

Consolidated Financial Statements,
Supplementary Information and Report
of Independent Certified Public
Accountants

Conway Hospital, Inc. and Affiliates

September 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 28, 2020

Conway Hospital, Inc. and Affiliates
CONSOLIDATED BALANCE SHEETS
As of September 30,

	<u>2019</u>	<u>2018</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,203,036	\$ 21,298,580
Assets limited as to use	4,709,867	4,709,867
Accounts receivable:		
Patients	20,073,531	15,080,371
Other	593,707	288,565
Supplies inventory	4,411,554	4,717,016
Prepaid expenses	2,061,128	2,162,572
Total current assets	<u>48,052,823</u>	<u>48,256,971</u>
Investments in affiliates	3,385,136	2,997,575
Interest in foundation	4,863,081	4,270,809
Assets limited as to use	216,462,932	219,851,116
Property and equipment, net	161,853,054	147,407,261
Other noncurrent assets	15,912,355	13,847,462
Total assets	<u>\$ 450,529,381</u>	<u>\$ 436,631,194</u>
Liabilities and net assets		
Current liabilities:		
Payables:		
Accounts payable	\$ 15,975,613	\$ 18,901,314
Estimated third-party payor settlements	3,412,560	5,566,678
Accrued employee compensation and benefits	11,655,936	11,463,470
Current portion of long-term debt	5,129,389	5,739,568
Total current liabilities	<u>36,173,498</u>	<u>41,671,030</u>
Other long-term liabilities	-	20,179
Long-term debt, net	<u>95,703,844</u>	<u>100,803,595</u>
Total liabilities	<u>131,877,342</u>	<u>142,494,804</u>
Commitments and contingencies (Note 15)		
Net assets without donor restrictions:		
Net assets of the Hospital	311,291,576	287,789,841
Noncontrolling interest	2,497,382	2,075,740
Total net assets without donor restrictions	<u>313,788,958</u>	<u>289,865,581</u>
Net assets with donor restrictions	<u>4,863,081</u>	<u>4,270,809</u>
Total net assets	<u>318,652,039</u>	<u>294,136,390</u>
Total liabilities and net assets	<u>\$ 450,529,381</u>	<u>\$ 436,631,194</u>

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

Conway Hospital, Inc. and Affiliates

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

For the years ended September 30,

	2019	2018
Net assets without donor restrictions		
Revenue:		
Patient service revenue	213,088,441	195,310,360
Other operating revenues	5,272,972	4,912,143
Total revenues	218,361,413	200,222,503
Expenses:		
Salaries, wages and benefits	118,832,054	123,152,726
Professional fees	18,278,755	15,977,105
Supplies and other	51,789,755	51,990,472
Depreciation	13,825,200	12,641,670
Interest expense	4,255,002	4,826,197
Total expenses	206,980,766	208,588,170
Operating income (loss)	11,380,647	(8,365,667)
Other income:		
Gain on sale of Kingston Nursing Center	2,511,330	-
Investment return	10,886,163	10,576,199
Excess of revenues and gain over expenses	24,778,140	2,210,532
Income attributable to noncontrolling interest	(1,486,179)	(680,995)
Excess of revenues and gains over expenses from the Hospital	23,291,961	1,529,537
Other changes in net assets without donor restrictions		
Contributions received for capital acquisitions	209,774	125,000
Increase in noncontrolling interest	421,642	40,461
Increase in net assets without donor restrictions	23,923,377	1,694,998
Change in net assets with donor restrictions		
Increase in net assets with donor restrictions	592,272	161,479
Increase in total net assets	24,515,649	1,856,477
Net assets, beginning of year	294,136,390	292,279,913
Net assets, end of year	\$ 318,652,039	\$ 294,136,390

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

Conway Hospital, Inc. and Affiliates
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended September 30,

	2019	2018
Cash flows from operating activities:		
Increase in total net assets	\$ 24,515,649	\$ 1,856,477
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	13,866,676	12,612,784
Investment return	(10,828,664)	(7,656,900)
Gain on the sale of Kingston Nursing Center	(2,511,330)	-
Loss on disposal of property and equipment	61,574	237,815
Change in beneficial interests	(592,272)	(161,478)
Change in noncontrolling interest	(421,642)	(40,461)
Changes in operating assets and liabilities:		
Receivables	(4,993,160)	9,093,327
Inventories, prepaid expenses, and other receivables	269,186	(1,011,728)
Accounts payable, accrued expenses, estimated third-party payor settlements, and other liabilities	(4,628,517)	(450,492)
Net cash provided by operating activities	14,737,500	14,479,344
Cash flows from investing activities:		
Purchases of property and equipment	(28,332,569)	(16,285,179)
Sales of investments and assets limited as to use	41,080,970	125,912,752
Purchase of split-dollar life insurance policy	-	(13,697,462)
Purchases of investments and assets limited as to use	(27,292,996)	(100,571,588)
Capital distributions from affiliates	41,313	46,463
Noncontrolling interest distributions	421,642	40,461
Net cash used in investing activities	(14,081,640)	(4,554,553)
Cash flows from financing activities:		
Repayment of long-term debt	(5,751,404)	(5,597,059)
Proceeds from bond issuance	-	(11,511)
Net cash used in financing activities	(5,751,404)	(5,608,570)
Net (decrease) increase in cash and cash equivalents	(5,095,544)	4,316,221
Cash and cash equivalents, beginning of year	21,298,580	16,982,359
Cash and cash equivalents, end of year	\$ 16,203,036	\$ 21,298,580
Supplemental cash flow information - Cash paid during the year for interest	\$ 4,647,474	\$ 4,759,575
Supplemental noncash investing and finance activities		
Additions to property and equipment financed through current liabilities	\$ 2,080,024	\$ 5,575,321
Bond proceeds used to directly repay debt	\$ 43,031,324	\$ -
Deferred financing costs paid directly through bond proceeds	\$ 186,676	\$ -

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

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2019 and 2018

NOTE 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 – incorporated in 1988) was a 66-bed nursing facility located in Conway, South Carolina and was held by the Hospital up until October 1, 2018 (see note 17). 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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. Estimates include patient accounts receivable and patient service revenue, third-party payor receivables and liabilities, useful lives of capital assets, professional liability and self-insurance accruals.

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.

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

The Hospital maintains bank accounts at financial institutions, of which approximately \$3,320,000 is covered by Federal Depository Insurance Corporation and the approximate remaining \$14,524,000 is in excess of the federally insured limits as of September 30, 2019.

Patient Accounts Receivable

Patient accounts receivable for which the Hospital receives payment under cost reimbursement, prospective payment formulas, or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payers, which are generally less than the established billing rates of the Hospital.

Under the provisions of Accounting Standards Update (ASU) 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," when there is an unconditional right to payment, subject only to the passage of time, the right is treated as a receivable. Patient accounts receivable, including billed accounts and unbilled accounts, which have the unconditional right to payment, and estimated amounts due from third-party payers for retroactive adjustments, are recorded as receivables since the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. The estimated uncollectible amounts are generally considered implicit price concessions that are recorded as a direct reduction to patient accounts receivable.

Investments and Assets Limited as to Use

Investments are measured at fair value as of the consolidated balance sheet date. Investment income, including realized and unrealized gains and losses on investments, dividends and interest from all other investments and cash equivalents, is included in the excess of revenues over expenses. Assets limited as to use include assets set aside by the board for: a) future capital improvements, and b) debt service. The board retains control of these assets and may, at its discretion, subsequently use for other purposes.

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

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

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.

Net Assets with Donor Restrictions

Net assets with donor restrictions represent those net assets whose use has been limited by donors to a specific time period, purpose, or to be maintained in perpetuity. The income from net assets that are to be maintained in perpetuity is not restricted by the donor.

Net Assets without Donor Restrictions

Net assets without donor restrictions represent those net assets available for use in general operations and not subject to donor restrictions.

Liquidity and Availability of Resources

As of September 30, 2019 and 2018, the adjusted working capital was \$11,879,325 and \$6,585,941, respectively, and the average days of cash on hand was 449 and 458 days, respectively, both of which include internally designated assets limited as to use and other long-term investments.

Financial assets available for general expenditure within one year of the consolidated balance sheet date consist of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 16,203,036	\$ 21,298,580
Patient accounts receivable	20,073,531	15,080,371
Other receivables	593,707	288,565
Assets limited as to use - internally designated	<u>221,172,799</u>	<u>224,560,983</u>
	<u>\$ 258,043,073</u>	<u>\$ 261,228,499</u>

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenues over expenses, include 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).

Patient Service Revenue

Patient service revenue is reported at the amounts that reflect the consideration to which the Hospital is expected to be entitled to in exchange for providing patient care for both the Hospital and any employed physicians. These amounts are due from patients, third-party payors (including managed care

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

organizations and government programs, i.e., Medicare and Medicaid), and others and they include variable consideration for retroactive adjustments due to settlement of future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Generally, patients and third-party payors are billed several days after the services are performed or shortly after discharge. Patient service revenue is recognized in the period in which the performance obligations are satisfied under contracts by transferring services to patients.

Performance obligations are determined based on the nature of the services provided. The Hospital recognizes revenue for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. The Hospital believes that this method provides an appropriate depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations are satisfied over time related to patients receiving inpatient acute care services. The Hospital measures performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. The Hospital recognizes revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when: (1) services are provided; and (2) when it is believed the patient does not require additional services.

The Hospital determines estimates of contractual adjustments and discounts based on government regulations, contractual agreements, discount policies and historical experience, as applicable. The Hospital determines its estimate of implicit price concessions based on historical collection experience within each class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually.

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.

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 net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported on the statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions in net assets without donor restrictions in the accompanying consolidated 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.

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

Income Taxes

The Hospital 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 \$234,500 at September 30, 2019, 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, 2019, Medical Properties, Inc. has recorded income tax expense of approximately \$139,500. 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, 2019, the tax years ended September 30, 2019, 2018 and 2017 for federal jurisdiction remain open to examination.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to be consistent with the current year presentation, primarily due to the recently adopted accounting pronouncements.

Recently Issued Accounting Pronouncements

Effective October 1, 2018, the Hospital adopted ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," using the retrospective method of application to all contracts existing on October 1, 2017. The core principal of the standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of the standard had no impact on the Hospital's current or historical financial position, results of operations or cash flows. Additionally, management does not anticipate that the standard will have an impact on the amount or timing of when the Hospital recognizes revenue prospectively. However, in accordance with the standard, the Hospital now recognizes its previously reported provision for bad debts, primarily related to its self-pay patient population, as a direct deduction to revenues as an implicit pricing concession, instead of separately as a discrete deduction to arrive at patient service revenue. The Hospital's revenue recognition and accounts receivable policies are more fully described above.

Effective October 1, 2018, the Hospital adopted FASB ASU 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities*." This standard makes certain improvements to the previous reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the previously required three classes, as well as the annual change in each of the two classes; and (2) information about liquidity and the availability of resources. The Hospital's consolidated financial statements have been adjusted to reflect the new requirements. The standard has been applied retrospectively to all years presented.

Effective October 1, 2018, the Hospital adopted FASB ASU 2016-01, "*Recognition and Measurement of Financial Assets and Financial Liabilities*." This standard makes 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 standard has been applied retrospectively to all years presented and resulted in the presentation of unrealized gains and losses on investments as a component of excess of revenues and gains over expenses and losses within the consolidated statements of operations and changes in net assets for both the years ended September 30, 2019 and 2018.

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

The following new ASU has been issued, but has not yet been adopted by the Hospital as of September 30, 2019:

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, 2018, 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 consolidated 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.

NOTE 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:

	2019	2018
Charges forgone, based on established rates	\$ 18,451,333	\$ 16,669,355
Equivalent percentage of charity care patients to patients served	2.58%	2.36%

The estimated cost for the Hospital of providing charity services was approximately \$3,596,000 and \$4,261,000 for the years ended September 30, 2019 and 2018, 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.

NOTE 3 - 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. 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.

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

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

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, 2014 and September 30, 2015, respectively. Changes in prior year's estimates of third-party liabilities resulted in increases in patient service revenue of approximately \$3,167,000 and \$2,096,000 for the years ended September 30, 2019 and 2018, respectively.

Under legislation pursuant to federal Medicaid law, the Hospital recognized patient service revenue of approximately \$7,933,000 and \$5,926,000 for the years ended September 30, 2019 and 2018, 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.

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 years ended September 30, 2019 and 2018 indicated, the Hospital's patient service revenue by major payor:

	<u>2019</u>	<u>2018</u>
Medicare	30%	25%
Medicaid	14%	13%
Other third-party payors	41%	53%
Self-pay	<u>15%</u>	<u>9%</u>
	<u>100%</u>	<u>100%</u>

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 collectable amount. When recording receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and considers 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.

When recording 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 considers its past experience, which indicates that many patients are unwilling or unable to pay the portion of their bill for which they are financially responsible.

The Hospital has not changed its charity care or uninsured discount policies during fiscal years 2019 or 2018.

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

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.

NOTE 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:

	2019	2018
Internally designated:		
Cash and cash equivalents	\$ 13,852,300	\$ 26,411,878
Fixed-income securities	78,432,106	73,589,535
Equity securities	128,888,393	124,559,570
	221,172,800	224,560,983
Less - Current portion	(4,709,867)	(4,709,867)
	\$ 216,462,932	\$ 219,851,116

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

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

	2019	2018
Interest and dividends	\$ 7,151,299	\$ 4,614,020
Realized gain on investments	2,296,127	10,528,824
Change in unrealized gains and losses on investments	1,009,863	(5,175,485)
Share of current year income of affiliates, net	428,874	608,840
	\$ 10,886,163	\$ 10,576,199

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30:

	2019	2018
Land and land improvements	\$ 13,529,580	\$ 13,357,744
Buildings	163,275,622	144,452,657
Equipment	141,217,701	132,673,094
Construction in progress	1,196,537	2,610,160
	319,219,440	293,093,655
Accumulated depreciation	(157,366,386)	(145,686,394)
	\$ 161,853,054	\$ 147,407,261

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

Depreciation expense was approximately \$13,825,000 and \$12,642,000 for the years ended September 30, 2019 and 2018, respectively.

NOTE 6 - LONG-TERM DEBT

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

	2019	2018
Hospital Revenue Bonds, Series 2011A , principal payments in varying amounts through 2021, interest payable semi-annually with a fixed rate of 3.00%	\$ 4,386,395	\$ 6,478,066
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 4.18%	-	40,745,000
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	48,405,000
Hospital Revenue Bonds, Series 2011B Amended and Restated as Series 2019 , principal payments in varying amounts through 2037, interest payable semi-annually with a fixed rate of 2.75%	43,218,000	-
Note Payable , principal payments in varying amounts through 2021, interest payable monthly with a fixed rate of 2.08%	6,268,729	9,178,309
	<u>102,278,124</u>	<u>104,806,375</u>
Plus - Original issue (discounts) premiums	(707,690)	2,602,817
Less - Deferred financing costs	<u>(737,201)</u>	<u>(866,029)</u>
	<u>100,833,233</u>	<u>106,543,163</u>
Less - Current portion	<u>(5,129,389)</u>	<u>(5,739,568)</u>
	<u>\$ 95,703,844</u>	<u>\$ 100,803,595</u>

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.' 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. Interest on the bonds is payable semiannually on January 1 and July 1 of each year. The Series 2011B Revenue Bonds were refinanced with the Series 2019 Revenue Bonds further described below.

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

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

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.

On September 20, 2019, the Series 2019 Revenue Bonds were financed with Public Fixed-Rate Debt in the amount of \$43,218,000. The Series 2019 Revenue Bonds were issued to refinance the 2011B Series Bonds. This 2019 refinancing created and authorized to be issued an amended and restated series of Notes. These series of Notes are dated September 20, 2019, and are issued in the form of a single registered note designated as, '\$43,218,000 South Carolina Jobs-Economic Development Authority Taxable hospital Revenue Bonds (Conway Hospital, Inc.), Series 2019.' 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. Interest on the bonds is payable semiannually on January 1 and July 1 of each year, commencing on January 1, 2020.

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, 2019 and 2018.

On October 1, 2014, the Hospital entered into a \$20,000,000 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, 2019 and 2018.

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, 2019, are as follows:

	2011A	2019 Reissue of Series 2011B	2016	Note Payable	Total
2020	\$ 2,158,709	\$ -	\$ -	\$ 2,970,679	\$ 5,129,388
2021	2,227,686	-	-	3,033,062	5,260,748
2022	-	-	-	264,988	264,988
2023	-	2,367,000	120,000	-	2,487,000
2024	-	2,431,000	125,000	-	2,556,000
Thereafter	-	38,420,000	48,160,000	-	86,580,000
	<u>\$ 4,386,395</u>	<u>\$ 43,218,000</u>	<u>\$ 48,405,000</u>	<u>\$ 6,268,729</u>	<u>\$ 102,278,124</u>

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, 2019.

2020	\$ 151,923
2021	151,556
2022	107,092
2023	104,598
2024	104,885
Thereafter	<u>824,837</u>
	<u>\$ 1,444,891</u>

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

NOTE 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, 2019 and 2018, 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, 2019:

	Level 1	Level 2	Level 3	Total
Fixed-income securities	\$ -	\$ 78,432,106	\$ -	\$ 78,432,106
Equity securities	128,888,393	-	-	128,888,393
	<u>\$ 128,888,393</u>	<u>\$ 78,432,106</u>	<u>\$ -</u>	<u>\$ 207,320,499</u>

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed-income securities	\$ -	\$ 73,589,537	\$ -	\$ 73,589,535
Equity securities	<u>124,559,570</u>	<u>-</u>	<u>-</u>	<u>124,559,570</u>
Assets at fair value	<u>\$ 124,559,570</u>	<u>\$ 73,589,537</u>	<u>\$ -</u>	<u>\$ 198,149,105</u>

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 \$102,278,000 and \$104,798,000 at September 30, 2019 and 2018, respectively.

NOTE 8 - CASH VALUE OF LIFE INSURANCE

During the year ended September 30, 2019, the Hospital and key executives entered into jointly owned split-dollar agreements through an insurance company. Total funding as of September 30, 2019 was approximately \$13,697,500, which is recorded in other noncurrent assets within the consolidated balance sheet. The value held by the insurance company as well as a lien on the policy is collateral held to secure the return on the Hospital's funding plus interest. The agreements allow for the key executives to borrow specified amounts to be repaid by the proceeds of the life insurance policies. Any remaining death proceeds are divided between the Company and the executive's beneficiary as agreed upon by the parties.

NOTE 9 - 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 \$1,315,000 and \$1,072,000 for the years ended September 30, 2019 and 2018, respectively.

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

	<u>Amount</u>
For the year ending September 30:	
2020	\$ 1,325,654
2021	1,322,326
2022	1,342,148
2023	1,455,712
2024	1,504,005
Thereafter	<u>7,290</u>
	<u>\$ 6,957,135</u>

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

NOTE 10 - EMPLOYEE BENEFIT PLANS

The Hospital has a noncontributory-defined contribution money purchase pension plan covering substantially all Hospital 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. This plan was merged with the Company's defined contribution plan effective January 1, 2019. Legacy employees (those hired before January 1, 2019) continue to receive the 5% match; however, those employees hired subsequent to January 1, 2019 receive only the defined contribution match described below.

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 for the years ended September 30, 2019 and 2018 were approximately \$2,886,000 and \$2,926,000, 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 nonqualified 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 previously provided a nonqualified deferred compensation plan under Section 457(f) of the Internal Revenue Code that allowed eligible executives to defer a portion of their compensation in addition to receiving contributions from the Company. These assets were 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 the consolidated balance sheets. Employer contributions were vested over a 10-year period. This plan was eliminated in October 2017. The Hospital utilized the assets of this plan in its split-dollar life insurance agreement (see Note 8).

NOTE 11 - 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; durable medical equipment; and
- Approximately 0.07% of Premier Inc., a large healthcare alliance.

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

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

	2019	2018
Total assets	\$ 618,209	\$ 543,505
Total liabilities	149,633	121,566
Total net assets	468,576	421,939
Total revenues	1,115,049	1,707,157
Net loss	(74,677)	(59,941)

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

	2019	2018
Balances, beginning of year	\$ 2,997,575	\$ 2,435,198
Current year capital distributions	(41,313)	(46,463)
Share of current year income of affiliates, net	428,874	608,840
Balances, end of year	\$ 3,385,136	\$ 2,997,575

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.

NOTE 12 - 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, 2019 and 2018, 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.

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

	2019	2018
Medicare	23%	31%
Medicaid	11%	7%
Other third-party payors	22%	24%
Patients	44%	38%
	100%	100%

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

NOTE 13 - 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 had an irrevocable letter of credit in favor of the captive at September 30, 2019, of approximately \$580,000, which expires in October 2020. There were no borrowings under the letter of credit at September 30, 2019. Accruals for incurred but not reported claims totaled approximately \$1,272,000 and \$1,314,000 at September 30, 2019 and 2018, respectively.

At September 30, 2019, 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.

NOTE 14 - 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, 2019 and 2018, the Foundation had total assets of approximately \$5,095,000 and \$4,577,000, respectively, and total net assets of \$5,017,000 and \$4,398,000, respectively.

All of the net assets with donor restrictions of the Hospital as of September 30, 2019 and 2018 are related to assets held by the Foundation for the benefit of the Hospital.

NOTE 15 - 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.

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

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

For year ending September 30:		
2020	\$	2,564,390
2021		2,511,952
2022		2,511,952
2023		627,988
		<u>8,216,282</u>
	\$	<u>8,216,282</u>

NOTE 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, 2019 and 2018 are as follows:

Year ended September 30, 2019	Heath Care Services	General and Administrative	Total
Salaries, wages and benefits	\$ 95,065,643	\$ 23,766,411	\$ 118,832,054
Professional fees	14,623,004	3,655,751	18,278,755
Supplies and other	41,431,804	10,357,951	51,789,755
Depreciation	11,060,160	2,765,040	13,825,200
Interest expense	4,255,002	-	4,255,002
	<u>\$ 166,435,613</u>	<u>\$ 40,545,153</u>	<u>\$ 206,980,766</u>
Year ended September 30, 2018	Heath Care Services	General and Administrative	Total
Salaries, wages and benefits	\$ 98,522,181	\$ 24,630,545	\$ 123,152,726
Professional fees	12,781,684	3,195,421	15,977,105
Supplies and other	41,592,378	10,398,094	51,990,472
Depreciation	10,113,336	2,528,334	12,641,670
Interest expense	4,826,197	-	4,826,197
	<u>\$ 167,835,776</u>	<u>\$ 40,752,394</u>	<u>\$ 208,588,170</u>

The consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied.

Conway Hospital, Inc. and Affiliates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2019 and 2018

NOTE 17 – SALE OF KINGSTON NURSING CENTER

As of October 1, 2018, the Hospital sold its long-term care business, Kingston Nursing Center, to Pruitt Health, an unrelated organization. The Hospital entered into both an asset purchase and lease agreement to sell certain certificate of needs, business licenses, and books and records and to lease the building, assets, and naming rights to Pruitt Health. Pruitt Health financed the sale of the assets with a \$2,511,330 note receivable over a fifteen-year period. This receivable is included within other noncurrent assets with the exception of the current piece, \$167,422, which is recorded within other accounts receivables in the consolidated financial statements. The lease agreement was entered into for \$225,000 per year, for an initial term of five years. The Hospital retains ownership of the building and land, while employees and patient accounts will be controlled by Pruitt Health. The aggregate amount of required payments to the Hospital at September 30 for the next four years are as follows:

	Lease Agreement	Note Receivable
For year ending September 30:		
2020	\$ 225,000	\$ 167,422
2021	225,000	167,422
2022	225,000	167,422
2023	225,000	167,422
2024	-	167,422
Thereafter	-	1,674,220
	\$ 900,000	\$ 2,511,330

NOTE 18 - SUBSEQUENT EVENTS

As required by ASC 855, “*Subsequent Events*,” management of the Hospital has evaluated events that occurred between September 30, 2019 and January 28, 2020, to determine whether any of those events required recognition or disclosure in the 2019 consolidated financial statements. Management is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

Conway Hospital, Inc. and Affiliates

SCHEDULE I - CONSOLIDATING BALANCE SHEET INFORMATION

As of September 30, 2019

	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	\$ 13,398,294	\$ 480,173	\$ 914,429	\$ 1,158,021	\$ 107,016	\$ 145,103	\$ -	\$ 16,203,036
Assets limited as to use	4,709,867	-	-	-	-	-	-	4,709,867
Accounts receivable:								
Patients	17,063,641	(160,000)	883,214	1,532,291	258,486	495,899	-	20,073,531
Other	320,100	56,424	170,284	46,899	-	-	-	593,707
Supplies inventory	4,114,051	-	297,503	-	-	-	-	4,411,554
Prepaid expenses	1,904,858	-	21,492	119,778	15,000	-	-	2,061,128
Total current assets	41,510,811	376,597	2,286,922	2,856,989	380,502	641,002	-	48,052,823
Other receivables, noncurrent	2,162,534	-	-	-	-	-	-	2,162,534
Investments in affiliates	3,385,136	-	-	-	-	-	-	3,385,136
Beneficial interest in assets held by others	4,863,081	-	-	-	-	-	-	4,863,081
Assets limited as to use	216,462,932	-	-	-	-	-	-	216,462,932
Property and equipment, net	143,792,984	941,724	7,996,500	9,605,419	-	-	(483,573)	161,853,054
Other noncurrent assets	13,599,821	-	150,000	-	-	-	-	13,749,821
Intercompany investments and receivables	123,258,490	-	-	-	-	-	(123,258,490)	-
Total assets	\$ 549,035,789	\$ 1,318,321	\$ 10,433,422	\$ 12,462,408	\$ 380,502	\$ 641,002	\$ (123,742,063)	\$ 450,529,381

See accompanying report of independent certified public accountants.

Conway Hospital, Inc. and Affiliates

SCHEDULE I - CONSOLIDATING BALANCE SHEET INFORMATION - CONTINUED

As of September 30, 2019

	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	\$ 15,306,620	\$ 224,022	\$ 301,363	\$ 108,123	\$ -	\$ 35,485	\$ -	\$ 15,975,613
Estimated third-party payor settlements	3,275,787	136,773	-	-	-	-	-	3,412,560
Accrued employee compensation and benefits	9,798,454	(2,951)	86,783	1,753,402	20,248	-	-	11,655,936
Current portion of long-term debt	5,129,389	-	-	-	-	-	-	5,129,389
Total current liabilities	33,510,250	357,844	388,146	1,861,525	20,248	35,485	-	36,173,498
Deferred gain	483,573	-	-	-	-	-	(483,573)	-
Due to Conway Hospital, Inc.	-	3,456,680	1,298,289	73,740,133	27,711,277	8,192,845	(114,399,224)	-
Long-term debt, net	95,703,844	-	-	-	-	-	-	95,703,844
Total liabilities	129,697,667	3,814,524	1,686,435	75,601,658	27,731,525	8,228,330	(114,882,797)	131,877,342
Net assets (deficit) and shareholders' equity:								
Net assets (deficit), without donor restrictions	414,475,041	(6,947,707)	-	(63,139,250)	(27,351,023)	(7,587,326)	1,841,841	311,291,576
Shareholders' equity:								
Additional paid-in capital	-	4,451,502	3,323,292	-	-	-	(7,774,794)	-
Common stock	-	-	1,000	-	-	-	(1,000)	-
Retained earnings	-	-	2,925,313	-	-	-	(2,925,313)	-
Noncontrolling interest	-	-	2,497,382	-	-	-	-	2,497,382
Total net assets without donor restrictions	414,475,041	(2,496,205)	8,746,987	(63,139,250)	(27,351,023)	(7,587,326)	(8,859,266)	313,788,958
Total net assets with donor restrictions	4,863,081	-	-	-	-	-	-	4,863,081
Total net assets	419,338,122	(2,496,205)	8,746,987	(63,139,250)	(27,351,023)	(7,587,326)	(8,859,266)	318,652,039
Total liabilities, net assets (deficit) and shareholders' equity	\$ 549,035,789	\$ 1,318,319	\$ 10,433,422	\$ 12,462,408	\$ 380,502	\$ 641,004	\$ (123,742,063)	\$ 450,529,381

See accompanying report of independent certified public accountants.

Conway Hospital, Inc. and Affiliates

SCHEDULE II - CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION

For the year ended September 30, 2019

	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
Net assets without donor restrictions								
Revenues:								
Patient service revenue	\$ 177,797,450	\$ (152,780)	\$ 9,307,194	\$ 20,250,320	\$ 625,791	\$ 5,260,466	\$ -	\$ 213,088,441
Other operating revenues	3,814,967	4,172	1,341,071	2,219,496	-	-	(2,106,734)	5,272,972
Total revenues	181,612,417	(148,608)	10,648,265	22,469,816	625,791	5,260,466	(2,106,734)	218,361,413
Expenses:								
Salaries, wages and benefits	84,027,941	19,222	2,084,069	25,029,315	1,435,482	6,236,025	-	118,832,054
Professional fees	14,665,365	23,530	398,661	1,325,155	2,317,706	613,091	(1,064,753)	18,278,755
Supplies and other	43,528,010	130,665	5,145,488	3,886,495	110,605	30,473	(1,041,981)	51,789,755
Depreciation	12,349,005	131,377	482,196	862,622	-	-	-	13,825,200
Interest expense	4,092,436	93,300	69,266	-	-	-	-	4,255,002
Total expenses	158,662,757	398,094	8,179,680	31,103,587	3,863,793	6,879,589	(2,106,734)	206,980,766
Operating income (loss)	22,949,660	(546,702)	2,468,585	(8,633,771)	(3,238,002)	(1,619,123)	-	11,380,647
Other income:								
Gain on sale of Kingston Nursing Center	2,511,330	-	-	-	-	-	-	2,511,330
Investment return	10,886,134	96	-	(67)	-	-	-	10,886,163
Excess of revenues and gains over (under) expenses	\$ 36,347,124	\$ (546,606)	\$ 2,468,585	\$ (8,633,838)	\$ (3,238,002)	\$ (1,619,123)	\$ -	\$ 24,778,140

Conway Hospital, Inc. and Affiliates

SCHEDULE II - CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION - CONTINUED

For the year ended September 30, 2019

	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
Income attributable to noncontrolling interest	\$ -	\$ -	\$ (1,486,179)	\$ -	\$ -	\$ -	\$ -	\$ (1,486,179)
Excess of revenues and gains over (under) expenses from the Hospital	36,347,124	(546,606)	982,406	(8,633,838)	(3,238,002)	(1,619,123)	-	23,291,961
Contributions received for capital acquisitions	209,774	-	-	-	-	-	-	209,774
Increase in noncontrolling interest	-	-	421,642	-	-	-	-	421,642
Increase/(decrease) in net assets without donor restrictions	36,556,898	(546,606)	1,404,048	(8,633,838)	(3,238,002)	(1,619,123)	-	23,923,377
Change in net assets with donor restrictions								
Change in net assets with donor restrictions of interest in foundation	592,272	-	-	-	-	-	-	592,272
Increase in net assets with donor restrictions:	592,272	-	-	-	-	-	-	592,272
Increase/(decrease) in total net assets	37,149,170	(546,606)	1,404,048	(8,633,838)	(3,238,002)	(1,619,123)	-	24,515,649
Net assets, beginning of year	382,188,953	(1,949,600)	7,342,939	(54,505,412)	(24,113,021)	(5,968,204)	(8,859,265)	294,136,390
Net assets, end of year	\$ 419,338,123	\$ (2,496,206)	\$ 8,746,987	\$ (63,139,250)	\$ (27,351,023)	\$ (7,587,327)	\$ (8,859,265)	\$ 318,652,039

See accompanying report of independent certified public accountants.