

Consolidated Financial Statements with Report of
Independent Certified Public Accountants

Conway Hospital, Inc. and Affiliates

September 30, 2017 and 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Conway Hospital, Inc. and Affiliates:

We have audited the accompanying consolidated financial statements of **Conway Hospital, Inc. and Affiliates**, which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated 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.

Auditor's 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 Conway Hospital Inc. and Affiliates as of September 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the consolidated financial statements. Such supplementary 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 audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Columbia, South Carolina
January 23, 2018

Consolidated balance sheets

September 30	2017	2016
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents	16,982,359	11,496,618
Assets limited as to use	4,709,867	4,709,867
Accounts receivable:		
Patients, net of allowances for doubtful accounts of \$39,242,000 in 2017 and \$35,046,000 in 2016	24,173,698	17,187,680
Other receivables, net	110,283	252,124
Supplies inventory	3,947,585	3,788,005
Prepaid expenses	2,098,556	1,538,778
Total current assets	52,022,348	38,973,072
Other receivables	-	72,628
Investments in affiliates	2,435,198	2,010,418
Interest in foundation	4,109,331	1,612,384
Assets limited as to use	238,144,220	219,039,396
Property and equipment, net	143,749,045	123,774,823
Other noncurrent assets	3,007,674	150,000
Total assets	443,467,816	385,632,721
Liabilities and net assets		
Current liabilities:		
Payables:		
Accounts payable	14,338,080	9,224,086
Estimated third-party payor settlements	9,662,204	4,332,221
Accrued employee compensation and benefits	12,119,404	10,640,281
Current portion of long-term debt	5,598,278	5,449,651
Total current liabilities	41,717,966	29,646,239
Other long-term liabilities	2,887,596	-
Long-term debt, net	106,582,341	62,216,697
Total liabilities	151,187,903	91,862,936
Commitments and contingencies (Note 14)		
Unrestricted net assets		
Net assets of the Hospital	286,135,304	290,599,652
Noncontrolling interest	2,035,278	1,557,749
Total unrestricted net assets	288,170,582	292,157,401
Temporarily restricted net assets	786,018	697,342
Permanently restricted net assets	3,323,313	915,042
Total net assets	292,279,913	293,769,785
Total liabilities and net assets	443,467,816	385,632,721

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of operations and changes in net assets

For the years ended September 30	2017	2016
	\$	\$
Unrestricted revenue, gains and other support:		
Net patient service revenue	234,060,067	234,371,163
Provision for uncollectible accounts	(51,737,975)	(46,199,931)
Net patient service revenue less provision for uncollectible accounts	182,322,092	188,171,232
Other operating revenues	3,792,901	4,422,945
Total unrestricted revenue, gains and other support	186,114,993	192,594,177
Expenses:		
Salaries, wages and benefits	120,318,546	112,978,952
Professional fees	16,920,170	15,151,165
Supplies and other	51,164,887	48,535,467
Depreciation and amortization	11,362,878	10,172,987
Interest	4,289,256	2,506,815
Total expenses	204,055,737	189,345,386
Operating (loss) income	(17,940,744)	3,248,791
Other income:		
Share in net (losses) / gains of affiliate	(19,459)	68,903
Investment income	7,449,007	8,886,041
Excess of unrestricted revenue and gains (under) over expenses	(10,511,196)	12,203,735
(Income) / expense attributable to noncontrolling interest	(694,213)	14,340
Excess of unrestricted revenue and gains (under) over expenses from the Hospital	(11,205,409)	12,218,075
Other changes in unrestricted net assets		
Increase in net unrealized gain on investments	6,521,939	475,964
Contributions received for capital acquisitions	219,122	125,000
Increase / (decrease) in noncontrolling interest	477,529	(365,738)
(Decrease) / increase in unrestricted net assets	(3,986,819)	12,453,301
Increase / (decrease) in temporarily restricted net assets:		
Change in temporarily restricted net assets of interest in foundation	88,676	(26,053)
Increase / (decrease) in temporarily restricted net assets	88,676	(26,053)
Increase in permanently restricted net assets:		
Change in permanently restricted net assets of interest in foundation	2,408,271	18,669
Increase in permanently restricted net assets	2,408,271	18,669
(Decrease) / increase in total net assets	(1,489,872)	12,445,917
Net assets, beginning of year	293,769,785	281,323,868
Net assets, end of year	292,279,913	293,769,785

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows

For the years ended September 30	2017	2016
	\$	\$
Cash flows from operating activities:		
(Decrease) increase in total net assets	(1,489,872)	12,445,917
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,362,878	10,172,987
Provision for bad debts	51,737,975	46,199,931
Investment income and unrealized gains on investments	(13,480,277)	(8,876,150)
Loss on disposal of property and equipment	349,714	376,152
Share of earnings in affiliates	(437,583)	(857,156)
Change in beneficial interests	(2,496,947)	7,384
Change in noncontrolling interest	(477,529)	365,738
Changes in operating assets and liabilities:		
Receivables	(58,723,993)	(44,904,747)
Inventories, prepaid expenses, and other receivables	(504,889)	876,444
Accounts payable, accrued expenses, estimated third-party payor settlements, and other liabilities	6,125,179	951,543
Net cash (used in) provided by operating activities	(8,035,344)	16,758,043
Cash flows from investing activities:		
Purchases of property and equipment	(25,935,904)	(29,916,392)
Proceeds from sales of property and equipment	40,462	474,471
Sales of investments and assets limited as to use	60,375,453	11,043,168
Purchases of investments and assets limited as to use	(32,940,297)	-
Capital distributions from affiliates	12,803	41,607
Noncontrolling interest distributions	477,529	(365,738)
Net cash provided by (used in) investing activities	2,030,046	(18,722,884)
Cash flows from financing activities:		
Repayment of long-term debt	(5,449,258)	(5,350,143)
Proceeds from bond issuance	16,940,297	-
Net cash provided by (used in) financing activities	11,491,039	(5,350,143)
Net increase / (decrease) in cash and cash equivalents	5,485,741	(7,314,984)
Cash and cash equivalents, beginning of year	11,496,618	18,811,602
Cash and cash equivalents, end of year	16,982,359	11,496,618
Supplemental cash flow information - Cash paid during the year for interest	3,757,894	2,475,111
Supplemental noncash information - Additions to property and equipment financed through current liabilities	5,827,843	604,022
Supplemental noncash information - Bond proceeds deposited into Project Fund account	33,059,703	-
Supplemental noncash information - Deferred financing costs paid through bond proceeds	805,415	-

The accompanying notes are an integral part of these consolidated financial statements.

Notes to consolidated financial statements

1 Organization and Summary of Significant Accounting Policies

Organization

Conway Hospital, Inc. (Conway Hospital, the Hospital or CHI), located in Conway, South Carolina, is a not-for-profit acute care hospital founded in 1928. The Hospital has 210 licensed beds and provides inpatient, outpatient and emergency care services generally for residents of Horry and surrounding counties. The Hospital is governed by a 16-member self-perpetuating, independent board of directors. Admitting physicians are practitioners in the local area. Conway Hospital Long-Term Care Services, Inc. (Kingston Nursing Center) is an 88-bed nursing facility located in Conway, South Carolina. The Kingston Nursing Center was incorporated in 1988. Medical Properties, Inc., a wholly owned for-profit subsidiary of the Hospital, operates ASC Holdings and Carolina Bone & Joint. Conway Hospital Emergency Professional Services (CHEPS) and Conway Hospital Anesthesia Professional Services (CHAPS) were both created to keep better track of emergency and anesthesia services performed by the Hospital. Conway Hospital Community Services, Inc., a wholly owned not-for-profit subsidiary, operates employed physician practices.

Principles of Consolidation

The consolidated financial statements include the accounts of the Hospital, CHEPS, CHAPS and Medical Properties, Inc., which have been consolidated with Conway Hospital Long-Term Care Services, Inc. and Conway Hospital Community Services, Inc. Significant intercompany accounts and transactions have been eliminated in consolidation. All entities, collectively referred to herein as the Hospital, are under common control and, accordingly, are presented in the consolidated financial statements.

The Hospital accounts for its noncontrolling interest in two entities in accordance with ASC 810, “*Consolidation*.” Medical Properties, Inc. has a 33.3% ownership interest in a surgery center, Carolina Bone & Joint (CBJ), and a 27.8% interest in a leasing company (ASC Holdings). The leasing company’s sole function is the leasing of a building to the surgery center. The accompanying consolidated balance sheets include the financial assets and liabilities of these entities. Noncontrolling interest represents the equity ownership of the variable interest entities not held by the Hospital. The accompanying consolidated statements of operations and changes in net assets and cash flows include the revenues, expenses and cash flows of the entities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. In addition to the allowance for doubtful accounts, estimates include third-party payor receivables and liabilities, useful lives of capital assets, professional liability and self-insurance accruals.

An allowance for doubtful accounts is an amount equal to the estimated losses to be incurred in the collection of receivables. The allowance is based on historical collection experience and a review of the current aging status of existing receivables.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investment instruments purchased with original maturities of three months or less. The Hospital maintains cash balances in excess of federal government insurance limits. The Hospital has not experienced any losses in such accounts.

The Hospital maintains bank accounts at financial institutions, of which approximately \$1,994,000 is covered by Federal Depository Insurance Corporation (FDIC) and the approximate remaining \$16,390,000 is in excess of the federally insured limits as of September 30, 2017.

Investments and Assets Limited as to Use

Investments are measured at fair value as of the consolidated balance sheet date. Investments are all other-than-trading investments, including investments classified as assets limited as to use. Investment income, including realized gains and losses on investments, dividends and interest from all other investments and cash equivalents, is included in the excess of revenues (under) over expenses. Assets limited as to use include assets set aside by the board for future capital improvements, over which the board retains control and may, at its discretion, subsequently use for other purposes, and assets held by a trustee under indenture agreements. Trusteed assets include unexpended bond funds, amounts paid by the Hospital in accordance with the terms of a trust indenture for semiannual principal and interest payments and replacement of property and equipment.

The Hospital routinely monitors its investment portfolio to assess whether or not any individual investment securities are impaired on an other-than-temporary basis. If any individual security is considered to be impaired, a realized loss is recorded. In assessing whether or not individual securities are impaired, the Hospital considers its intent and ability to hold the security, the length of time the security has been in a loss position and the significance of the loss.

The Hospital's investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the investment balances reported in the consolidated balance sheets.

Investments in Affiliates

Except for its investments in CBJ and ASC Holdings, which are consolidated, the Hospital applies the equity method of accounting for investments where the Hospital owns between 20% and 50% of the affiliated companies and the cost method for investments where the Hospital owns less than 20% of the affiliated company. The Hospital records its share of earnings or losses related to affiliates accounted for by the equity method or cost method, as appropriate. Fair value of the cost method investment is not estimated, unless an impairment indicator is present. There have been no such indicators for the periods presented.

Supplies Inventory

Supplies inventory consists of hospital supplies and pharmaceutical drugs which is determined using first-in, first-out (FIFO) basis. Inventories are stated at the lower of weighted average cost or market.

Property and Equipment

Property and equipment are recorded at cost at the date of acquisition or fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 20 years for furniture and equipment and 3 to 40 years for functional components of buildings. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Gains and losses on sales and retirements are included in other operating revenues.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenue over expenses, 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. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

Excess of Revenues (Under) Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues (under) over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues (under) over expenses, include unrealized gains and temporary losses on investments deemed other than trading, noncontrolling interest, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital 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 revenue is reported at the 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 in future periods as final settlements are determined.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics.

Other Revenue

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology. The Hospital recognized EHR revenues of approximately \$43,000 and \$437,000 for the years ended September 30, 2017 and 2016, respectively. These amounts are included in other operating revenues in the consolidated statements of operations and changes in net assets. The Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the government or its designee. Additionally, EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

Contributions Received and Contributions Made

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

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred, but not reported. Additionally, there is a receivable recorded for the reported claims cover by the multi-provider captive insurance coverage.

Income Taxes

The Hospital, Kingston Nursing Center and Conway Hospital Community Service are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. CHI has net operating loss carryforwards of approximately \$258,000 at September 30, 2017, which begins expiring in 2026. This carryforward is available to reduce future taxable income and taxes payable. CHI has recorded a full valuation allowance on deferred tax assets. Medical Properties, Inc. is a for-profit corporation. At September 30, 2017, Medical Properties, Inc. has recorded income tax expense of approximately \$326,000. The Hospital continues to evaluate tax positions related to ASC 740, “*Income Taxes*,” which prescribes financial statement recognition threshold and measurement attributes for tax positions taken or expected to be taken in tax returns. As of September 30, 2017, the tax years ended September 30, 2016, 2015 and 2014 for federal jurisdiction remain open to examination.

Recently Issued Accounting Pronouncements

The following new Accounting Standards Updates (ASUs) have been issued, but have not yet been adopted by the Hospital as of September 30, 2017:

In January 2016, the FASB issued ASU 2016-01, “*Recognition and Measurement of Financial Assets and Financial Liabilities*,” to make targeted improvements to how entities: (1) account for equity investments; (2) present and disclose financial instruments and (3) measure the valuation allowance on deferred tax assets related to available-for-sale debt securities. The new standard is effective for fiscal years beginning after December 15, 2017. Early adoption of the guidance in ASU 2016-01 is not permitted. The Hospital is still assessing the impact of ASU 2016-01 on its consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, “*Presentation of Financial Statements of Not-for-Profit Entities*,” which changes how not-for-profit entities present net assets on the face of the financial statements, as well as requires additional disclosures for expenses by nature and function and for the liquidity and availability of resources. This update is effective for financial statements for periods beginning after December 15, 2017. Early adoption is permitted. The Hospital is still assessing the impact of ASU 2016-14 on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, “*Revenue from Contracts with Customers*,” which changes the definitions/criteria used to determine when revenue should be recognized from being based on risks and rewards to being based on control. Among other changes, ASU 2014-09 changes the manner in which variable consideration is recognized, requires recognition of the time value of money when payment terms exceed one year, provides clarification on accounting for contract costs and expands disclosure requirements. The effective date for implementation of ASU 2014-09 has been deferred and is now effective for fiscal years beginning after December 15, 2018. The Hospital is still assessing the impact of ASU 2014-09.

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-15, “*Classification of Certain Cash Receipts and Cash Payments (Topic 230)*,” which provides guidance in classifying cash payments for debt prepayments or extinguishments, zero-coupon bonds at maturity, settlements of contingent consideration liabilities arising from a business combination, premiums on corporate-owned life insurance policies, cash receipts from insurance settlements or settlement of corporate-owned life insurance policies; equity method investees distributions and a transferor’s beneficial interest in securitized trade receivables. This update is effective for financial statements for periods beginning after December 15, 2019. Early adoption is permitted. The Hospital is still assessing the impact of ASU 2016-15 on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. Classification for lessees and will be based on an assessment of whether risks and rewards as well as substantive control have been transferred through a lease contract. The new standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Hospital is currently evaluating the requirements of this ASU. Other than an expected increase in assets and liabilities, the ultimate impact of the new standard has not yet been determined.

The following new ASU has been adopted by the Hospital as of September 30, 2017:

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a reduction in the carrying amount of that debt liability, consistent with debt discounts, and not recorded as separate assets. This update is effective for financial statements issued for fiscal years beginning after December 15, 2015 and in interim periods within fiscal years beginning after December 15, 2016, and is to be applied on a retrospective basis. The Hospital adopted this ASU for the year ended September 30, 2017 and the impact of the retrospective adoption was a decrease in intangible assets of approximately \$817,000 and a corresponding decrease in long-term debt of approximately \$817,000 on the accompanying consolidated balance sheet for the year ended September 30, 2016.

Reclassifications

Certain amounts previously presented in the consolidated financial statements and notes for the prior period have been reclassified to conform to the current year’s presentation. These reclassifications had no effect on previously reported results of operations or accumulated earnings.

2 Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics.

The following information measures the level of charity care provided during the years ended September 30:

	2017	2016
	\$	\$
Charges forgone, based on established rates	15,139,654	17,669,090
Equivalent percentage of charity care patients to patients served	2.26%	2.66%

The estimated cost for the Hospital of providing charity services was \$3,630,000 and \$3,818,000 for the years ended September 30, 2017 and 2016, respectively. These estimates were based on a calculation, which applies the ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital’s total operating expenses divided by gross patient service revenue.

3 Net Patient Service Revenue and Accounts Receivable

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is presented net of provision for contractual adjustments and other allowances. A summary of the payment arrangement with major third-party payors follows.

CHI transitioned electronic health record systems on July 1, 2017 to Cerner. This transition has resulted in an increase in accounts receivables.

Medicare and Medicaid

Inpatient acute-care services rendered to Medicare and Medicaid 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 rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Inpatient nonacute services, certain outpatient services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Medicare outpatient services are reimbursed on a prospective payment system. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare and Medicaid cost reports have been audited by the fiscal intermediaries through September 30, 2011 and September 30, 2012, respectively. Revisions to prior year's estimates of third-party liabilities resulted in a (decrease) and an increase in net patient service revenue of approximately \$(6,901,000) and \$366,000 for the years ended September 30, 2017 and 2016, respectively. Approximately \$(6,000,000) of the (decrease) in net patient service revenue for the year ended September 30, 2017, relates to methodology changes in the South Carolina Disproportionate Share (DSH) Payment Program. The Hospital is currently in the process of appealing the DSH amounts owed under the revised methodology.

Under legislation pursuant to federal Medicaid law, the Hospital recognized in net patient service revenue of approximately \$5,346,000 and \$4,123,000 for the years ended September 30, 2017 and 2016, respectively, for amounts received from the South Carolina State Health and Human Services Finance Commission for services provided to a disproportionately high number of low income patients. These disproportionate share payments are in addition to regular Medicaid reimbursement amounts and are paid in quarterly lump-sum payments to qualifying facilities that have provided initial matching funds. Payments under this program are subject to audit and final settlements.

Revenue from the Medicare and Medicaid programs accounted for approximately 25% and 5%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2017, and 30% and 4%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2016. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The following table sets forth, for the fiscal periods indicated, the Hospital's net patient service revenue before the provision for uncollectible accounts by major payor:

	2017	2016
Medicare	33%	30%
Medicaid	5%	4%
Commercial/managed care/other third-party payors	42%	47%
Self-pay	20%	19%
	100%	100%

Patient receivables are reduced by a contra asset account, the allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenues to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital has not changed its charity care or uninsured discount policies during fiscal years 2017 or 2016. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Other

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

4 Assets Limited as to Use

The fair value of assets, limited as to use, consist of the following for the years ended September 30:

	2017	2016
	\$	\$
Internally designated for capital improvements:		
Cash and cash equivalents	35,475,844	12,183,745
Fixed income securities	108,664,060	107,729,124
Equity securities	98,714,183	103,836,394
	242,854,087	223,749,263
Less - Current portion	(4,709,867)	(4,709,867)
	238,144,220	219,039,396

Assets whose use is limited that are required for obligations classified as current liabilities are reported as current assets.

Investment income consists of the following for the years ended September 30:

	2017	2016
	\$	\$
Interest and dividends	3,135,029	3,162,905
Realized gain on investments	4,313,978	5,723,136
	7,449,007	8,886,041

5 Property and Equipment

Property and equipment consists of the following at September 30:

	2017	2016
	\$	\$
Land and land improvements	12,273,153	11,988,203
Buildings	139,146,372	127,638,639
Equipment	127,374,685	111,868,023
Construction in progress	6,417,043	4,557,986
	285,211,253	256,052,851
Accumulated depreciation	(141,462,208)	(132,278,028)
	143,749,045	123,774,823

Depreciation expense was approximately \$11,399,000 and \$10,161,000 for the years ended September 30, 2017 and 2016, respectively.

6 Long-term Debt

Long-term debt consists of the following obligations at September 30:

	2017	2016
	\$	\$
Hospital Revenue Bonds, Series 2011A , principal payments in varying amounts through 2021, interest payable semi-annually with a fixed rate of 3.00%	8,511,215	10,484,349
Hospital Revenue Bonds, Series 2007 Amended and Restated as Series 2011B , principal payments in varying amounts through 2037, interest payable semi-annually with a fixed rate of 4.03%	41,460,000	42,145,000
Hospital Revenue Bonds, Series 2016 , principal payments in varying amounts through 2047, interest payable semi-annually with varying rates from 4.0% to 5.25%	48,405,000	-
Note Payable , principal payments in varying amounts through 2021, interest payable monthly with a fixed rate of 2.08%	12,027,222	14,818,345
	110,403,437	67,447,694
Plus - original issue premiums	3,314,727	1,035,554
Less - deferred financing costs	(1,537,545)	(816,900)
	112,180,619	67,666,348
Less - Current portion	(5,598,278)	(5,449,651)
	106,582,341	62,216,697

In September 2011, the Series 2011A Revenue Bonds were issued as advanced refunding of the 1998 Series Bonds and to pay certain costs of issuance. The Series 2011A Bonds are limited obligations of the Horry County, South Carolina (the County), payable by the County solely from the loan repayments to be made by the Hospital. The Bonds are collateralized by a pledge of the Hospital's revenue and the funds and accounts established under the Bond Indenture. The Hospital is jointly and severally liable for the obligation.

On November 1, 2012, the Series 2011B Revenue Bonds were refinanced with Public Fixed Rate Debt in the amount of \$44,790,000. The Series 2011B Revenue Bonds were issued to refinance the 2007 Series Bonds. This 2012 refinancing created and authorized to be issued an amended and restated series of Notes. These series of Notes are dated November 1, 2012, and are issued in the form of a single registered note designated as "\$44,790,000 Conway Hospital Inc., Series 3 Note." Upon issuance of the Series 2007 Bonds, there was a premium of \$1,946,000. The Bonds are collateralized by a pledge of the Hospital's revenue and the funds and accounts established under the Bond Indenture. The Hospital is jointly and severally liable for the obligation. The new issue locked in an all-in interest cost of 4.03% and did not require a debt service reserve fund or any new financial covenants. Interest on the bonds is payable semiannually on January 1 and July 1 of each year.

On October 1, 2014, the Hospital entered into a \$20 million note to finance the cost of acquiring and installing certain equipment, including information system technology and operating and surgical equipment for various departments. Interest on the note is payable monthly at a fixed rate of 2.08%. This note requires the Hospital to maintain a certain debt service coverage ratio. The Hospital was in compliance with this financial covenant at September 30, 2017 and 2016.

On December 20, 2016, the Series 2016 Bonds were issued to finance capital asset purchases or renovations and to pay certain fees, payments, premiums and expenses incurred in connection with the issuance of the Series 2016 Bonds. These series of Notes are dated December 20, 2016 and are issued in the form of a single registered note designated as “\$48,405,000 Conway Hospital, Inc., Series 5 Note.” Upon issuance of the Series 2016 Bonds, there was a premium of \$2,400,000. The Bonds are collateralized by a pledge of the Hospital’s revenue and the funds and accounts established under the Bond Indenture. The Hospital is jointly and severally liable for the obligation. Bonds in the amount of \$510,000, \$2,040,000 and \$45,855,000 are due July 1, 2026, July 1, 2037 and July 1, 2047 and incur interest at 4%, 5.25% and 5.25%, respectively. The Bonds do not require a debt service reserve fund or any new financial covenants. Interest on the bonds is payable semiannually on January 1 and July 1 of each year.

The Bonds require the Hospital to maintain a certain debt service coverage ratio. The Hospital was in compliance with this financial covenant at September 30, 2017 and 2016.

Aggregate maturities of long-term debt, not presented net of premiums or discounts or deferred financing costs, for each of the next five years at September 30, 2017, are as follows:

	2011A	2011B Reissue of Series 2007	2016 Note Payable		Total
	\$	\$	\$	\$	\$
2018	2,033,148	715,000	-	2,849,737	5,597,885
2019	2,094,988	735,000	-	2,909,580	5,739,568
2020	2,158,709	765,000	-	2,970,679	5,894,388
2021	2,224,370	795,000	-	3,033,061	6,052,431
2022	-	1,735,000	-	264,165	1,999,165
Thereafter	-	36,715,000	48,405,000	-	85,120,000
	8,511,215	41,460,000	48,405,000	12,027,222	110,403,437

Estimated amortization income of premium, discount, and issuance costs for the next five years and thereafter is summarized as follows, related to the debt held as of September 30, 2017.

	Amount
	\$
2018	(26,740)
2019	(26,740)
2020	(26,813)
2021	(26,692)
2022	(71,156)
Thereafter	(1,599,041)
	(1,777,182)

7 Fair Value Measurements

ASC 820, “Fair Value Measurements and Disclosures,” establishes a framework for measuring fair value. That framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

That hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

Level 2 Inputs to the valuation methodology include:

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

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one fair value to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended September 30, 2017 and 2016, there were no transfers in and out of Level 1, 2 or 3.

The following table sets forth the level, within the fair value hierarchy, the Hospital's financial instruments, excluding cash and cash equivalents, at fair value using the market approach as of September 30, 2017:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Fixed income securities	-	108,664,060	-	108,664,060
Equity securities	98,714,183	-	-	98,714,183
Assets at fair value	98,714,183	108,664,060	-	207,378,243

The following table sets forth the level, within the fair value hierarchy, the Hospital's financial instruments, excluding cash and cash equivalents, at fair value using the market approach as of September 30, 2016:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Fixed income securities	-	107,729,124	-	107,729,124
Equity securities	103,836,394	-	-	103,836,394
Assets at fair value	103,836,394	107,729,124	-	211,565,518

8 Operating Leases

The Hospital leases various office and medical equipment under noncancelable operating leases for one- to five-year terms. Rental expense for all operating leases totaled approximately \$1,003,000 and \$1,049,000 for the years ended September 30, 2017 and 2016, respectively.

Future minimum lease payments for leases having remaining noncancelable terms in excess of one year are:

	Amount
For the year ending September 30:	\$
2018	939,391
2019	964,547
2020	987,048
2021	1,011,748
2022	1,038,694
Thereafter	7,290
	<u>4,948,718</u>

9 Employee Benefit Plans

The Hospital has a noncontributory-defined contribution money purchase pension plan covering substantially all employees. Generally, employees who are 18 years of age or older, have completed one year of service and have worked 1,000 hours are eligible to participate in the plan. The Hospital contributes at the end of each plan year (December 31) an amount equal to 5% of each participant's compensation for the preceding plan year.

Additionally, there is a defined contribution plan that covers all full-time employees of Conway Hospital Community Services, Inc. who are 18 years of age or older. Each year, participants may contribute no less than 1% of pretax annual compensation. Participants who have reached one year of service (equal to 1,000 hours) are also eligible for employer matching contributions equal to 100% of a participant's elective deferrals for each plan year, up to 3% of the participant's compensation.

The Hospital's matching contributions in 2017 and 2016 were approximately \$2,968,000 and \$2,611,000, respectively.

The Hospital provides a tax deferred annuity plan under Section 403(b) of the Internal Revenue Code. All employees who are 18 years of age or older may elect to defer a portion of their compensation under the plan. The Hospital does not contribute to this plan.

Additionally, the Hospital provides a non-qualified deferred compensation plan under Section 457(b) of the Internal Revenue Code. Eligible highly-compensative employees may elect to defer a portion of their compensation under the plan. The Hospital does not contribute to this plan.

The Hospital also provides a non-qualified deferred compensation plan under Section 457(f) of the Internal Revenue Code that allows eligible executives to defer a portion of their compensation in addition to receiving contributions from the Company. These assets are held in a grantor trust and are classified as other noncurrent assets and the deferred compensation obligation is classified as other long-term liabilities within in the consolidated balance sheets. Employer contributions are vested over a ten year period.

10 Investment in Affiliates

The Hospital's investment in affiliates consists primarily of the following:

- 30% interest in Coastal Home Care, a provider of home health services and durable medical equipment
- Approximately 0.07% of Premier Inc., a large healthcare alliance

The unaudited financial information of the Hospital's affiliate, Coastal Home Care, is as follows as of and for the years ended September 30:

	2017	2016
	\$	\$
Total assets	643,428	715,991
Total liabilities	6,679	8,679
Total net assets	636,749	707,312
Total revenues	1,398,982	2,158,334
Net (loss) income	(27,891)	229,675

The following table summarizes the combined activity of the Hospital's investment in affiliates for the years ended September 30:

	2017	2016
	\$	\$
Balances, beginning of year	2,010,418	1,194,869
Current year capital distributions	(12,803)	(41,607)
Share of current year income of affiliates, net	437,583	857,156
Balances, end of year	2,435,198	2,010,418

Premier Inc. is a national healthcare alliance that went public on October 1, 2013. In connection with the IPO, each member owner received Class B common units in exchange for their historical interest in Premier. These Class B common units and their associated Class B common shares are eligible for exchange into Class A common stock over the next seven years with one-seventh becoming eligible for exchange each October 31, beginning on October 31, 2014, and the last tranche eligible for exchange on October 31, 2020. Member owners have the ability to exchange any eligible units each quarter. In order to be able to retain the Class B common units and have the ability to exchange them, the member owner must continue to be party to a group purchasing organization agreement with Premier.

11 Concentrations of Credit Risk

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist principally of temporary cash investments and patient receivables. At September 30, 2017 and 2016, substantially all cash and cash equivalents were maintained by a single financial institution. Management believes the credit risk related to these deposits is minimal.

The Hospital provides services to patients without collateral or other proof of ability to pay. An allowance for uncollectible accounts is provided in an amount equal to the estimated losses to be incurred in collection of the receivables. The allowance is based on historical collection experience and a review of the current status of the existing receivables.

The mix of receivables from patients and third-party payors was as follows at September 30:

	2017	2016
Medicare	27%	24%
Medicaid	15%	14%
Other third-party payors	16%	17%
Patients	42%	45%
	100%	100%

12 Medical Malpractice Insurance

The Hospital participates in a multi-provider captive for professional and general liability insurance coverage on a claims-made basis. The Hospital's premiums are accrued based on the experience to date of the participating healthcare providers. The Hospital would be subject to retroactive premium adjustments should the captive's loss experience exceed premiums. The Hospital has an irrevocable letter of credit in favor of the captive at September 30, 2017, of approximately \$580,000, which expires in October 2018. There were no borrowings under the letter of credit at September 30, 2017. Accruals for incurred but not reported claims totaled approximately \$1,295,000 and \$1,175,000 at September 30, 2017 and 2016, respectively.

At September 30, 2017, management is not aware of significant claims, including any unasserted claims or incidents that might lead to significant claims, that are not adequately covered by insurance or estimated liabilities recorded or that would have a material adverse effect on the financial position of the Hospital.

13 Related Foundation

Conway Hospital Foundation, Inc. (the Foundation) is an independent foundation, which was established for the purpose of fostering, supporting and initiating activities for the advancement of the healthcare objectives of Conway Hospital, Inc. and/or its affiliated organizations and other healthcare needs in Horry County and the surrounding areas.

At September 30, 2017 and 2016, the Foundation had total assets of approximately \$4,415,000 (unaudited) and \$4,046,000 (audited), respectively, and total net assets of \$4,415,000 (unaudited) and \$4,006,000 (audited), respectively.

All of the temporarily restricted and permanently restricted net assets of the Hospital as of September 30, 2017 and 2016, are related to assets held by the Foundation for the benefit of the Hospital.

14 Commitments and Contingencies

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers.

Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations; however, the possibility for future governmental review and interpretation exists.

The Hospital has an agreement with a health information technology provider in which the Hospital has committed to pay monthly payments over the next six years for various services. The aggregate amount of required payments at September 30, 2017 are as follows:

Fiscal year ending September 30:	Amount
	\$
2018	2,577,681
2019	2,721,704
2020	2,564,390
2021	2,511,952
2022	2,511,952
Thereafter	627,988
	13,515,667

15 Fair Value of Financial Instruments

The carrying amount reported in the accompanying consolidated balance sheets for cash and cash equivalents, investments and assets limited as to use, accounts receivable, accounts payable, accrued expenses and estimated third-party payor settlements, approximates fair value.

Fair values of the Hospital's revenue bonds are based on current traded value. The fair value of the Hospital's remaining debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements. The fair values of the Hospital's debt was approximately \$117,839,000 and \$70,728,000 at September 30, 2017 and 2016, respectively.

16 Functional Expenses

The Hospital provides general healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended September 30 are as follows:

	2017	2016
	\$	\$
Healthcare services	148,601,594	138,303,104
General and administrative	55,454,143	51,042,282
	204,055,737	189,345,386

17 Subsequent Events

As required by ASC 855, "*Subsequent Events*," management of the Hospital has evaluated events that occurred between September 30, 2016 and January 23, 2018, to determine whether any of those events required recognition or disclosure in the 2017 consolidated financial statements. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Schedule I – Consolidating balance sheet information

September 30, 2017	Conway Hospital, Inc.	Conway Hospital Long-term Care Services, Inc.	Medical Properties, Inc.	Conway Hospital Community Services, Inc.	Conway Hospital Anesthesia Professional Services	Conway Hospital Emergency Professional Services	Eliminations	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Assets								
Current assets:								
Cash and cash equivalents	15,291,957	232,542	511,064	614,647	114,368	217,781	-	16,982,359
Assets limited as to use	4,709,867	-	-	-	-	-	-	4,709,867
Accounts receivable:								
Patients, net of allowances	20,994,174	776,631	491,723	982,701	363,374	565,095	-	24,173,698
Other receivables, net	19,626	-	46,116	44,541	-	-	-	110,283
Supplies inventory	3,659,365	24,491	263,729	-	-	-	-	3,947,585
Prepaid expenses	2,043,418	7,416	27,861	19,861	-	-	-	2,098,556
Total current assets	46,718,407	1,041,080	1,340,493	1,661,750	477,742	782,876	-	52,022,348
Other receivables	-	-	-	-	-	-	-	-
Investments in affiliates	2,435,198	-	-	-	-	-	-	2,435,198
Beneficial interest in assets held by others	4,109,331	-	-	-	-	-	-	4,109,331
Assets limited as to use	238,144,220	-	-	-	-	-	-	238,144,220
Property and equipment, net	126,765,655	1,156,960	6,351,896	9,958,107	-	-	(483,573)	143,749,045
Other noncurrent assets	2,857,674	-	150,000	-	-	-	-	3,007,674
Intercompany investments and receivables	97,440,454	-	-	-	-	-	(97,440,454)	-
Total assets	518,470,939	2,198,040	7,842,389	11,619,857	477,742	782,876	(97,924,027)	443,467,816

See accompanying report of independent certified public accountants.

Schedule I – Consolidating balance sheet information (cont'd)

September 30, 2017	Conway Hospital, Inc.	Conway Hospital Long-term Care Services, Inc.	Medical Properties, Inc.	Conway Hospital Community Services, Inc.	Conway Hospital Anesthesia Professional Services	Conway Hospital Emergency Professional Services	Eliminations	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Liabilities and net assets								
Current liabilities:								
Payables:								
Accounts payable	13,691,919	49,275	379,610	160,952	5,947	50,377	-	14,338,080
Estimated third-party payor settlements	9,526,723	135,481	-	-	-	-	-	9,662,204
Accrued employee compensation and benefits	9,255,661	555,288	75,452	1,810,865	422,138	-	-	12,119,404
Current portion of long-term debt	5,598,278	-	-	-	-	-	-	5,598,278
Total current liabilities	38,072,581	740,044	455,062	1,971,817	428,085	50,377	-	41,717,966
Deferred gain	483,573	-	-	-	-	-	(483,573)	-
Due to Conway Hospital, Inc.	-	3,193,558	486,061	57,937,277	21,623,175	5,341,118	(88,581,189)	-
Other long-term liabilities	2,857,674	-	29,922	-	-	-	-	2,887,596
Long-term debt, net	106,582,341	-	-	-	-	-	-	106,582,341
Total liabilities	147,996,169	3,933,602	971,045	59,909,094	22,051,260	5,391,495	(89,064,762)	151,187,903
Net assets (deficit) and shareholders' equity:								
Net assets (deficit), unrestricted	366,365,439	(6,187,064)	-	(48,289,237)	(21,573,518)	(4,608,619)	428,303	286,135,304
Shareholders' equity:								
Additional paid-in-capital	-	4,451,502	3,323,292	-	-	-	(7,774,794)	-
Common stock	-	-	1,000	-	-	-	(1,000)	-
Retained earnings	-	-	1,511,774	-	-	-	(1,511,774)	-
Noncontrolling interest	-	-	2,035,278	-	-	-	-	2,035,278
Total unrestricted net assets	366,365,439	(1,735,562)	6,871,344	(48,289,237)	(21,573,518)	(4,608,619)	(8,859,265)	288,170,582
Temporarily restricted net assets	786,018	-	-	-	-	-	-	786,018
Permanently restricted net assets	3,323,313	-	-	-	-	-	-	3,323,313
Total net assets	370,474,770	(1,735,562)	6,871,344	(48,289,237)	(21,573,518)	(4,608,619)	(8,859,265)	292,279,913
Total liabilities, net assets (deficit) and shareholders' equity	518,470,939	2,198,040	7,842,389	11,619,857	477,742	782,876	(97,924,027)	443,467,816

See accompanying report of independent certified public accountants.

Schedule II – Consolidating statement of operations information

For the year ended September 30, 2017	Conway Hospital, Inc.	Conway Hospital Long-term Care Services, Inc.	Medical Properties, Inc.	Conway Hospital Community Services, Inc.	Conway Hospital Anesthesia Professional Services	Conway Hospital Emergency Professional Services	Eliminations	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Unrestricted revenue, gains and other support:								
Net patient service revenue	188,604,519	7,233,678	6,561,988	16,387,156	1,962,693	13,310,033	-	234,060,067
Provision for uncollectible accounts	(43,385,151)	-	(109,817)	-	(98,402)	(8,144,605)	-	(51,737,975)
Net patient service revenue less provision for uncollectible accounts	145,219,368	7,233,678	6,452,171	16,387,156	1,864,291	5,165,428	-	182,322,092
Other operating revenues	2,712,236	35,430	1,085,421	1,695,195	-	-	(1,735,381)	3,792,901
Total unrestricted revenue, gains and other support	147,931,604	7,269,108	7,537,592	18,082,351	1,864,291	5,165,428	(1,735,381)	186,114,993
Expenses:								
Salaries, wages and benefits	80,815,694	5,563,798	1,843,305	20,754,867	4,333,604	7,007,278	-	120,318,546
Professional fees	14,654,082	772,883	321,417	1,859,002	97,651	490,779	(1,275,644)	16,920,170
Supplies and other	43,171,195	974,622	4,001,237	3,359,991	105,292	12,287	(459,737)	51,164,887
Depreciation and amortization	10,074,546	123,010	507,254	658,068	-	-	-	11,362,878
Interest expense	4,116,465	93,300	79,491	-	-	-	-	4,289,256
Total expenses	152,831,982	7,527,613	6,752,704	26,631,928	4,536,547	7,510,344	(1,735,381)	204,055,737
Operating (loss) income	(4,900,378)	(258,505)	784,888	(8,549,577)	(2,672,256)	(2,344,916)	-	(17,940,744)
Other income:								
Share in net losses of affiliates	(19,459)	-	-	-	-	-	-	(19,459)
Investment income	7,448,897	110	-	-	-	-	-	7,449,007
Excess of unrestricted revenue and gains over (under) expenses	2,529,060	(258,395)	784,888	(8,549,577)	(2,672,256)	(2,344,916)	-	(10,511,196)

See accompanying report of independent certified public accountants.

Schedule II – Consolidating statement of operations information (cont'd)

For the year ended September 30, 2017	Conway Hospital, Inc.	Conway Hospital Long-term Care Services, Inc.	Medical Properties, Inc.	Conway Hospital Community Services, Inc.	Conway Hospital Anesthesia Professional Services	Conway Hospital Emergency Professional Services	Eliminations	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Expense attributable to noncontrolling interest	-	-	(694,213)	-	-	-	-	(694,213)
Excess of unrestricted revenue and gains over (under) expenses from the Hospital	2,529,060	(258,395)	90,675	(8,549,577)	(2,672,256)	(2,344,916)	-	(11,205,409)
Increase in net unrealized gains on investments	6,521,939	-	-	-	-	-	-	6,521,939
Contributions received for capital acquisitions	214,500	4,622	-	-	-	-	-	219,122
Increase in noncontrolling interest	-	-	477,529	-	-	-	-	477,529
Increase / (decrease) in unrestricted net assets	9,265,499	(253,773)	568,204	(8,549,577)	(2,672,256)	(2,344,916)	-	(3,986,819)
Increase in temporarily restricted net assets:								
Change in temporarily restricted net assets of interest in foundation	88,676	-	-	-	-	-	-	88,676
Increase in temporarily restricted net assets	88,676	-	-	-	-	-	-	88,676
Increase in permanently restricted net assets:								
Change in permanently restricted net assets of interest in foundation	2,408,271	-	-	-	-	-	-	2,408,271
Increase in permanently restricted net assets	2,408,271	-	-	-	-	-	-	2,408,271
Increase / (decrease) in total net assets	11,762,446	(253,773)	568,204	(8,549,577)	(2,672,256)	(2,344,916)	-	(1,489,872)
Net assets, beginning of year	358,712,324	(1,481,789)	6,303,140	(39,739,660)	(18,901,262)	(2,263,703)	(8,859,265)	293,769,785
Net assets, end of year	370,474,770	(1,735,562)	6,871,344	(48,289,237)	(21,573,518)	(4,608,619)	(8,859,265)	292,279,913

See accompanying report of independent certified public accountants.