	1,353,648	-	-	1,353,648
Total	<u>\$ 71,896,897</u>	<u>\$ 71,896,897</u>	<u>\$ 70,543,249</u>	<u>\$ -</u>	<u>\$ 1,353,648</u>
Liabilities disclosed at fair value:					
Bonds payable	\$ 101,298,070	\$ 101,298,070	\$ -	\$ 78,963,991	\$ 22,334,079
Other notes payable	743,267	743,267	-	-	743,267
Total	<u>\$ 102,041,337</u>	<u>\$ 102,041,337</u>	<u>\$ -</u>	<u>\$ 78,963,991</u>	<u>\$ 23,077,346</u>

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value and for financial instruments disclosed at fair value. There have been no changes in methodologies used at September 30, 2018 and 2017.

Cash and cash equivalents: The carrying amounts approximate fair value because of the short maturity of these financial instruments.

Marketable equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds and U.S. government and agency obligations: Valued based on spreads of published interest rate curves.

Mutual funds: Valued at the quoted net asset value of shares (basis for trade) held by the System at year end.

Pledges receivable: Valued based on the original pledge amount, adjusted by a discount rate that a market participant would demand and an evaluation for uncollectible pledges.

Long-term debt: Valued based on current rates offered for similar issues with similar securities terms and maturities, or estimated using a discount rate that a market participant would demand.

Derivative financial instruments: Valued based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instruments and was estimated using the zero-coupon discounting method. This method calculates the future payments required by the derivative financial instruments, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the System would pay to terminate the agreements. The change in fair value of derivative financial instruments is included in revenues in excess of expenses.

It is not practicable to estimate the fair value of amounts due to or from related parties since terms could not be duplicated in the market and related parties can revise terms, making assumptions supporting fair values potentially unreliable.

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

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

9. Property and Equipment

Property and equipment and related accumulated depreciation consist of the following at September 30, 2018 and 2017:

	2018	2017
Land and land improvements	\$ 29,242,268	\$ 18,689,431
Buildings and fixed equipment	463,737,515	290,110,270
Major movable equipment	225,389,270	175,099,485
Buildings and equipment under long-term lease with related party (Note 4)	31,604,714	31,604,714
Total	749,973,767	515,503,900
Less accumulated depreciation and amortization	320,349,942	288,308,930
	429,623,825	227,194,970
Construction in progress	14,143,044	3,592,045
Property and equipment, net	\$ 443,766,869	\$ 230,787,015

Accumulated amortization on buildings and equipment under long-term lease with related party approximates \$16,898,000 at September 30, 2018 and \$16,292,000 at September 30, 2017.

Construction in progress consists primarily of renovation and expansion projects and a system-wide information technology upgrade (Note 20). Purchase commitments related to these and other miscellaneous projects were approximately \$27,123,000 at September 30, 2018.

10. Lines of Credit

CHHI maintains a \$5,000,000 unsecured revolving loan agreement. There were no borrowings outstanding at September 30, 2018 and 2017. Borrowings under the agreement bear interest at one-month LIBOR plus 1.75% per annum.

SMMC maintains a margin account (revolving line of credit) with a national investment banking firm which allows them to borrow against the value of investments held in trust by the firm for the benefit of SMMC. There were no borrowings outstanding at September 30, 2018.

Occumed has a \$401,524 revolving loan agreement. Borrowings under the agreement were \$361,344 at September 30, 2018 and \$365,955 at September 30, 2017. Borrowings under the agreement bear interest at 4.75% per annum. Under the terms of the agreement, the amounts borrowed are due and payable on October 12, 2019, and interest is payable monthly. The revolving loan agreement is guaranteed by the members of Occumed.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

11. Long-Term Debt

Long-term debt consists of the following at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Refunding and improvement revenue bonds - 2018		
Series A and B	\$ 271,575,000	\$ -
Revenue refunding bonds - 2008 Series A and B	75,720,000	79,090,000
Capital leases and other notes payable	2,140,809	826,629
Long-term debt repaid or refinanced in 2018	-	22,334,079
	<u>349,435,809</u>	<u>102,250,708</u>
Total		
	349,435,809	102,250,708
Debt issuance costs	(3,827,661)	(1,083,781)
Net unaccreted bond premium (discount)	15,619,005	(126,009)
Current maturities of long-term debt	<u>(4,830,118)</u>	<u>(5,561,026)</u>
Long-term debt	<u>\$ 356,397,035</u>	<u>\$ 95,479,892</u>

The scheduled principal repayments as of September 30, 2018 are as follows:

Years ending September 30:	
2019	\$ 4,830,118
2020	6,591,669
2021	6,600,250
2022	6,730,258
2023	6,923,514
Thereafter	<u>317,760,000</u>
Total	<u>\$ 349,435,809</u>

Obligated Group

The Obligated Group consists of CHHI and SMMC. Both members of the Obligated Group are jointly and severally liable for all outstanding obligations of the Obligated Group. Payments of principal and interest are collateralized by a pledge of gross receipts and funds of the Obligated Group.

The System's indebtedness agreements contain restrictive covenants, the most significant of which are the maintenance of minimum debt service coverage and restrictions as to the incurrence of additional indebtedness and transfers of assets.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

2018 Series - Hospital Refunding and Improvement Revenue Bonds

In September 2018, the West Virginia Hospital Finance Authority (the "Authority") issued \$240,300,000 of Hospital Refunding and Improvement Revenue Bonds 2018 Series A and \$31,275,000 of Hospital Improvement Revenue Bonds 2018 Series B (Taxable) (the "2018 Bonds") on behalf of the Obligated Group. The proceeds of the 2018 Bonds were used to finance the SMMC acquisition by repaying bridge loans incurred at closing; finance costs incurred in connection with the SMMC acquisition that were not previously paid or reimbursed from the bridge loans; refund the CHHI Series 2009 Bonds; finance future capital improvements; and pay for the costs of issuance.

The 2018 Bonds include fixed rate serial bonds of \$101,055,000 maturing in 2020 through 2038 with interest rates ranging from 4.000% to 5.000%; and fixed rate term bonds of \$170,520,000 maturing in 2043, 2047, and 2048 with interest rates ranging from 4.125% to 5.132%.

2008 Series - Hospital Revenue Improvement Bonds

In October 2008, the Authority issued \$48,480,000 of Hospital Revenue Refunding Bonds 2008 Series A and \$48,475,000 of Hospital Revenue Refunding Bonds 2008 Series B (the "2008 Bonds") on behalf of CHHI. The 2008 Bonds are repayable through January 1, 2034, and bear interest based on a weekly rate model (1.59% at September 30, 2018). The 2008 Bonds are secured by a bank letter-of-credit agreement with Branch Banking and Trust Company ("BB&T") that will provide financing in an amount necessary to purchase a portion of the 2008 Bonds if not remarketed, with repayment terms on a long-term basis. The bank letter-of-credit agreement will expire on October 17, 2021.

Capital Leases and Other Notes Payable

Capital leases and other notes payable consist of capital leases, bank loan agreements, and notes payable from individuals, that are secured by equipment and property with various maturity dates through 2020 and require monthly principal and interest payments.

12. Derivative Financial Instruments

The System has two interest rate swap agreements to manage its exposure on its debt instruments. During the term of these agreements, the fixed rate swaps convert variable rate debt to a fixed rate. The notional amount under each interest rate swap is reduced over the term of the respective agreement to correspond with reductions in the outstanding bond series.

The following table summarizes the System's interest rate swap agreements:

Swap Type	Expiration Date	System Receives	System Pays	Notional Amounts at September 30, 2018
Floating to fixed	2034	62.2% one-month LIBOR	3.68%	\$ 39,650,000
Floating to fixed	2034	64.8% one-month LIBOR	3.48%	39,600,000
				<u>\$ 79,250,000</u>

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

By using derivative financial instruments to manage these risks, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit exposure for the System. When the fair value of a derivative contract is negative, the System owes the counterparty. If the System has a derivative in a liability position, the credit-adjusted market values could be adjusted downward. Market risk is the effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of its derivative positions in the context of its total blended cost of capital.

The fair value of the interest rate swap agreements was \$7,535,120 at September 30, 2018 and \$11,916,091 at September 30, 2017. The net cash paid or received under the swap agreements is recognized as an adjustment to interest expense. As a result of the swap agreements, interest expense increased by approximately \$1,749,000 in 2018 and \$2,261,000 in 2017.

In 2018, the System terminated the interest rate swap agreements assumed in the SMMC acquisition (Note 3). The System paid a final cash settlement of \$3,785,000, which included a loss on settlement of approximately \$165,000, and is included in change in fair value of derivative financial instruments in the consolidated statements of operations.

13. Benefit Plans

CHHI has a defined contribution 401(k) retirement plan covering substantially all of their employees. The plan became effective January 1, 2011. Eligibility requires one year of service with 1,080 hours worked. CHHI contributes 3% of eligible salary annually, and employees vest in employer contributions after five years of service. Total expenses relating to this plan were approximately \$4,981,000 in 2018 and \$3,994,000 in 2017.

SMMC has a defined contribution 403(b) retirement plan covering substantially all of their employees. The plan, which became effective January 1, 2011, has two components consisting of a salary reduction portion and a discretionary contribution portion. The salary reduction component allows eligible employees to contribute, as a salary deferral, to the plan. The discretionary contribution portion of the plan allows for additional contributions of eligible wages subject to certain limitations and restrictions. Total expenses relating to this plan were \$1,289,000 in 2018.

The System sponsors noncontributory defined benefit plans covering substantially all eligible employees. Pension benefits to participating employees are based on years of credited service and salaries. The System provides funding sufficient to meet minimum funding requirements under applicable federal laws. Plan assets, primarily consisting of U.S. government and equity securities, are held in trust.

Benefit accruals under the CHHI non-union retirement plan were frozen effective September 30, 2015; benefit accruals under the CHHI union retirement plan were frozen effective November 2, 2016; and benefit accruals under the SMMC retirement plan were frozen effective August 1, 2010.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

In addition, CHHI sponsors a postretirement health benefit plan for its employees who have at least 17 years of service and who retire at age 62 or older. Entrance into the postretirement plan became frozen to new employees and restricted to existing employees effective November 2, 2016.

The following table presents a reconciliation of the beginning and ending balances of the various plans' projected benefit obligations and the fair value of plan assets and funded status of the plans measured at September 30:

	Pension Plans		Postretirement Plan	
	2018	2017	2018	2017
Changes in projected benefit obligation:				
Projected benefit obligation, beginning of year	\$ 322,008,714	\$ 327,491,701	\$ 47,279,096	\$ 41,922,429
SMMC acquisition (Note 3)	240,830,813	-	-	-
Service cost	-	200,087	1,353,954	1,211,161
Interest cost	16,841,562	12,112,752	1,936,086	1,688,258
Actuarial (gain) loss	(27,619,130)	(9,565,345)	(59,977)	3,693,006
Benefits paid	(12,717,734)	(8,230,481)	(1,352,552)	(1,235,758)
Projected benefit obligation, end of year	<u>\$ 539,344,225</u>	<u>\$ 322,008,714</u>	<u>\$ 49,156,607</u>	<u>\$ 47,279,096</u>
Changes in plan assets:				
Fair value of plan assets, beginning of year	\$ 233,460,275	\$ 217,201,126	\$ -	\$ -
SMMC acquisition (Note 3)	108,404,938	-	-	-
Actual return on plan assets	24,193,997	22,239,656	-	-
Employer contributions	3,797,876	2,249,974	1,352,552	1,235,758
Benefits paid	(12,717,734)	(8,230,481)	(1,352,552)	(1,235,758)
Fair value of plan assets, end of year	<u>\$ 357,139,352</u>	<u>\$ 233,460,275</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status at end of year	<u>\$ (182,204,873)</u>	<u>\$ (88,548,439)</u>	<u>\$ (49,156,607)</u>	<u>\$ (47,279,096)</u>

The following table is a reconciliation of the funded status at end of year to the amounts recognized in the consolidated balance sheet at September 30:

	Pension Plans		Postretirement Plan	
	2018	2017	2018	2017
Accrued expenses	\$ -	\$ -	\$ 1,694,757	\$ 1,492,337
Accrued pension and postretirement liabilities	182,204,873	88,548,439	47,461,850	45,786,759
Total	<u>\$ 182,204,873</u>	<u>\$ 88,548,439</u>	<u>\$ 49,156,607</u>	<u>\$ 47,279,096</u>

The accumulated benefit obligation of the pension plans was \$539,344,225 at September 30, 2018 and \$322,008,714 at September 30, 2017.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The following table sets forth the components of net periodic benefit (credit) expense in 2018 and 2017:

	Pension Plans		Postretirement Plan	
	2018	2017	2018	2017
Service cost	\$ -	\$ 200,087	\$ 1,353,954	\$ 1,211,161
Interest cost	16,841,562	12,112,752	1,936,086	1,688,258
Expected return on plan assets	(20,192,131)	(14,945,820)	-	-
Recognized net actuarial loss	1,606,497	3,310,323	-	-
Amortization of prior service credit	-	-	(772,031)	(772,031)
Amortization of losses	-	-	1,494,178	1,287,652
Net periodic benefit (credit) expense	<u>\$ (1,744,072)</u>	<u>\$ 677,342</u>	<u>\$ 4,012,187</u>	<u>\$ 3,415,040</u>

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic pension cost:

	Pension Plans		Postretirement Plan	
	2018	2017	2018	2017
Unrecognized actuarial loss	\$ (16,999,856)	\$ (49,875,265)	\$ (18,563,791)	\$ (20,117,946)
Prior service credit	-	-	4,554,986	5,327,017
Total	<u>\$ (16,999,856)</u>	<u>\$ (49,875,265)</u>	<u>\$ (14,008,805)</u>	<u>\$ (14,790,929)</u>

Changes in plan assets and benefit obligations recognized in unrestricted net assets include:

	Pension Plans		Postretirement Plan	
	2018	2017	2018	2017
Actuarial (gain) loss	\$ (31,268,912)	\$ (16,859,181)	\$ (59,977)	\$ 3,693,006
Amortization of actuarial loss	(1,606,497)	(3,310,323)	(1,494,178)	(1,287,652)
Amortization of prior service credit	-	-	772,031	772,031
Total	<u>\$ (32,875,409)</u>	<u>\$ (20,169,504)</u>	<u>\$ (782,124)</u>	<u>\$ 3,177,385</u>

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The weighted-average assumptions used in the measurement of the System's projected benefit obligation at September 30, 2018 and 2017 are as follows:

	Pension Plans		Postretirement Plan	
	2018	2017	2018	2017
Discount rate (all plans)	4.15%	3.90%	4.44%	4.16%
Expected rate of compensation increase (all plans)	N/A	N/A	N/A	N/A

The weighted-average assumptions used in the measurement of the System's net periodic pension cost for the years ended September 30, 2018 and 2017 are as follows:

	Pension Plans		Postretirement Plan	
	2018	2017	2018	2017
Discount rate:				
CHHI plans	3.90%	3.75%	4.16%	4.09%
SMMC plan	3.75%	N/A	N/A	N/A
Expected long-term rate of return on plan assets:				
CHHI plans	7.00%	7.00%	N/A	N/A
SMMC plan	7.75%	N/A	N/A	N/A
Expected rate of compensation increase:				
CHHI non-union retirement plan	N/A	N/A	N/A	N/A
CHHI union retirement plan	N/A	2.50%	N/A	N/A
SMMC plans	N/A	N/A	N/A	N/A

In selecting the expected long-term return on plan assets for the pension plans, the System considered the average rate of earnings on the funds invested or to be invested to provide for the benefits of these plans. This included considering the asset allocation and the expected returns likely to be earned over the life of the plans. Plan assets are invested in an actively managed portfolio that integrates asset allocation strategies across equity and debt markets within the United States. The portfolio objectives include long-term growth, balanced with moderate variability, with an expected shift to assets having a greater fixed income allocation as the plan population ages and nears retirement. The use of an appropriate asset management policy combines the various asset pools to ensure flexibility and to adapt to the changing retirement needs of the plan participants.

The pension plans' objectives are to have approximately 65% of plan assets invested in equities, approximately 30% invested in fixed income securities, and approximately 5% invested in cash and cash equivalents. The objective of the portfolio is to meet present and future benefit obligations through investments in the capital markets and to pay benefits in a timely manner.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The pension plans' weighted-average asset allocations at September 30, by asset category, are as follows:

	<u>2018</u>	<u>2017</u>
Asset category:		
Equity securities	73 %	70 %
Debt/fixed income securities	<u>27 %</u>	<u>30</u>
	<u>100 %</u>	<u>100 %</u>

The following table summarizes instruments measured at fair value on a recurring basis at September 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>NAV (1)</u>	<u>Totals</u>
Cash and cash equivalents	\$ 8,172,540	\$ -	\$ -	\$ 8,172,540
Marketable equity securities:				
Consumer discretionary	14,008,437	-	-	14,008,437
Consumer staples	10,243,789	-	-	10,243,789
Exchange traded funds	21,867,830	-	-	21,867,830
Energy	8,086,666	-	-	8,086,666
Financials	22,309,789	-	-	22,309,789
Healthcare	21,060,497	-	-	21,060,497
Industrials	16,430,957	-	-	16,430,957
Information technology	25,005,074	-	-	25,005,074
Materials	3,713,937	-	-	3,713,937
Other	8,473,437	-	-	8,473,437
Real estate	359,453	-	-	359,453
Telecommunications	14,367,482	-	-	14,367,482
Utilities	3,688,174	-	-	3,688,174
Marketable debt securities	-	26,886,122	-	26,886,122
U.S. government and agency obligations	-	26,373,424	-	26,373,424
Pooled separate accounts:				
Money market accounts	-	-	1,094,184	1,094,184
Domestic equity accounts	-	-	59,949,683	59,949,683
Bond and mortgage accounts	-	-	65,047,877	65,047,877
Total	<u>\$ 177,788,062</u>	<u>\$ 53,259,546</u>	<u>\$ 126,091,744</u>	<u>\$ 357,139,352</u>

- (1) Certain investments that are measured at fair value using the net asset value ("NAV") per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The following table summarizes instruments measured at fair value on a recurring basis at September 30, 2017:

	Level 1	Level 2	NAV (1)	Totals
Cash and cash equivalents	\$ 2,503,561	\$ -	\$ -	\$ 2,503,561
Marketable equity securities:				
Consumer discretionary	8,496,595	-	-	8,496,595
Consumer staples	9,664,631	-	-	9,664,631
Energy	4,718,674	-	-	4,718,674
Financials	13,251,065	-	-	13,251,065
Healthcare	12,293,468	-	-	12,293,468
Industrials	10,781,634	-	-	10,781,634
Information technology	18,221,317	-	-	18,221,317
Materials	3,417,460	-	-	3,417,460
Other	2,180,117	-	-	2,180,117
Real estate	426,443	-	-	426,443
Telecommunications	2,180,662	-	-	2,180,662
Utilities	2,087,701	-	-	2,087,701
Marketable debt securities	-	10,775,132	-	10,775,132
U.S. government and agency obligations	-	6,886,147	-	6,886,147
Pooled separate accounts:				
Money market accounts	-	-	1,069,288	1,069,288
Domestic equity accounts	-	-	69,250,692	69,250,692
Bond and mortgage accounts	-	-	55,255,688	55,255,688
Total	\$ 90,223,328	\$ 17,661,279	\$ 125,575,668	\$ 233,460,275

- (1) Certain investments that are measured at fair value using the net asset value ("NAV") per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

There were no Level 3 investments at September 30, 2018 and 2017. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2018 and 2017.

Cash and cash equivalents: The carrying amounts approximate fair value because of the short maturity of these financial instruments.

Marketable equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Marketable debt securities: Valued based on spreads of published interest rate curves.

U.S. government and agency obligations: Valued based on spreads of published interest rate curves.

Pooled separate accounts: Valued using the net asset value ("NAV") provided by the administrator of the related fund. The NAV is based on the value of the underlying assets owned by the fund minus applicable costs and liabilities and then divided by the number of shares outstanding.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The following represents the investment strategies of the pooled separate accounts:

Name of Fund	Fair Value at September 30, 2018	Fair Value at September 30, 2017	Investment Strategy	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Principal Core Plus Bond Separate Account	\$ 59,949,683	\$ 69,280,691	Invests primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and US government and agency-backed securities. Value is added primarily through sector allocation and security selection. May enter into reverse repurchase agreements to attempt to enhance portfolio return and income.	N/A	Daily	1 day
Principal LargeCap S&P 500 Index Separate Account	54,033,079	45,913,763	Invests primarily in common stocks of companies that compose the S&P 500 Index. Attempts to mirror the investment performance of the Index by allocating assets in approximately the same weightings as the S&P 500 Index. Over the long-term, seeks a very close correlation to the performance of the S&P 500 Index.	N/A	Daily	1 day
Principal SmallCap Separate Account	11,014,798	9,311,926	Seeks long-term growth of capital and primarily invests in common stocks of small capitalization companies. Invests in companies with market capitalizations similar to those of companies in the Russell 2000 Index. Management of the fund looks at stocks with value and/or growth characteristics and constructs an investment portfolio that has a blend of stocks with these characteristics. May invest up to 25% of assets in foreign securities.	N/A	Daily	1 day
Principal Liquid Assets Separate Account	1,094,184	1,069,288	Seeks as high a level of current income as is considered consistent with preservation of principal and maintenance of liquidity. Invests in a portfolio of high quality, short-term money market instruments. Investments are U.S. dollar denominated securities which present minimal credit risks. Maintains a dollar weighted average portfolio maturity of 60 days or less.	N/A	Daily	1 day
Total	<u>\$ 126,091,744</u>	<u>\$ 125,575,668</u>				

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

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The System expects to contribute approximately \$3,551,000 to the defined benefit plans and \$1,695,000 to the postretirement plan in 2019.

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

	<u>Pension Plans</u>	<u>Postretirement Plan</u>
Years ending September 30:		
2019	\$ 19,123,000	\$ 1,695,000
2020	20,467,000	1,563,000
2021	21,814,000	1,540,000
2022	23,125,000	1,611,000
2023	24,669,000	1,774,000
2024 - 2028	141,451,000	11,597,000

The weighted-average annual assumed rate of increase in the health care cost trend rate is 7.60% for non-Medicare and 6.05% for Medicare for the year beginning October 1, 2018, and is assumed to decrease to 4.50% for non-Medicare and Medicare for the year beginning October 1, 2025 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported for the postretirement benefit plan. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	<u>1% Increase</u>	<u>1% Decrease</u>
Postretirement plan:		
Change in total of service and interest cost	\$ 706,093	\$ (553,113)
Change in postretirement benefit obligation	8,799,090	(7,047,294)

14. Professional and General Liability

The System uses a combination of self-insurance and purchased commercial professional liability and excess liability insurance to manage exposure to general and professional liability claims. The reserve recorded at September 30, 2018 and 2017, includes an amount for asserted, unasserted, and incurred but not reported professional and general liability claims.

As the System believes that the amount and timing of its future claims payments are reliably determinable, it discounts the amount accrued for losses resulting from professional liability claims using a weighted average of the trailing return on the lower risk investments in its investment portfolio and the risk-free interest rate corresponding to the timing of expected payments. The net present value of the projected payments was discounted using a weighted-average, risk-free rate of 3.0% in 2018 and 2.2% in 2017. This liability is adjusted for new claims information in the period such information becomes known. The estimated liability for the self-insured portion of professional and general liability claims was \$22,795,000 at September 30, 2018 and \$13,894,000 at September 30, 2017. The current portion of the liability for the self-insured portion of professional and general liability claims was \$5,631,000 at September 30, 2018 and \$2,856,000 at September 30, 2017, and is included in accrued expenses in the consolidated balance sheets. Insurance expense includes the losses resulting from professional liability claims and loss adjustment expense, as well as paid insurance premiums.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The System believes it has adequate self-insurance and insurance coverages and accruals for all asserted claims and it has no knowledge of unasserted claims which would exceed its self-insurance and insurance coverages and accruals.

15. Partnership Investments

HealthNet, Inc.

HealthNet, Inc. is a West Virginia nonprofit organization that provides aeromedical transportation services to patients. CHHI has a 33 1/3% ownership percentage in HealthNet, Inc. This investment is accounted for under the equity method of accounting. Prior year losses have reduced CHHI's investment in HealthNet, Inc. to zero. CHHI has an affiliate payable of \$1,329,000 at September 30, 2018 and \$1,282,000 at September 30, 2017 included in accrued expenses in the consolidated balance sheets.

FMS Dialysis Cabell Huntington Dialysis Centers, LLC

In 2009, CHHI contributed cash of approximately \$8,709,000 to FMS Dialysis Cabell Huntington Dialysis Centers, LLC ("Dialysis Centers") in exchange for a 45% membership interest. Dialysis Centers then purchased CHHI's hemodialysis operations and related equipment in a purchase transaction totaling \$16,923,000.

In 2010, CHHI contributed cash of approximately \$456,000 to the Dialysis Centers to fund the acquisition of a dialysis facility in Chesapeake, Ohio. Additionally, the partners of the Dialysis Centers contributed additional capital of approximately \$2,100,000 to fund expansion activities; CHHI's contribution approximated \$996,000.

In 2017, Dialysis Centers entered into a new joint venture for the operation of a dialysis center located in West Hamlin, West Virginia. The capital contributions due from Dialysis Centers are to be paid out of cash retained in the joint venture, with the first capital contribution due on October 1, 2017.

Dialysis Centers provides hemodialysis services to dialysis patients residing primarily within the CHHI's service area. Equity earnings in Dialysis Centers approximated \$941,000 in 2018 and \$166,000 in 2017, and is included in equity income from partnership investments in the consolidated statements of operations. Cash distributions received from the Dialysis Centers approximated \$938,000 in 2018 and \$936,000 in 2017. CHHI's interest in the Dialysis Centers approximated \$9,373,000 at September 30, 2018 and \$9,370,000 at September 30, 2017.

Summary financial information for the Dialysis Centers is as follows for the years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Assets:		
Current assets	\$ 5,118,599	\$ 6,455,061
Property and equipment, net	3,379,619	1,583,747
Other assets	<u>15,673,020</u>	<u>15,675,617</u>
Total assets	<u>\$ 24,171,238</u>	<u>\$ 23,714,425</u>

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

	2018	2017
Liabilities and stockholders' equity:		
Current liabilities	\$ 2,558,883	\$ 2,295,745
Stockholders' equity	21,612,355	21,418,680
Total liabilities and stockholders' equity	<u>\$ 24,171,238</u>	<u>\$ 23,714,425</u>
Net patient revenue	<u>\$ 13,900,006</u>	<u>\$ 15,007,753</u>
Net income	<u>\$ 2,091,185</u>	<u>\$ 3,617,852</u>

Ironton Medical Campus Partners, LLC and Ironton Medical Campus Partners II, LLC

In 2014, the Ironton-Lawrence County Area Community Action Organization, Inc. entered into a sale transaction of its Ironton Medical Building as a new market tax credit ("NMTC") transaction. The NMTC transaction required the formation of Ironton Medical Campus Partners, LLC which holds the assets and assumed liabilities for the medical facility. Certain nonmedical assets and assumed liabilities were sold to Ironton Medical Campus Partners II, LLC as part of the transaction.

SMMC purchased a 65% interest in Ironton Medical Campus Partners, LLC and Ironton Medical Campus Partners II, LLC ("Ironton"). SMMC is the non-managing member and contributed \$938,848. Ironton has been organized to acquire a fee simple interest in property to own, maintain, lease and sell or otherwise dispose of property. SMMC's majority interest does not give them the ability to exercise control and therefore the investment in Ironton is accounted for under the equity method of accounting. SMMC's interest in Ironton approximated \$2,384,000 at September 30, 2018.

Summary financial information for Ironton is as follows for the year ended September 30, 2018:

	2018
Assets:	
Current assets	\$ 1,500,633
Property and equipment, net	13,618,890
Total assets	<u>\$ 15,119,523</u>
Liabilities and stockholders' equity:	
Current liabilities	\$ 979,510
Long-term debt	10,472,617
Stockholders' equity	3,667,396
Total liabilities and stockholders' equity	<u>\$ 15,119,523</u>
Total revenue	<u>\$ 1,701,900</u>
Net income	<u>\$ 305,984</u>

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

16. Operating Leases

The System leases certain equipment, buildings and land under the terms of noncancellable leases expiring on various dates through 2039. These leases generally contain renewal options for periods ranging from one to five years and require the System to pay all executory costs (property taxes, maintenance and insurance).

The schedule of future minimum lease payments under these operating leases as of September 30, 2018 is approximately as follows:

Years ending September 30:	
2019	\$ 6,841,000
2020	4,335,000
2021	3,196,000
2022	2,143,000
2023	1,354,000
Thereafter	<u>17,011,000</u>
Total future minimum lease payments	<u>\$ 34,880,000</u>

Rent expense under these leases was approximately \$7,742,000 in 2018 and \$4,042,000 in 2017.

17. Related-Party Transactions

CHHI participates in various medical education programs and research activities in cooperation with the Marshall University Joan C. Edwards School of Medicine (the "School of Medicine"). CHHI recorded expenses of approximately \$23,890,000 in 2018 and \$21,330,000 in 2017, related to these activities, which are included in professional fees in the consolidated statements of operations.

On July 1, 2012, CHHI entered into an Academic Medical Center Agreement (the "Agreement") with the School of Medicine and University Physicians & Surgeons, Inc. ("UP&S"). The Agreement memorialized the past supplemental support provided to the School of Medicine, defines the Academic Medical Center as being comprised of CHHI, the School of Medicine and UP&S and defines a process for determining support in the future.

In 1998, the Marshall University Medical Center opened on the CHHI's campus. During 2013, CHHI opened provider based clinics on its campus for which UP&S provides physician services.

CHHI had amounts due to the School of Medicine, related to the provider based clinics, of approximately \$385,000 at September 30, 2018 and \$379,000 at September 30, 2017 included in accrued expenses in the consolidated balance sheets.

SMMC entered into an operating lease with Ironton for the lease of the St. Mary's Medical Campus in Ironton, Ohio, a free standing emergency department. This lease was assumed in the acquisition of SMMC (Note 3). The lease is for a term of twenty-five years with an option to purchase after the first seven years at an amount equal to SMMC's proportionate share of the remaining debt service applicable to the funding and creation of the facility. The base rent is \$588,323 with a 10% escalation every five years. In addition to the base rent, SMMC is charged additional rent based upon its proportionate share of estimated operating expenses. Rent paid to Ironton was approximately \$458,000 in 2018.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

18. Functional Expenses

The System provides general acute care and related services to individuals within its geographic region. Expenses related to providing these services in 2018 and 2017 are approximately as follows:

	2018	2017
Healthcare and other related services	\$ 655,668,000	\$ 471,363,000
General and administrative	120,914,000	74,450,000
Fundraising	1,881,000	1,203,000
Total	<u>\$ 778,463,000</u>	<u>\$ 547,016,000</u>

19. Concentration of Credit Risk

The System grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements, primarily with Medicare, Medicaid, and various commercial insurance companies. The System maintains allowances for potential credit losses and such losses have historically been within management's expectations.

The mix of receivables at September 30, 2018 and 2017 from patients and third-party payors is as follows:

	2018	2017
Medicare	24 %	15 %
Medicaid	14	13
Blue Cross	16	27
Commercial/HMO/Other	27	32
Patients	19	13
Total	<u>100 %</u>	<u>100 %</u>

Approximately 16% of the System's employees are covered by a collective bargaining agreement with District 1199, The Health Care and Social Service Union, SEIU, CTW. This agreement expires on November 2, 2021.

20. Commitments and Contingencies

Litigation

The System is party to several routine lawsuits incidental to its operations, some involving substantial amounts. It is not possible at the present time to estimate the ultimate legal and financial liability, if any, of the System with respect to such lawsuits. In the opinion of management, based on the advice of legal counsel, adequate insurance or funds held for self-insured matters exist to cover financial exposure, in the event there is any, to the System.

Cabell Huntington Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Healthcare Industry

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the consolidated financial statements; however, the possible future financial effects of such matters on the System, if any, are not presently determinable.

Disproportionate Share Hospital State Plan

The State of West Virginia's Disproportionate Share Hospital ("DSH") State Plan, which reimburses hospitals in the state that provide Medicaid services and meet other eligibility criteria, was amended to provide for a settlement process among participating hospitals. The state has not completed a settlement process for the years subsequent to 1996. The Bureau for Medical Services of the State of West Virginia Department of Health and Human Resources has contracted with a third-party vendor to assist with the audit settlement process for the DSH State Plan. The laws and regulations governing the DSH settlement process are complex, involving statistical data from all participating hospitals, and subject to interpretation. Accordingly, the System is not able to estimate the possible loss or gain that could arise upon completion of the DSH settlement process. The results of the resolution of the settlement process could materially impact the System's future results of operations or cash flows in a particular period.

Information Technology Upgrade

In November 2017, CHHI entered into an agreement with a vendor for a system-wide information technology upgrade. The contract outlines initial system build costs of approximately \$25,960,000 (Note 9), as well as ongoing support and maintenance fees of approximately \$11,655,000 through November 2024. Build costs of approximately \$9,100,000 were incurred through September 30, 2018, leaving a remaining commitment of approximately \$16,860,000 for the System build costs.

Cabell Huntington Hospital, Inc. and Subsidiaries

 Consolidating Schedule, Balance Sheet
 September 30, 2018

	Cabell Huntington Hospital	St. Mary's Medical Center	Eliminations	Total Obligated Group	Cabell Huntington Hospital Foundation	CHH-Cabell Development Corporation	Cabell Huntington Hospital Auxiliary	St. Mary's Medical Center Foundation	St. Mary's Medical Management and Subsidiaries	All Other (Combined)	Eliminations	Total Consolidated
Assets												
Current Assets												
Cash and cash equivalents	\$ 128,500,743	\$ 8,180,804	\$ -	\$ 136,681,547	\$ 3,002,152	\$ 138,315	\$ 635,455	\$ 461,508	\$ 813,719	\$ 1,052,788	\$ -	\$ 142,785,484
Patient accounts receivable, net	73,179,517	54,865,905	-	128,045,422	-	-	-	-	6,501,152	-	-	134,546,574
Inventories of supplies	8,402,917	10,629,211	-	19,032,128	-	-	261,607	4,500	676,973	-	-	19,975,208
Estimated third-party payor settlements	13,795,867	5,139,930	-	18,935,797	-	-	-	-	-	-	-	18,935,797
Prepaid expenses and other current assets	18,446,649	8,263,292	(3,758,320)	22,951,621	390,361	(21,173)	109,088	28,859	10,541,872	930,080	(11,502,897)	23,427,811
Total current assets	242,325,693	87,079,142	(3,758,320)	325,646,515	3,392,513	117,142	1,006,150	494,867	18,533,716	1,982,868	(11,502,897)	339,670,874
Investments												
Board designated	216,490,551	92,181,724	-	308,672,275	-	-	-	-	1,456,955	-	-	310,129,230
Funds held by trustee	36,967,222	-	-	36,967,222	-	-	-	-	-	-	-	36,967,222
Funds held by Foundations	-	-	-	-	225,951	-	-	1,500,983	-	-	-	1,726,934
Total investments	253,457,773	92,181,724	-	345,639,497	225,951	-	-	1,500,983	1,456,955	-	-	348,823,386
Property and Equipment, Net	243,446,687	196,946,705	-	440,393,392	-	701,721	6,106	-	769,305	1,896,345	-	443,766,869
Partnership Investments	184,239,016	3,222,349	(174,208,105)	13,253,260	-	-	-	-	119,252	-	(182,744)	13,189,768
Other Assets, Net	14,677,157	5,939,330	-	20,616,487	557,372	-	-	-	-	-	-	21,173,859
Total assets	<u>\$ 938,146,326</u>	<u>\$ 385,369,250</u>	<u>\$ (177,966,425)</u>	<u>\$ 1,145,549,151</u>	<u>\$ 4,175,836</u>	<u>\$ 818,863</u>	<u>\$ 1,012,256</u>	<u>\$ 1,995,850</u>	<u>\$ 20,879,228</u>	<u>\$ 3,879,213</u>	<u>\$ (11,685,641)</u>	<u>\$ 1,166,624,756</u>

Cabell Huntington Hospital, Inc. and Subsidiaries

 Consolidating Schedule, Balance Sheet
 September 30, 2018

	Cabell Huntington Hospital	St. Mary's Medical Center	Eliminations	Total Obligated Group	Cabell Huntington Hospital Foundation	CHH-Cabell Development Corporation	Cabell Huntington Hospital Auxiliary	St. Mary's Medical Center Foundation	St. Mary's Medical Management and Subsidiaries	All Other (Combined)	Eliminations	Total Consolidated
Liabilities and Net Assets												
Current Liabilities												
Lines of credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 361,344	\$ -	\$ 361,344
Current maturities of long-term debt	3,509,992	-	-	3,509,992	-	-	-	-	665,177	654,949	-	4,830,118
Accounts payable	7,877,297	29,124,239	(3,333,320)	33,668,216	-	2,261	44,183	9,591	11,592,495	415,267	(9,358,664)	36,373,349
Accrued expenses	77,258,689	24,533,754	(425,000)	101,367,443	-	52,541	7,490	-	3,647,056	2,203,671	(2,364,197)	104,914,004
Estimated third-party payor settlements	2,707,354	-	-	2,707,354	-	-	-	-	-	-	-	2,707,354
Total current liabilities	91,353,332	53,657,993	(3,758,320)	141,253,005	-	54,802	51,673	9,591	15,904,728	3,635,231	(11,722,861)	149,186,169
Long-Term Debt, Net	355,643,352	67,747,633	(67,747,633)	355,643,352	-	-	-	-	753,683	-	-	356,397,035
Derivative Financial Instruments	7,535,120	-	-	7,535,120	-	-	-	-	-	-	-	7,535,120
Other Liabilities	738,596	2,085,305	-	2,823,901	-	-	-	-	-	-	-	2,823,901
Accrued Professional Liability	11,596,000	5,318,000	-	16,914,000	-	-	-	-	250,000	-	-	17,164,000
Accrued Pension and Postretirement Liabilities	113,310,824	116,355,899	-	229,666,723	-	-	-	-	-	-	-	229,666,723
Total liabilities	580,177,224	245,164,830	(71,505,953)	753,836,101	-	54,802	51,673	9,591	16,908,411	3,635,231	(11,722,861)	762,772,948
Net Assets												
Controlling interest	357,969,102	140,161,290	(106,460,472)	391,669,920	657,649	375,067	960,583	82,581	2,975,586	526,350	37,220	397,284,956
Noncontrolling interest	-	-	-	-	-	388,994	-	-	995,231	(282,368)	-	1,101,857
Total unrestricted	357,969,102	140,161,290	(106,460,472)	391,669,920	657,649	764,061	960,583	82,581	3,970,817	243,982	37,220	398,386,813
Temporarily restricted	-	43,130	-	43,130	3,518,187	-	-	1,903,678	-	-	-	5,464,995
Total net assets	357,969,102	140,204,420	(106,460,472)	391,713,050	4,175,836	764,061	960,583	1,986,259	3,970,817	243,982	37,220	403,851,808
Total liabilities and net assets	<u>\$ 938,146,326</u>	<u>\$ 385,369,250</u>	<u>\$ (177,966,425)</u>	<u>\$ 1,145,549,151</u>	<u>\$ 4,175,836</u>	<u>\$ 818,863</u>	<u>\$ 1,012,256</u>	<u>\$ 1,995,850</u>	<u>\$ 20,879,228</u>	<u>\$ 3,879,213</u>	<u>\$ (11,685,641)</u>	<u>\$ 1,166,624,756</u>

Cabell Huntington Hospital, Inc. and Subsidiaries

Consolidating Schedule, Statement of Operations
For the year ended September 30, 2018

	Cabell Huntington Hospital	St. Mary's Medical Center	Eliminations	Total Obligated Group	Cabell Huntington Hospital Foundation	CHH-Cabell Development Corporation	Cabell Huntington Hospital Auxiliary	St. Mary's Medical Center Foundation	St. Mary's Medical Management and Subsidiaries	All Other (Combined)	Eliminations	Total Consolidated
Unrestricted Revenues												
Patient service revenues (net of contractual allowances and discounts)	\$ 589,153,742	\$ 171,168,617	\$ -	\$ 760,322,359	\$ -	\$ -	\$ -	\$ -	\$ 17,181,069	\$ 1,719,936	\$ -	\$ 779,223,364
Provision for bad debts	(29,672,568)	(8,473,135)	-	(38,145,703)	-	-	-	-	(1,770,911)	(812)	-	(39,917,426)
Net patient service revenues	559,481,174	162,695,482	-	722,176,656	-	-	-	-	15,410,158	1,719,124	-	739,305,938
Other revenues, including net assets released from restrictions for operations	57,152,479	4,668,211	-	61,820,690	1,209,009	252,221	1,633,808	583,550	3,001,846	1,413,592	(3,054,367)	66,860,349
Total unrestricted revenues	616,633,653	167,363,693	-	783,997,346	1,209,009	252,221	1,633,808	583,550	18,412,004	3,132,716	(3,054,367)	806,166,287
Expenses												
Salaries and wages	176,644,776	57,396,936	-	234,041,712	472,989	-	-	-	14,309,295	1,411,274	-	250,235,270
Employee benefits	66,222,767	25,862,240	-	92,085,007	-	-	-	-	2,471,612	256,606	-	94,813,225
Supplies	117,576,687	40,057,557	-	157,634,244	-	-	17,620	-	1,261,676	137,249	-	159,050,789
Professional fees	80,152,920	8,590,179	-	88,743,099	-	1,832	-	-	2,492,902	165,090	(1,679,256)	89,723,667
Purchased services	45,016,031	12,998,007	-	58,014,038	-	-	-	116,327	1,785,987	912,018	(1,375,111)	59,453,259
Plant operations	36,748,033	8,162,982	-	44,911,015	-	-	-	-	1,324,372	166,484	-	46,401,871
Interest	7,827,470	894,915	-	8,722,385	-	-	-	-	23,034	63,819	-	8,809,238
Depreciation and amortization	21,180,551	5,875,343	-	27,055,894	-	53,034	947	-	150,807	111,132	-	27,371,814
Provider tax	15,034,271	4,033,895	-	19,068,166	-	-	-	-	40,000	-	-	19,108,166
Insurance	3,573,672	279,343	-	3,853,015	-	-	-	-	360,207	4,851	-	4,218,073
Other	13,443,110	2,296,674	-	15,739,784	663,834	2,592	1,371,945	627,688	657,831	214,381	-	19,278,055
Total expenses	583,420,288	166,448,071	-	749,868,359	1,136,823	57,458	1,390,512	744,015	24,877,723	3,442,904	(3,054,367)	778,463,427
Operating income (loss)	33,213,365	915,622	-	34,128,987	72,186	194,763	243,296	(160,465)	(6,465,719)	(310,188)	-	27,702,860
Other Income (Loss)												
Investment income	14,585,781	2,198,670	13,105	16,797,556	3,193	-	-	11,367	14,145	1	-	16,826,262
Change in fair value of derivative financial instruments	4,380,971	189,037	-	4,570,008	-	-	-	-	-	-	-	4,570,008
Equity income from partnership investments	996,273	612,530	-	1,608,803	-	-	-	-	-	-	114,960	1,723,763
Inherent contribution in acquisition of St. Mary's Medical Center	-	23,230,883	-	23,230,883	-	-	-	105,879	3,235,215	956,632	-	27,528,609
Acquisition costs	(4,169,246)	-	-	(4,169,246)	-	-	-	-	-	-	-	(4,169,246)
Total other income (loss)	15,793,779	26,231,120	13,105	42,038,004	3,193	-	-	117,246	3,249,360	956,633	114,960	46,479,396
Revenues in excess of (less than) expenses	49,007,144	27,146,742	13,105	76,166,991	75,379	194,763	243,296	(43,219)	(3,216,359)	646,445	114,960	74,182,256
Pension and Postretirement Liabilities Adjustment	20,612,587	13,044,946	-	33,657,533	-	-	-	-	-	-	-	33,657,533
Net Assets Released from Restrictions for Property and Equipment	1,303,421	-	-	1,303,421	-	-	-	-	-	-	-	1,303,421
Equity Distributions	-	-	-	-	-	(245,853)	-	-	(132,151)	-	-	(378,004)
Equity Contributions	-	106,473,577	(106,473,577)	-	-	-	-	-	-	-	-	-
Change in Noncontrolling Interest in Acquiree	-	-	-	-	-	-	-	-	941,152	-	-	941,152
Transfers from (to) Affiliates	-	(6,503,975)	-	(6,503,975)	-	-	-	125,800	6,378,175	-	-	-
Increase (decrease) in unrestricted net assets	\$ 70,923,152	\$ 140,161,290	\$ (106,460,472)	\$ 104,623,970	\$ 75,379	\$ (51,090)	\$ 243,296	\$ 82,581	\$ 3,970,817	\$ 646,445	\$ 114,960	\$ 109,706,358

Cabell Huntington Hospital, Inc. and Subsidiaries

Consolidating Schedule, Statement of Changes in Net Assets
For the year ended September 30, 2018

	Cabell Huntington Hospital	St. Mary's Medical Center	Eliminations	Total Obligated Group	Cabell Huntington Hospital Foundation	CHH-Cabell Development Corporation	Cabell Huntington Hospital Auxiliary	St. Mary's Medical Center Foundation	St. Mary's Medical Management and Subsidiaries	All Other (Combined)	Eliminations	Total Consolidated
Unrestricted Net Assets												
Revenues in excess of (less than) expenses	\$ 49,007,144	\$ 27,146,742	\$ 13,105	\$ 76,166,991	\$ 75,379	\$ 194,763	\$ 243,296	\$ (43,219)	\$ (3,216,359)	\$ 646,445	\$ 114,960	\$ 74,182,256
Pension and postretirement liabilities adjustment	20,612,587	13,044,946	-	33,657,533	-	-	-	-	-	-	-	33,657,533
Net assets released from restrictions for property and equipment	1,303,421	-	-	1,303,421	-	-	-	-	-	-	-	1,303,421
Equity distributions	-	-	-	-	-	(245,853)	-	-	(132,151)	-	-	(378,004)
Equity contributions	-	106,473,577	(106,473,577)	-	-	-	-	-	-	-	-	-
Change in noncontrolling interest in acquiree	-	-	-	-	-	-	-	-	941,152	-	-	941,152
Transfers from (to) affiliates	-	(6,503,975)	-	(6,503,975)	-	-	-	125,800	6,378,175	-	-	-
Increase (decrease) in unrestricted net assets	70,923,152	140,161,290	(106,460,472)	104,623,970	75,379	(51,090)	243,296	82,581	3,970,817	646,445	114,960	109,706,358
Temporarily Restricted Net Assets												
Contributions and investment income, net	-	43,130	-	43,130	2,146,366	-	-	-	-	-	-	2,189,496
Transfers from (to) affiliates	1,303,421	-	-	1,303,421	(1,303,421)	-	-	-	-	-	-	-
Net assets released from restrictions	(1,303,421)	-	-	(1,303,421)	(602,070)	-	-	(250,136)	-	-	-	(2,155,627)
Inherent contribution in acquisition of St. Mary's Medical Center	-	-	-	-	-	-	-	2,153,814	-	-	-	2,153,814
Increase (decrease) in temporarily restricted net assets	-	43,130	-	43,130	240,875	-	-	1,903,678	-	-	-	2,187,683
Change in net assets	70,923,152	140,204,420	(106,460,472)	104,667,100	316,254	(51,090)	243,296	1,986,259	3,970,817	646,445	114,960	111,894,041
Net Assets, Beginning of Year	287,045,950	-	-	287,045,950	3,859,582	815,151	717,287	-	-	(402,463)	(77,740)	291,957,767
Net Assets, End of Year	<u>\$ 357,969,102</u>	<u>\$ 140,204,420</u>	<u>\$ (106,460,472)</u>	<u>\$ 391,713,050</u>	<u>\$ 4,175,836</u>	<u>\$ 764,061</u>	<u>\$ 960,583</u>	<u>\$ 1,986,259</u>	<u>\$ 3,970,817</u>	<u>\$ 243,982</u>	<u>\$ 37,220</u>	<u>\$ 403,851,808</u>

Cabell Huntington Hospital, Inc. and Subsidiaries

Combining Schedule - All Other, Balance Sheet

September 30, 2018

	Mountain Regional Services	Tri-State MRI	Mountain Health Network	Occumed	Vanguard Financial Services	Eliminations	Total Combined
Assets							
Current Assets							
Cash and cash equivalents	\$ 15,368	\$ 608,843	\$ -	\$ 82,240	\$ 346,337	\$ -	\$ 1,052,788
Patient accounts receivable, net	-	-	-	-	-	-	-
Inventories of supplies	-	-	-	-	-	-	-
Estimated third-party payor settlements	-	-	-	-	-	-	-
Prepaid expenses and other current assets	490	-	867,770	4,688	57,132	-	930,080
Total current assets	15,858	608,843	867,770	86,928	403,469	-	1,982,868
Investments							
Board designated	-	-	-	-	-	-	-
Funds held by trustee	-	-	-	-	-	-	-
Funds held by Foundations	-	-	-	-	-	-	-
Total investments	-	-	-	-	-	-	-
Property and Equipment, Net	434,856	146,158	-	1,296,557	18,774	-	1,896,345
Partnership Investments	-	-	-	-	-	-	-
Other Assets, Net	-	-	-	-	-	-	-
Total assets	<u>\$ 450,714</u>	<u>\$ 755,001</u>	<u>\$ 867,770</u>	<u>\$ 1,383,485</u>	<u>\$ 422,243</u>	<u>\$ -</u>	<u>\$ 3,879,213</u>

Cabell Huntington Hospital, Inc. and Subsidiaries

Combining Schedule - All Other, Balance Sheet

September 30, 2018

	Mountain Regional Services	Tri-State MRI	Mountain Health Network	Occumed	Vanguard Financial Services	Eliminations	Total Combined
Liabilities and Net Assets							
Current Liabilities							
Lines of credit	\$ -	\$ -	\$ -	\$ 361,344	\$ -	\$ -	\$ 361,344
Current maturities of long-term debt	-	-	-	654,949	-	-	654,949
Accounts payable	-	2,338	867,770	2,700	(457,541)	-	415,267
Accrued expenses	214,956	789,883	-	1,283,927	(85,095)	-	2,203,671
Estimated third-party payor settlements	-	-	-	-	-	-	-
Total current liabilities	214,956	792,221	867,770	2,302,920	(542,636)	-	3,635,231
Long-Term Debt, Net	-	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-
Other Liabilities	-	-	-	-	-	-	-
Accrued Professional Liability	-	-	-	-	-	-	-
Accrued Pension and Postretirement Liabilities	-	-	-	-	-	-	-
Total liabilities	214,956	792,221	867,770	2,302,920	(542,636)	-	3,635,231
Net Assets							
Controlling interest	235,758	(37,220)	-	(637,067)	964,879	-	526,350
Noncontrolling interest	-	-	-	(282,368)	-	-	(282,368)
Total unrestricted	235,758	(37,220)	-	(919,435)	964,879	-	243,982
Temporarily restricted	-	-	-	-	-	-	-
Total net assets	235,758	(37,220)	-	(919,435)	964,879	-	243,982
Total liabilities and net assets	\$ 450,714	\$ 755,001	\$ 867,770	\$ 1,383,485	\$ 422,243	\$ -	\$ 3,879,213

Cabell Huntington Hospital, Inc. and Subsidiaries

Combining Schedule - All Other, Statement of Operations
For the year ended September 30, 2018

	Mountain Regional Services	Tri-State MRI	Mountain Health Network	Occumed	Vanguard Financial Services	Eliminations	Total Combined
Unrestricted Revenues							
Patient service revenues (net of contractual allowances and discounts)	\$ -	\$ 812	\$ -	\$ 1,719,124	\$ -	\$ -	\$ 1,719,936
Provision for bad debts	-	(812)	-	-	-	-	(812)
Net patient service revenues	-	-	-	1,719,124	-	-	1,719,124
Other revenues, including net assets released from restrictions for operations	-	1,510	867,770	6,120	538,192	-	1,413,592
Total unrestricted revenues	-	1,510	867,770	1,725,244	538,192	-	3,132,716
Expenses							
Salaries and wages	-	889	-	1,211,681	198,704	-	1,411,274
Employee benefits	-	194	-	197,250	59,162	-	256,606
Supplies	-	465	-	94,976	41,808	-	137,249
Professional fees	-	2,000	-	145,860	17,230	-	165,090
Purchased services	1,980	31,937	847,739	30,000	362	-	912,018
Plant operations	-	27,053	-	66,777	72,654	-	166,484
Interest	-	-	-	63,819	-	-	63,819
Depreciation and amortization	-	42,034	-	62,762	6,336	-	111,132
Provider tax	-	-	-	-	-	-	-
Insurance	-	-	-	4,851	-	-	4,851
Other	5,955	11,898	20,031	42,808	133,689	-	214,381
Total expenses	7,935	116,470	867,770	1,920,784	529,945	-	3,442,904
Operating income (loss)	(7,935)	(114,960)	-	(195,540)	8,247	-	(310,188)
Other Income (Loss)							
Investment income	1	-	-	-	-	-	1
Change in fair value of derivative financial instruments	-	-	-	-	-	-	-
Equity income from partnership investments	-	-	-	-	-	-	-
Inherent contribution in acquisition of St. Mary's Medical Center	-	-	-	-	956,632	-	956,632
Acquisition costs	-	-	-	-	-	-	-
Total other income (loss)	1	-	-	-	956,632	-	956,633
Revenues in excess of (less than) expenses	(7,934)	(114,960)	-	(195,540)	964,879	-	646,445
Pension and Postretirement Liabilities Adjustment	-	-	-	-	-	-	-
Net Assets Released from Restrictions for Property and Equipment	-	-	-	-	-	-	-
Equity Distributions	-	-	-	-	-	-	-
Equity Contributions	-	-	-	-	-	-	-
Change in Noncontrolling Interest in Acquiree	-	-	-	-	-	-	-
Transfers from (to) Affiliates	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	<u>\$ (7,934)</u>	<u>\$ (114,960)</u>	<u>\$ -</u>	<u>\$ (195,540)</u>	<u>\$ 964,879</u>	<u>\$ -</u>	<u>\$ 646,445</u>

Cabell Huntington Hospital, Inc. and Subsidiaries

Combining Statement of Changes in Net Assets

For the year ended September 30, 2018

	Mountain Regional Services	Tri-State MRI	Mountain Health Network	Occumed	Vanguard Financial Services	Eliminations	Total Combined
Unrestricted Net Assets							
Revenues in excess of (less than) expenses	\$ (7,934)	\$ (114,960)	\$ -	\$ (195,540)	\$ 964,879	\$ -	\$ 646,445
Pension and postretirement liabilities adjustment	-	-	-	-	-	-	-
Net assets released from restrictions for property and equipment	-	-	-	-	-	-	-
Equity distributions	-	-	-	-	-	-	-
Equity contributions	-	-	-	-	-	-	-
Change in noncontrolling interest in acquiree	-	-	-	-	-	-	-
Transfers from (to) affiliates	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	(7,934)	(114,960)	-	(195,540)	964,879	-	646,445
Temporarily Restricted Net Assets							
Contributions and investment income, net	-	-	-	-	-	-	-
Transfers from (to) affiliates	-	-	-	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	-	-
Inherent contribution in acquisition of St. Mary's Medical Center	-	-	-	-	-	-	-
Increase (decrease) in temporarily restricted net assets	-	-	-	-	-	-	-
Change in net assets	(7,934)	(114,960)	-	(195,540)	964,879	-	646,445
Net Assets, Beginning of Year	243,692	77,740	-	(723,895)	-	-	(402,463)
Net Assets, End of Year	<u>\$ 235,758</u>	<u>\$ (37,220)</u>	<u>\$ -</u>	<u>\$ (919,435)</u>	<u>\$ 964,879</u>	<u>\$ -</u>	<u>\$ 243,982</u>