

**FIRSTHEALTH OF THE CAROLINAS, INC.
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED SEPTEMBER 30, 2019 AND 2018



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YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
FirstHealth of the Carolinas, Inc. and Affiliates
Pinehurst, North Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of FirstHealth of the Carolinas, Inc. and Affiliates (FirstHealth) which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 FirstHealth as of September 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Emphasis-of-Matter Regarding a Change in Accounting Principle

As discussed in Note 2 and Note 10 to the consolidated financial statements, FirstHealth adopted the provisions of Financial Accounting Standards Board Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The new accounting standard clarifies how revenue is to be recognized and requires expanded disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Our opinion is not modified with respect to that matter.



CliftonLarsonAllen LLP

Charlotte, North Carolina
January 10, 2020

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

ASSETS	2019	2018
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 33,617	\$ 40,063
Patient Accounts Receivable, Net	87,760	82,973
Other Receivables	11,344	15,570
Inventories	13,121	13,420
Prepaid Expenses	6,738	8,281
Estimated Settlements Due from Third-Party Payers	7,793	6,960
Total Current Assets	160,373	167,267
ASSETS LIMITED AS TO USE		
Internally Designated by Board	519,362	455,534
Held by Trustee Under Bond Indenture Agreements	6,607	496
Self-Insurance Reserves	19,109	22,382
Statutory and Capital Insurance Reserves	14,848	19,695
Held by Foundations	60,647	60,812
Total Assets Limited as to Use	620,573	558,919
PROPERTY AND EQUIPMENT, NET	391,524	399,821
FIDUCIARY ASSETS	13,181	12,955
OTHER ASSETS	21,713	19,089
Total Assets	\$ 1,207,364	\$ 1,158,051
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 29,180	\$ 23,760
Accrued Expenses and Other Liabilities	51,340	45,186
Estimated Settlements Due to Third-Party Payers	8,213	610
Current Portion of Long-Term Debt	14,368	13,896
Total Current Liabilities	103,101	83,452
LONG-TERM LIABILITIES		
Long-Term Debt, Less Current Portion, Net of Deferred		
Financing Costs	180,142	186,503
Other Liabilities	6,423	6,621
Total Liabilities	289,666	276,576
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Without Donor Restrictions	876,279	840,427
With Donor Restrictions	41,419	41,048
Total Net Assets	917,698	881,475
Total Liabilities and Net Assets	\$ 1,207,364	\$ 1,158,051

See accompanying Notes to Consolidated Financial Statements.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

	2019	2018
REVENUE, GAINS, AND OTHER SUPPORT		
Patient Service Revenue	\$ 629,915	\$ 573,133
Other Revenue	159,313	170,219
Net Assets Released from Restrictions Used for Operations	4,069	4,273
Total Revenue, Gains, and Other Support	793,297	747,625
OPERATING EXPENSES		
Salaries	286,519	270,773
Fringe Benefits	61,266	58,575
Supplies	158,171	144,495
Purchased Services	72,660	71,801
Depreciation and Amortization	36,743	36,008
Interest	4,332	4,040
Other	150,533	149,813
Total Operating Expenses	770,224	735,505
OPERATING INCOME	23,073	12,120
NONOPERATING INCOME (EXPENSE)		
Investment Income	27,712	24,243
Loss on Bond Refunding	-	(1,335)
Gain on Asset Disposals, Net	116	1,009
Other	(1,859)	(6,162)
Nonoperating Income	25,969	17,755
EXCESS OF REVENUES OVER EXPENSES BEFORE GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS	49,042	29,875
Realized and Unrealized Gains (Losses) on Derivative Financial Instruments	(2,197)	4,286
EXCESS OF REVENUES OVER EXPENSES	46,845	34,161
Unrealized Gains (Losses) on Investments Other Than Trading Securities, Net	(11,413)	4,195
Distributions to Joint Venture Members, Net of Contributions	230	196
Net Assets Released from Restrictions Used for the Purchase of Property and Equipment	190	197
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 35,852	\$ 38,749

See accompanying Notes to Consolidated Financial Statements.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
BALANCE AT SEPTEMBER 30, 2017	\$ 801,678	\$ 41,273	\$ 842,951
Add (Deduct):			
Contributions	-	3,368	3,368
Investment Income	-	1,698	1,698
Excess of Revenues Over Expenses	34,161	-	34,161
Unrealized Gains (Losses) on Investments - Other Than Trading Securities, Net	4,195	(821)	3,374
Distributions to Joint Venture Members, Net of Contributions	196	-	196
Net Assets Released from Restrictions Used for Operations	-	(4,273)	(4,273)
Net Assets Released from Restrictions Used for the Purchase of Property and Equipment	197	(197)	-
Increase (Decrease) in Net Assets	<u>38,749</u>	<u>(225)</u>	<u>38,524</u>
BALANCE AT SEPTEMBER 30, 2018	840,427	41,048	881,475
Add (Deduct):			
Contributions	-	3,503	3,503
Investment Income	-	1,427	1,427
Excess of Revenues Over Expenses	46,845	-	46,845
Unrealized Losses on Investments - Other Than Trading Securities, Net	(11,413)	(300)	(11,713)
Distributions to Joint Venture Members, Net of Contributions	230	-	230
Net Assets Released from Restrictions Used for Operations	-	(4,069)	(4,069)
Net Assets Released from Restrictions Used for the Purchase of Property and Equipment	190	(190)	-
Increase in Net Assets	<u>35,852</u>	<u>371</u>	<u>36,223</u>
BALANCE AT SEPTEMBER 30, 2019	<u>\$ 876,279</u>	<u>\$ 41,419</u>	<u>\$ 917,698</u>

See accompanying Notes to Consolidated Financial Statements.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 36,223	\$ 38,524
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	36,743	36,008
Amortization of Bond Issue Costs	83	95
Amortization of Bond Discount	23	6
Gain on Sale of Assets	(116)	(1,009)
Loss on Refunding of Long-Term Debt	-	1,335
Realized and Unrealized Gain on Investments, Net	(18,144)	(30,394)
Unrealized (Gains) Losses on Derivative Financial Instruments	2,197	(4,286)
Contributions Restricted in Perpetuity	(205)	(969)
Changes in Operating Assets and Liabilities:		
Patient Accounts Receivable	(4,787)	8,233
Other Assets	3,189	(358)
Accounts Payable	4,797	(1,653)
Accrued Expenses and Other Liabilities	3,759	(19,086)
Estimated Settlements Due to Third-Party Payers	6,770	(5,638)
Net Cash Provided by Operating Activities	70,532	20,808
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(27,902)	(54,899)
Proceeds from Sale of Property and Equipment	224	1,020
Net Change in Assets Limited as to Use	(43,510)	42,410
Net Cash Used by Investing Activities	(71,188)	(11,469)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issuance of Bonds	-	45,225
Cash Paid for Issuance Costs	-	(145)
Principal Payments on Long-Term Debt	(5,995)	(5,690)
Refunding of 2012A Bonds	-	(45,080)
Contributions Restricted in Perpetuity	205	969
Net Cash Used by Financing Activities	(5,790)	(4,721)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,446)	4,618
Cash and Cash Equivalents - Beginning of Year	40,063	35,445
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 33,617	\$ 40,063
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 4,450	\$ 4,145
Property and Equipment Additions in Accounts Payable	\$ 1,500	\$ 877

See accompanying Notes to Consolidated Financial Statements.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

NOTE 1 CORPORATE ORGANIZATION

FirstHealth of the Carolinas, Inc. is a nonstock, non-profit 501(c)(3) tax-exempt North Carolina corporation formed to provide health care services to patients who reside generally in a 15-county service area in North Carolina and South Carolina. To fulfill its corporate purpose, FirstHealth acts as a parent holding company to the following controlled affiliates, collectively (FirstHealth):

- Moore Regional Hospital (MRH) is composed of four locations: the main location in Pinehurst, North Carolina and three remote locations in Rockingham, North Carolina (RMH), Raeford, North Carolina (HKE), and Hamlet, North Carolina (Hamlet). Hamlet was acquired during the year ended September 30, 2017 (see Note 21). MRH, a division of FirstHealth, provides regional acute care hospital services. MRH also operates several other health related businesses in addition to traditional hospital services. They include health and fitness centers, dental centers, hospice services, home health, Emergency Medical Services (EMS) and other allied health services.
- Montgomery Memorial Hospital (MMH), a division of FirstHealth, provides acute care hospital services primarily to residents of Montgomery County and surrounding areas.
- The Foundation of FirstHealth (FFH), a tax-exempt corporation that conducts and manages all philanthropic initiatives supporting the mission of FirstHealth.
- FirstHealth Physician Group, LLC (FHPG), a wholly-owned limited liability company, provides primary care and professional services to people in the FirstHealth service area.
- FirstHealth Professional Services, Inc. (FHPS), a taxable wholly-owned subsidiary for future business activities.
- FirstCarolinaCare Insurance Company, Inc. (FCCIC), a taxable business corporation, licensed by North Carolina as a health and accident insurer with an HMO line of business, offers fully insured health benefits and third-party administrative services for employer groups. Effective January 1, 2013, FCCIC began providing a Medicare Advantage managed care product. Under North Carolina law, FCCIC is required to maintain \$1,750 minimum statutory net worth or the amount required pursuant to risk-based capital provisions set forth in NCGS 58-12, whichever is greater. In addition, as a condition for licensure by the state of North Carolina to operate a managed care organization, FCCIC is required to maintain a minimum deposit of \$1,100 with the North Carolina Department of Insurance (NCDOI). Management believes FCCIC was in compliance with these requirements at September 30, 2019 and 2018. The payment of dividends by FCCIC to FirstHealth is limited to, and cannot be made except from earned profits of FCCIC and, in certain circumstances, must have the prior approval of the NCDOI.
- StarFirst, LLC (SF), a taxable, non-profit wholly-owned subsidiary domiciled in South Carolina began operations in September 2003 to be a captive insurance company. SF provides malpractice and general liability coverage to FirstHealth and all wholly-owned or controlled affiliates.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

NOTE 1 CORPORATE ORGANIZATION (CONTINUED)

- Effective July 11, 2003, FirstHealth entered into a joint venture agreement with Pinehurst Surgical Clinic, Surgical Associates and a management company and formed the limited liability company, Surgery Center of Pinehurst, LLC (SCOP). SCOP's primary purpose is to provide outpatient surgery services as an ambulatory surgery center in Moore County, North Carolina. FirstHealth contributed \$400 to the joint venture for a 40% ownership interest. This joint venture is accounted for using the equity method of accounting.
- In connection with the SCOP joint venture, FirstHealth created Surgery Center of Pinehurst Properties, LLC (SCOPP), a development company which housed the infrastructure and furnishings of the SCOP building. In 2006, FirstHealth sold 7.45% to 20 local physicians leaving FirstHealth with a 92.55% ownership interest in SCOPP. SCOPP is controlled by FirstHealth through a Board of Managers. As such it is consolidated into FirstHealth's consolidated financial statements. The non-controlling interest in the equity and earnings of SCOPP is eliminated in consolidation. There were 13 physician owners with a total ownership interest of 7.45% as of September 30, 2019.
- Effective March 31, 2005, FirstHealth entered into a joint venture agreement with Sandhills Diagnostic Imaging, LLC and formed the limited liability company, First Imaging of the Carolinas, LLC (FI). FI's primary purpose is to operate a PET/CT scanner in Moore County, North Carolina. FirstHealth contributed \$1,200 to the joint venture for a 50% ownership interest. Given the operations of the joint venture, the minority interest component was not significant and as such is included in other assets and other revenue.
- Effective August 1, 2011, FirstHealth entered into a joint venture with Scotland Memorial Hospital, Inc. and formed the Cardiovascular Center of Scotland County, LLC (CCSC). CCSC's primary purpose is to provide community based cardiac catheterization services to residents of Scotland County, North Carolina. FirstHealth contributed approximately \$800 to the joint venture for a 50% ownership interest. CCSC is controlled by FirstHealth through a Board of Managers. As such it is consolidated into FirstHealth's consolidated financial statements. The non-controlling interest in the equity and earnings of CCSC is eliminated in consolidation.
- Effective July 31, 2016, FirstHealth entered into a joint venture agreement with Triad Imaging, LLC and formed the limited liability company, Southern Pines Diagnostics Imaging, LLC (SPDI). SPDI's primary purpose is to provide outpatient imagery services as a diagnostic testing center in Moore County, North Carolina. FirstHealth contributed \$675 to the joint venture for a 50% ownership interest. This joint venture is accounted for using the equity method of accounting.

Principles of Consolidation

The consolidated financial statements include the accounts of FirstHealth and all wholly-owned and controlled affiliates. All significant intercompany transactions and balances have been eliminated in consolidation.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates associated with these programs will change by a material amount in the near term.

Cash and Cash Equivalents

FirstHealth considers short-term investments with original maturities of three months or less to be cash equivalents. Cash equivalents exclude amounts limited as to use.

Inventories

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost or market.

Investments and Investment Income

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

FirstHealth regularly evaluates its individual investments for unrealized losses that are deemed to be "other-than-temporary." Any such losses are characterized in the period of determination as nonoperating losses and included in the period's excess of revenues over expenses.

Investments in the common stock of limited investment companies, included in alternative investments (see Note 3) are accounted for under the equity method. FirstHealth does not consider its equity in the earnings of these investments to be material at September 30, 2019 or 2018.

FirstHealth invests in a variety of investment funds. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect FirstHealth's account balances and the amounts reported in the consolidated balance sheets.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(CONTINUED)

Assets Limited as to Use

Assets limited as to use include assets consisting of cash and cash equivalents, debt and equity securities, and alternative investments over which the Board retains control. The Board may, at its discretion, use these assets for future renovation, replacement, and expansion of the facilities, or other purposes. Also included are assets limited as to use by bond indenture agreements, self-insurance funding requirements, North Carolina and South Carolina Departments of Insurance statutory requirements and assets held by FFH.

Fair Value Measurement

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. FirstHealth emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy.

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that FirstHealth has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Subsequent to initial recognition, FirstHealth may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

FirstHealth also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. FirstHealth has not elected to measure any existing financial instruments at fair value as permitted under this policy; however, it may elect to measure newly acquired financial instruments at fair value in the future.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(CONTINUED)

Derivative Financial Instruments and Hedging Activities

FirstHealth records all derivative instruments, currently consisting of interest rate swap agreements, on the consolidated balance sheets at their respective fair values and all changes in fair value in the consolidated statements of operations as unrealized gain (loss) on derivative financial instruments.

Property and Equipment

Individual assets costing more than \$1 or groups of assets costing more than \$5 in the aggregate, with a useful life of three years or more are capitalized. Property and equipment is recorded at cost and includes capitalized interest on funds used to finance the construction of major capital projects. Depreciation is computed on a straight-line basis over the estimated useful lives of the depreciable assets which range from 3 to 40 years. Gains or losses from the disposal of property and equipment are classified as nonoperating income (expense).

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value. Liabilities of a disposed group classified as held for sale would be presented separately in the appropriate liability sections of the consolidated balance sheets.

Contributions restricted to the purchase of property and equipment, when restrictions are met within the same year as received, are reported as increases in net assets without donor restrictions in the consolidated financial statements.

Deferred Financing Costs

FirstHealth has adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost*. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(CONTINUED)

Net Assets

Net assets and related revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations and which are available for use in general operations, including any funds designated by the Board of Directors for specific purposes.

With Donor Restrictions – Net assets subject to donor restrictions that are either restricted in perpetuity, time restricted, or restricted for certain purposes.

Revenues are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Uniform Prudent Management of Institutional Funds Act

Endowment funds are reported under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) standard, which is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. Under UPMIFA, all unappropriated endowment funds are considered restricted.

Donor-Restricted Gifts

Gifts are reported as restricted support according to donor stipulations. When a donor restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions.

Excess of Revenues Over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenues over expenses, include changes in unrealized gains and losses on investments (except unrealized losses deemed to be other-than-temporary), net assets released from restrictions used for the purchase of property and equipment, distributions to joint venture members and contributions of long-lived assets.

Patient Service Revenue

In May 2014, the FASB and the International Accounting Standards Board issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). ASU 2014-09's core principle is that an entity will recognize revenue when it transfers 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. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017. FirstHealth adopted ASU 2014-09 on October 1, 2018 as described in Note 10.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(CONTINUED)

Patient Service Revenue (Continued)

ASU 2014-09 requires entities to exercise more judgment and recognize revenue using a five-step process. FirstHealth adopted ASU 2014-09 using the modified retrospective method for all contracts effective October 1, 2018 and is using a portfolio approach to group contracts with similar characteristics and analyze historical cash collections trends. Modified retrospective adoption requires entities to apply the standard retrospectively to the most current period presented in the consolidated financial statements, requiring the cumulative effect of the retrospective application as an adjustment to the opening balance of retained earnings at the date of initial application. Prior periods have not been adjusted. No cumulative-effect adjustment in retained earnings was recorded as the adoption of ASU 2014-09 did not significantly impact FirstHealth's reported historical revenue.

As a result of certain changes required by ASU 2014-09, the majority of FirstHealth's provision for bad debts are recorded as a direct reduction to revenue instead of being presented as a separate line item on the consolidated statements of operations. The adoption of ASU 2014-09 has no impact on FirstHealth's accounts receivable as it was historically recorded net of allowance for doubtful accounts and contractual adjustments, and FirstHealth has eliminated the presentation of allowance for doubtful accounts on the consolidated balance sheets. The adoption of ASU 2014-09 did not have a significant impact on FirstHealth's consolidated statements of operations.

The impact of adopting ASU 2014-09 on the consolidated statements of operations for the year ended September 30, 2018 was as follows:

	<u>As Reported</u>	<u>Prior to ASU 2014-09</u>
Patient Service Revenue (Net of Contractual Allowances and Discounts)	\$ 573,133	\$ 661,029
Provision for Bad Debts	-	(87,896)
Total	<u>\$ 573,133</u>	<u>\$ 573,133</u>

FirstHealth evaluated the nature, amount, timing and uncertainty of revenue and cash flows using the five-step process provided within ASU 2014-09.

Revenue is primarily derived from services rendered to patients in its hospitals and other care settings. The services provided by FirstHealth have no fixed duration and can be terminated by the patient or the facility at any time, and therefore, each service is its own stand-alone contract.

Charity Care

FirstHealth provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because FirstHealth does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(CONTINUED)

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.

Medical Claims Expense

Medical claims expense for subscribers of FCCIC is recognized as services are provided, including estimated amounts for claims incurred but not yet reported. These expenses are reported net of subscriber copay and deductible amounts and net of reimbursement from coordination of benefits. Medical claims expense is included in other expenses in the consolidated statements of operations.

Income Taxes

FirstHealth and FFH are organizations exempt from Federal income tax under Internal Revenue Code Section 501(a) as organizations described in Section 501(c)(3). Related income is generally not subject to Federal or state taxes. FirstHealth is not aware of any activities that would jeopardize the tax-exempt status of these entities.

FHPS is a for-profit taxable corporation. At September 30, 2019, FHPS has cumulative net operating loss carryforwards totaling approximately \$2,133 which will expire if unused in years from 2030 through 2038 for income tax purposes. No tax benefit has been reported in the consolidated financial statements due to the uncertainty regarding future taxable income.

FCCIC is a non-profit taxable corporation. At September 30, 2019, FCCIC has cumulative net operating loss carryforwards totaling approximately \$59,248, which will expire if unused in years from 2034 through 2038. A tax benefit of \$1,019 and \$1,207 was recognized during the years ended September 30, 2019 and 2018, respectively. The tax benefit is included in other expenses on the consolidated statements of operations. Net deferred tax assets of \$13,435 and \$12,417 are included in other assets on the consolidated balance sheets as of September 30, 2019 and 2018, respectively. During 2018, as a result of the Tax Cuts and Jobs Act (the "Act") signed into United States tax law on December 22, 2017, the tax rate used to calculate the deferred tax asset was reduced. This caused a reduction in the deferred tax asset of approximately \$5,612 which is included in other nonoperating expense on the consolidated statements of operations for the year ended September 30, 2018.

SF is a single member limited liability corporation solely owned by FirstHealth. As such, this organization is disregarded for tax purposes.

FirstHealth adopted the income tax standard regarding the recognition and measurement of uncertain tax positions, which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. This standard has had no significant impact on the consolidated financial statements.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(CONTINUED)

Income Taxes (Continued)

The income tax returns of FirstHealth and its affiliates are subject to review and examination by federal, state, and local authorities.

Subsequent Events

In preparing these consolidated financial statements, FirstHealth has evaluated events and transactions for potential recognition or disclosure through January 10, 2020, the date the consolidated financial statements were issued.

NOTE 3 ASSETS LIMITED AS TO USE

The composition of assets limited as to use as of September 30, 2019 and 2018 is presented below. Investments are stated at estimated fair value.

	2019	2018
Internally Designated by Board:		
Cash and Cash Equivalents	\$ 2,676	\$ 831
Fixed Income Investments	194,871	147,884
U.S. Government Obligations	2,066	2,180
Equity Investments	257,360	247,440
Mutual Funds	5,132	4,506
Alternative Investments	57,257	52,693
Total Internally Designated by Board	519,362	455,534
Held by Trustee Under Bond Indenture Agreements:		
Cash and Cash Equivalents - for Debt Service	6,607	496
Total Held by Trustee Under Bond Indenture Agreements	6,607	496
Self-Insurance Reserves:		
Cash and Cash Equivalents	1,273	753
Fixed Income Investments	17,836	21,629
Total Self-Insurance Reserves	19,109	22,382
Statutory and Capital Insurance Reserves:		
Cash and Cash Equivalents	857	1,610
Fixed Income Investments	9,380	12,375
U.S. Government Obligations	1,852	1,831
Equity Investments	1,684	2,497
Mutual Funds	1,075	1,382
Total Statutory and Capital Insurance Reserves	14,848	19,695
Held by Foundations:		
Cash and Cash Equivalents	36	36
Fixed Income Investments	20,177	19,908
Equity Investments	36,411	37,071
Alternative Investments	4,023	3,797
Total Held by Foundations	60,647	60,812
Total Assets Limited as to Use	\$ 620,573	\$ 558,919

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NOTE 3 ASSETS LIMITED AS TO USE (CONTINUED)

Alternative investments are investments in the common stock of limited investment companies that offer a pattern of returns different from that of the overall market and occasionally have lesser levels of liquidity. Examples of alternative investments include non-publicly traded companies, real estate and hedge funds.

Unrestricted investment income, net realized gains on assets limited as to use, investment fees, and unrealized losses on alternative investments accounted for under the equity method consist of the following for the years ended September 30, 2019 and 2018:

	2019	2018
Interest Income	\$ 28,136	\$ 21,438
Net Realized Gains on Sales of Securities	1,184	4,541
Investment Fees	(1,845)	(1,961)
Unrealized Gains on Alternative Investments	237	225
Total Investment Income	<u>\$ 27,712</u>	<u>\$ 24,243</u>

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other than temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost. All unrealized losses at September 30, 2019 and 2018 are expected to be recovered in future periods, as FirstHealth has the intent and ability to hold these investments until further market recovery occurs.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2019 and 2018 is summarized as follows:

	2019	2018
Land and Land Improvements	\$ 31,846	\$ 31,723
Buildings and Improvements	499,311	474,114
Equipment	449,440	432,246
Subtotal	980,597	938,083
Less: Accumulated Depreciation	(594,156)	(561,369)
Subtotal	386,441	376,714
Construction-in-Process	5,083	23,107
Property and Equipment, Net	<u>\$ 391,524</u>	<u>\$ 399,821</u>

Depreciation expense related to property and equipment totaled \$36,712 and \$35,979 for the years ended September 30, 2019 and 2018, respectively.

Capitalized interest was not considered material for the years ended September 30, 2019 or 2018. Construction-in-process at September 30, 2019 and 2018 consisted primarily of construction for renovations and upfits as well as certain equipment not yet in service.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
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NOTE 5 FIDUCIARY ASSETS

FFH is trustee and remainder beneficiary of various fiduciary assets, composed of several charitable remainder annuity trusts and gift annuities. The trusts require FFH to make specified distributions to the designated beneficiaries over their remaining lives. Upon termination of the trusts, FFH will receive any remaining assets. Present value of liabilities under the trust agreements are calculated using a discount rate of 7.0%. Assets are invested separately from other FFH assets and reported at estimated fair market value. Fiduciary assets held and the related annuity obligations, which are included in other liabilities in the accompanying consolidated balance sheets, were as follows at September 30, 2019 and 2018:

	2019	2018
Charitable Remainder Unitrusts	\$ 9,754	\$ 9,093
Split-Interest Annuity Agreements	3,427	3,862
Fiduciary Assets	13,181	12,955
Annuity and Trust Obligations	(2,850)	(3,145)
Fiduciary Assets, Net of Annuity and Trust Obligations	<u>\$ 10,331</u>	<u>\$ 9,810</u>

The composition of charitable remainder unitrusts for which FFH serves as trustee was as follows at September 30, 2019 and 2018:

	2019	2018
Cash and Cash Equivalents	\$ 24	\$ 67
Mutual Funds	-	-
Fixed Income Investments	2,966	2,878
Equity Investments	976	1,042
Other	133	159
Total	<u>\$ 4,099</u>	<u>\$ 4,146</u>

Charitable remainder trusts for which FFH is not serving as a trustee were approximately \$5,655 and \$4,947 at September 30, 2019 and 2018, respectively.

The composition of split-interest annuity agreements was as follows at September 30, 2019 and 2018:

	2019	2018
Fixed Income Investments	\$ 1,667	\$ 1,798
Equity Investments	1,760	2,064
Total	<u>\$ 3,427</u>	<u>\$ 3,862</u>

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
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NOTE 6 ACCRUED EXPENSES AND OTHER LIABILITIES

Included in accrued expenses and other liabilities are reserves for paid and unpaid claims relating to SF, a captive insurance company. The following table summarizes the activity in the reserve accounts for the years ended September 30, 2019 and 2018:

	2019	2018
Net Balance, Beginning of Year	\$ 6,234	\$ 6,784
Incurred in Current Year	(544)	4,009
Change in Prior Year Reserve Estimates	(56)	(4,559)
Net Balance, End of Year	\$ 5,634	\$ 6,234

SF uses actuarial techniques principally based upon historical payment patterns to estimate unpaid claims. These estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Management believes that these reserves are adequate at September 30, 2019 and 2018.

NOTE 7 LONG-TERM DEBT

Long-term debt at September 30, 2019 and 2018 consisted of the following:

	2019	2018
Revenue Refunding Bonds - Series 2008A, maturing on October 1, 2028; interest payable monthly at variable rates, 0.83% at September 30, 2017	\$ 34,720	\$ 36,000
Healthcare Revenue Refunding Bonds - Series 2009C, maturing on October 1, 2029; interest payable at a fixed rate between 2.00% and 5.05%	845	5,440
Healthcare Revenue Refunding Bonds - Series 2014A, maturing on October 1, 2029; interest payable monthly at 2.61%	18,160	18,160
Healthcare Revenue Refunding Bonds - Series 2017A, maturing on October 1, 2039; interest payable monthly at 79% of one-month LIBOR plus 0.57%	38,090	38,090
Healthcare Revenue Refunding Bonds - Series 2017B, maturing on October 1, 2028; interest payable monthly at 79% of one-month LIBOR plus 0.64%	29,630	29,630
Healthcare Revenue Refunding Bonds - Series 2017C, maturing on October 1, 2039; interest payable monthly at 79% of one-month LIBOR plus 0.70%	45,105	45,225

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
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NOTE 7 LONG-TERM DEBT (CONTINUED)

	2019	2018
Healthcare Revenue Refunding Bonds - Series 2017D, maturing on October 1, 2032; interest payable monthly at 81.5% of one-month LIBOR plus 0.49%	\$ 28,590	\$ 28,590
Total Long-Term Debt	195,140	201,135
Less:		
Unamortized Discount on Series 2009C	-	(23)
Deferred Financing Costs	(630)	(713)
Current Portion of Long-Term Debt	(14,368)	(13,896)
Long-Term Debt, Less Current Portion, Net of Deferred Financing Costs	\$ 180,142	\$ 186,503

Series 2008A Bonds

In December 2008, FirstHealth issued \$75,015 of Series 2008A variable rate tax-exempt revenue refunding bonds (Series 2008A Bonds). The proceeds were used to refund the then outstanding maturities of the Series 1998 and 2003 Bonds.

Principal and interest payments on the Series 2008A Bonds are supported by a Stand-By Bond Purchase Agreement (SBPA) provided by a bank. As of September 30, 2019 and 2018 the SBPA supported 100% of the outstanding maturities plus accrued interest. The Series 2008A Bonds are subject to mandatory redemption beginning in fiscal year 2010 through 2024.

Series 2009C Bonds

In December 2009, FirstHealth issued \$54,500 of Series 2009C fixed rate tax-exempt revenue refunding bonds (Series 2009C Bonds). The proceeds were used to refund the entire outstanding balance of the then outstanding Series 2008B Bonds, \$20,185 of the then outstanding balance of the Series 2002 Bonds, and \$4,865 of the then outstanding balance of the Series 2009B Bonds. The Series 2009C Bonds are subject to mandatory redemption beginning in 2011 through 2029.

In July 2014, a portion of the outstanding balance of the Series 2009C Bonds was refunded with a portion of the proceeds of the Series 2014A Bonds (see below).

Series 2014A Bonds

In July 2014, FirstHealth issued \$18,160 of Series 2014A variable rate tax-exempt revenue refunding bonds (Series 2014A Bonds). The proceeds were used to refund \$17,530 of the outstanding maturities of the Series 2009C Bonds. The Series 2014A Bonds are subject to mandatory redemption in 2024 and 2029. The Series 2014A Bonds bear interest at a fixed rate of 2.61% to a put date of July 2024.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
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NOTE 7 LONG-TERM DEBT (CONTINUED)

Series 2017A Bonds

In August 2017, FirstHealth issued \$38,090 of Series 2017A variable rate tax-exempt revenue refunding bonds (Series 2017A Bonds). The proceeds were used to refund \$40,830 of the then outstanding balance of the Series 2009D Bonds. Through December 2017, the Series 2017A Bonds bore interest at 68% of the one-month LIBOR plus 0.60%. Effective January 1, 2018, with passage of the Tax Reform Act, the interest rate automatically increased to 80% of one-month LIBOR plus 0.736%. In May 2018, the 2017A Bonds were amended reducing the variable interest rate to 79% of one-month LIBOR plus 0.5688% to a put date of August 2027.

Series 2017B Bonds

In August 2017, FirstHealth issued \$29,630 of Series 2017B variable rate tax-exempt revenue refunding bonds (Series 2017B Bonds). The proceeds were used to refund \$29,535 of the then outstanding balance of the Series 2010 Bonds. Through December 2017, the Series 2017B Bonds bore interest at 68% of the one-month LIBOR plus 0.64%. Effective January 1, 2018, with passage of the Tax Reform Act, the interest rate automatically increased to 80% of one-month LIBOR plus 0.784%. In May 2018, the 2017B Bonds were amended reducing the variable interest rate to 79% of one-month LIBOR plus 0.6399% to maturity of the bond.

Series 2017C Bonds

In October 2017, FirstHealth issued \$45,225 of Series 2017C variable rate tax-exempt revenue refunding bonds (Series 2017C Bonds). The proceeds were used to refund \$45,130 of the then outstanding balance of the Series 2012A Bonds. Through December 2017, the Series 2017C Bonds bore interest at 68% of the one-month LIBOR plus 0.68%. FirstHealth incurred a loss of approximately \$1,335 on this refunding. Effective January 1, 2018, with passage of the Tax Reform Act, the interest rate automatically increased to 80% of one-month LIBOR plus 0.840%. In May 2018, the 2017A Bonds were amended reducing the variable interest rate to 79% of one-month LIBOR plus 0.6952% to a put date of October 2029.

Series 2017D Bonds

In September 2017, FirstHealth issued \$28,590 of Series 2017D variable rate tax-exempt revenue refunding bonds (Series 2017D Bonds). The proceeds were used to refund \$28,435 of the then outstanding balance of the Series 2012B Bonds. Through December 2017, the Series 2017D Bonds bore interest at 67% of the one-month LIBOR plus 0.40% to a put date of September 2022. Effective January 1, 2018, with passage of the Tax Reform Act, the interest rate automatically increased to 81.5% of one-month LIBOR plus 0.49%.

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NOTE 7 LONG-TERM DEBT (CONTINUED)

Series 2017D Bonds (Continued)

The obligations of FirstHealth are evidenced by loans with the North Carolina Medical Care Commission and a Master Trust Indenture with the trustee. In accordance with the bond indenture agreements, the bonds are general, unsecured obligations of FirstHealth. FirstHealth has covenants indicating they will cause each restricted affiliate, as defined in the agreement, to pay, loan, or otherwise transfer to FirstHealth such amounts as are necessary to make bond payments due under the loan agreement. The bond indenture also requires FirstHealth to cause the restricted affiliates to comply with certain covenants, the most restrictive of which requires the maintenance of a debt service coverage ratio. Management believes FirstHealth is in compliance with these covenants at September 30, 2019 and 2018.

FirstHealth has \$6,607 and \$496 at September 30, 2019 and 2018, respectively, in debt service reserve funds to meet scheduled principal, interest and other payments. These amounts are included in assets limited as to use in the accompanying consolidated balance sheets.

Scheduled principal payments on long-term debt for years subsequent to September 30, 2019, are as follows:

	Series <u>2008A Bonds</u>	Series <u>2009C Bonds</u>	Series <u>2014A Bonds</u>	Series <u>2017A Bonds</u>	Series <u>2017B Bonds</u>	Series <u>2017C Bonds</u>	Series <u>2017D Bonds</u>	Total Principal
2020	\$ 5,300	\$ 845	\$ -	\$ -	\$ -	\$ 105	\$ -	\$ 6,250
2021	5,520	-	920	-	-	75	-	6,515
2022	5,755	-	930	-	-	65	-	6,750
2023	5,990	-	985	-	-	140	-	7,115
2024	6,240	-	1,025	-	-	110	-	7,375
Thereafter	5,915	-	14,300	38,090	29,630	44,610	28,590	161,135
	<u>\$ 34,720</u>	<u>\$ 845</u>	<u>\$ 18,160</u>	<u>\$ 38,090</u>	<u>\$ 29,630</u>	<u>\$ 45,105</u>	<u>\$ 28,590</u>	<u>\$ 195,140</u>

Variable Rate Bonds

Interest rates on the variable rate bonds are indexed to a current short-term market rate. In addition, a demand feature allows the bondholders to give seven days' notice to require the bonds be remarketed at par value plus accrued interest. In the unlikely event remarketing fails, FirstHealth can draw upon its SBPAs with financial institutions to repay the bondholders.

The SBPA on the Series 2008A Bonds expires on December 9, 2021. The Series 2008A Bonds are indexed to a current short-term market rate. In addition, a demand feature allows bondholders to give seven days notice to require the bonds be remarketed at par value plus accrued interest. In the unlikely event that remarketing fails, FirstHealth can draw upon its SBPA with a financial institution to repay the bondholders. If FirstHealth draws on the SBPA, it will be obligated under the SBPA to repay each tender advance, including interest at the Bank Bond Rate, as defined (approximately 5.5% at September 30, 2019) in equal monthly principal installments, the first such installment being payable on the first day of the first calendar month which occurs at least 90 days following the purchase date and on each such date thereafter so that bonds are paid in full no later than the expiration date.

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NOTE 7 LONG-TERM DEBT (CONTINUED)

Variable Rate Bonds (Continued)

In accordance with U.S. generally accepted accounting principles, maturities of long-term debt are reported in the consolidated balance sheets at September 30, 2019 and 2018, under the terms of the SBPA, as follows:

	Series 2008A Bonds	Series 2009C Bonds	Series 2014A Bonds	Series 2017A Bonds	Series 2017B Bonds	Series 2017C Bonds	Series 2017D Bonds	Total Principal
2020	\$ 13,418	\$ 845	\$ -	\$ -	\$ -	\$ 105	\$ -	\$ 14,368
2021	17,889	-	920	-	-	75	-	18,884
2022	3,413	-	930	-	-	65	-	4,408
2023	-	-	985	-	-	140	-	1,125
2024	-	-	1,025	-	-	110	-	1,135
Thereafter	-	-	14,300	38,090	29,630	44,610	28,590	155,220
	<u>\$ 34,720</u>	<u>\$ 845</u>	<u>\$ 18,160</u>	<u>\$ 38,090</u>	<u>\$ 29,630</u>	<u>\$ 45,105</u>	<u>\$ 28,590</u>	<u>\$ 195,140</u>

NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS

In March 2002, FirstHealth entered into a 20-year variable-to-variable interest rate swap agreement to manage the interest rate risk on variable rate indebtedness issued in March 2002. Under the terms of the swap agreement, FirstHealth receives a variable rate equal to 74.25% of one-month LIBOR and pays a variable rate equal to the BMA Municipal Swap Index rate, a proxy for high-grade tax-exempt rates, on a notional amount of \$90,000. In October 2018, FirstHealth amended the receipt leg of the agreement to 74.25% of 10-year LIBOR plus 0.0725%. Settlement with the counter-party occurs on a quarterly basis. The termination date on the swap is April 1, 2034. The net settlement received on the swap agreement during the years ended September 30, 2019 and 2018 was \$372 and \$379, respectively, and is included in interest expense.

In April 2003, FirstHealth entered into a 15-year variable to fixed interest rate swap agreement to manage the interest rate risk on variable rate indebtedness issued in April 2003. Under the terms of the swap agreement, FirstHealth receives a variable rate equal to the rate paid on the Series 2003 Bonds, or 72% of one-month LIBOR and pays a fixed rate of 3.25% per annum on a notional amount of \$36,550. The swap agreement provides that the notional amount will be reduced in the same amount and at the same time the principal of the Series 2003 Bonds were originally scheduled to be paid upon redemption or at maturity. The net settlement amount paid on the swap agreement during the year ended 2018 was \$(74), and is included in interest expense. The termination date of the swap agreement was October 1, 2018.

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NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

In March 2005, FirstHealth entered into a 23-year fixed spread basis swap (FSBS) agreement as an alternative to refunding the then outstanding Series 1998 Bonds and to reduce the expected interest expense of that series. Under the terms of the swap agreement, FirstHealth receives a variable rate equal to 62.4% of one-month LIBOR plus 0.78% and pays a variable rate based on the BMA Municipal Swap Index on a notional amount of \$74,195. The swap agreement provides the notional amount will be reduced in the same amount and at the same time as the principal of the Series 1998 Bonds were originally scheduled to be paid upon redemption or at maturity. In March 2014, FirstHealth eliminated the amortization of the notional amount, amended the receipt leg to 62.4% of one-month LIBOR plus 1.0% and extended the termination date on the swap from October 1, 2028 to April 1, 2034. The net settlement amounts received on the swap agreement during the years ended September 30, 2019 and 2018 was \$666 and \$584, respectively, and is included in interest expense.

In July 2007, FirstHealth entered into a 20-year variable to fixed interest rate swap (2007 Fixed Payer Swap) agreement to lock in a current fixed interest rate on bonds to be issued in the future to refund the then outstanding Series 1998 Bonds and to reduce the expected interest expense associated with those refunding bonds. The transaction became effective December 31, 2008. Under the terms of the swap agreement, FirstHealth will receive 61.8% of the one-month LIBOR plus 0.31% and will pay a fixed rate of 3.916% per annum on a notional amount of \$74,890. The swap agreement provides that the notional amount will be reduced in the same amount and at the same time the principal on the Series 1998 Bonds were originally scheduled to be paid upon redemption or at maturity. Settlement with the counterparty will occur semi-annually after the effective date. The termination date of the swap agreement is October 1, 2028.

In January 2010, the 2007 Fixed Payer Swap was amended and restated into two transactions: (1) an interest rate swap in the notional amount of \$44,600, with a termination date of October 1, 2024, on which FirstHealth will receive 61.8% of the one-month LIBOR plus 0.31% and will pay a fixed rate of 3.916% per annum, and (2) an interest rate swap in the notional amount of \$29,400, with a termination date of October 1, 2028, on which FirstHealth will receive 61.8% of the one-month LIBOR plus 1.20% and will pay a fixed rate of 4.82% per annum. During 2011, FirstHealth amended the termination dates of the swap agreements to October 2, 2024 and October 1, 2028.

During November 2010, \$23,500 of the \$44,600 notional amount of the 2007 Fixed Payer Swap was terminated for a final settlement amount paid of \$(3,545). The net settlement amount paid on the remaining \$16,036 notional swap during the years ended September 30, 2019 and 2018 was \$340 and \$(416), respectively, and is included in interest expense in the accompanying consolidated statements of operations.

Also during November 2010, \$29,400 of the notional portion of the 2007 Fixed Payer Swap was amended so that FirstHealth will receive 61.8% of one-month LIBOR plus 1.20% and will pay a fixed rate of 3.849% per annum. The settlement amount paid for the amended transaction was \$(3,583). The net settlement amount paid on the amended swap during the years ended September 30, 2019 and 2018 was \$336 and \$(449), respectively, and is included in interest expense in the accompanying consolidated statements of operations.

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NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

In June 2016, FirstHealth entered into a 23-year variable to fixed interest rate swap (2016 Fixed Payer Swap) agreement to lock in a current fixed interest rate on bonds to be issued in the future to refund the currently outstanding Series 2012A Bonds and to reduce the expected interest expense associated with those refunding bonds. The transaction became effective October 1, 2017. Under the terms of the swap agreement, FirstHealth will receive 67.0% of the one-month LIBOR and will pay a fixed rate of 1.3058% per annum on a notional amount of \$45,080. The swap agreement provides that the notional amount will be reduced in the same amount and at the same time the principal on the Series 2012A Bonds were originally scheduled to be paid upon redemption or at maturity. The termination date of the swap agreement is October 1, 2039. The net settlement amounts paid on the amended swap during the years ended September 30, 2019 and 2018 were \$(140) and \$(60), respectively, and are included in interest expense in the accompanying consolidated statements of operations.

The total estimated fair value of the swaps as of September 30, 2019 and 2018 were assets of \$5,475 and \$7,673, respectively. These amounts have been included in other long-term liabilities in the consolidated balance sheets. The change in fair value were gains (losses) of \$(2,197) and \$4,284 for the years ended September 30, 2019 and 2018, respectively, and are included in unrealized gains on derivative financial instruments in the consolidated statements of operations. FirstHealth has not designated these derivatives as hedging instruments for financial reporting purposes.

NOTE 9 OPERATING LEASES

FirstHealth leases certain facilities and equipment under operating lease agreements. Management believes future minimum rental payments at September 30, 2019 under these agreements with initial or remaining noncancelable lease terms in excess of one year are not significant. Rent expense for all operating leases amounted to approximately \$1,700 and \$2,837 for the years ended September 30, 2019 and 2018, respectively.

NOTE 10 PATIENT SERVICE REVENUE

Patient care service revenue is reported at the amount that reflects the consideration to which FirstHealth expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, FirstHealth bills the patients and third-party payers several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
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NOTE 10 PATIENT SERVICE REVENUE (CONTINUED)

Performance obligations are determined based on the nature of the services provided by FirstHealth. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. FirstHealth believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving services in various care settings throughout FirstHealth. FirstHealth measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and FirstHealth does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, FirstHealth has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

FirstHealth determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with FirstHealth's policy, and/or implicit price concessions provided to uninsured patients. FirstHealth determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. FirstHealth determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payers typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payers follows.

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NOTE 10 PATIENT SERVICE REVENUE (CONTINUED)

Medicare – Inpatient and outpatient services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates. These rates vary according to patient classification systems based on clinical, diagnostic, and other factors. Additionally, payments for certain other reimbursable items are made at tentative rates, with final settlements determined after submission of annual cost reports and audits by the Medicare fiscal intermediary. As a result of provisions of the Affordable Care Act passed in 2010, hospitals treating Medicare patients are subject to certain new provisions that penalize (or in some cases, reward) them based on various quality and cost parameters. These provisions include Value-Based Purchasing, Readmissions Penalties, and Hospital-Acquired Conditions Penalties (beginning 2015). The purpose of these changes is to incentivize hospitals to deliver the right care, at the right time, in the right setting. Medicare cost reports have been audited by the fiscal intermediary for cost report years through September 30, 2015. Revenue from the Medicare program totaled approximately 50% of FirstHealth's patient service revenue for both the years ended September 30, 2019 and 2018.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid based on cost reimbursement methodologies. FirstHealth is reimbursed at tentative rates with final settlement determined after it submits its annual Medicaid cost reports. Medicaid cost reports for MRH have been audited by the fiscal intermediary for cost report years through September 30, 2015. Medicaid cost reports for MMH have been audited by the fiscal intermediary for cost report years through September 30, 2016. Revenue from the Medicaid program totaled approximately 6% of FirstHealth's patient service revenue for both the years ended September 30, 2019 and 2018.

FirstHealth receives Medicaid Reimbursement Initiative funds from Medicaid under the North Carolina Medicaid Reimbursement Initiative Program (the Program). FirstHealth recognized \$1,026 and \$922 of Medicaid Reimbursement Initiative funds as patient service revenue during the years ended September 30, 2019 and 2018, respectively. As of September 30, 2019 and 2018, FirstHealth reserved Medicaid Reimbursement Initiative payments of \$269 and \$310, respectively, which are included in estimated settlements due to third-party payers in the accompanying consolidated balance sheets. Management continues to evaluate the approval and settlement process relating to the Program and records reserves in accordance with such evaluation.

The Program allows FirstHealth to receive additional annual Medicaid funding for its disproportionate share costs. In March 2012, the Center for Medicare and Medicaid Services (CMS) approved a new disproportionate share plan for North Carolina. This new plan covers all non-state government hospitals and private hospitals in North Carolina, except for the UNC Health Care System affiliated hospitals (the GAP Plan) and is essentially a supplemental upper payment limit plan to the existing Program.

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NOTE 10 PATIENT SERVICE REVENUE (CONTINUED)

Under the provisions of the GAP Plan, FirstHealth is assessed an amount by the North Carolina Medicaid program, to support the non-Federal share of the payments. In return, Medicaid makes an upper payment limit payment to FirstHealth. When both amounts are reasonably estimable and probable of payment, FirstHealth recognizes the revenues related to the GAP Plan as patient service revenue and the related assessment as other operating expenses.

Management continues to evaluate the approval and settlement process relating to the GAP Plan and determines if reserves are necessary.

The following table summarizes the benefit recognized by FirstHealth related to these plans for the years ended September 30:

	2019	2018
GAP Plan Payment	\$ 30,330	\$ 26,337
Assessment Expense	(15,785)	(13,474)
Total Net Benefit	14,545	12,863
 Reserve for Future Settlements	 (727)	 (643)
Total Benefit Recognized	\$ 13,818	\$ 12,220

At September 30, 2019 and 2018, FirstHealth reserved GAP Plan payments received of \$2,017 and \$1,868, respectively, which are included in estimated settlements due to third-party payers in the accompanying consolidated balance sheets.

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

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge FirstHealth’s compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon FirstHealth. In addition, the contracts FirstHealth has with commercial payers also provide for retroactive audit and review of claims.

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NOTE 10 PATIENT SERVICE REVENUE (CONTINUED)

Settlements with third-party payers for retroactive adjustments due to audits, reviews or investigations are considered variable and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and FirstHealth's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. In 2019 and 2018, FirstHealth recorded a decrease in patient revenue of \$4,080 and an increase in patient revenue of \$10,981, respectively, for adjustments arising from changes in transaction price, as a result of changes in estimates and settlements of prior year cost reports.

Generally patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. FirstHealth also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. FirstHealth estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Additional revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments were not considered material for the years ended September 30, 2019 and 2018. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with FirstHealth's mission, care is provided to patients regardless of their ability to pay. Therefore, FirstHealth has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts FirstHealth expects to collect based on its collection history with those patients.

Patients who meet FirstHealth's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
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NOTE 10 PATIENT SERVICE REVENUE (CONTINUED)

The composition of patient care service revenue by primary payer for the years ended September 30 is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 315,339	\$ 290,712
Medicaid	40,700	39,254
Managed Care	245,013	215,509
Uninsured	2,634	2,650
Other	26,229	25,008
Total	<u>\$ 629,915</u>	<u>\$ 573,133</u>

Revenue from patient's deductibles and coinsurance are included in the categories presented above based on the primary payer.

The nature, amount, timing and uncertainty of revenue and cash flows are affected by the factors such as payers, geography, service lines, method of reimbursement, and timing of when revenue is recognized.

The composition of patient care service revenue based on its lines of business, method of reimbursement, and timing of revenue recognition for the years ended September 30 as follows:

	<u>2019</u>	<u>2018</u>
Services Lines:		
Acute Care	\$ 539,165	\$ 491,129
Professional Services	64,252	57,549
Home Health & Hospice	17,384	15,207
Other	9,114	9,248
Total	<u>\$ 629,915</u>	<u>\$ 573,133</u>

Acute care, professional services, and home health and hospice are all reimbursed on a fee for service basis and are recognized as revenue over time.

FirstHealth has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to FirstHealth's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. However, FirstHealth does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

FirstHealth has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that FirstHealth otherwise would have recognized is one year or less in duration.

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NOTE 11 CHARITY CARE

FirstHealth defines and measures its investment in and partnership with the community primarily through its financial assistance and community benefit programs. These programs are unreimbursed or not financially self-sufficient.

FirstHealth provides care to patients who meet certain criteria under its credit collections policy without charge. Key elements used to determine eligibility include a patient's demonstrated inability to pay based on family size and household income related to Federal income poverty guidelines. FirstHealth's financial assistance guidelines are 200% (with a sliding scale to 360%) of the Federal Poverty Guidelines as published. Because FirstHealth does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as revenue.

FirstHealth has estimated its direct and indirect costs of providing care to indigent patients under its credit and collections policy. In order to estimate the cost of providing such care, management calculated a cost-to-charge ratio from internal financial data to FirstHealth's gross charge rate. The cost-to-charge ratio is applied to the charity care charges foregone to calculate the estimated direct and indirect cost of providing charity care. The total estimated cost of the aforementioned programs and services that benefit the community was \$14,498 and \$19,420 for the years ended September 30, 2019 and 2018, respectively.

NOTE 12 NET ASSETS

Net assets with donor restrictions consisted of the following at September 30:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specific Purpose:		
Health Education	\$ 2,034	\$ 2,319
Health Care Services	7,105	7,297
	<u>9,139</u>	<u>9,616</u>
Subject to Passage of Time:		
Fiduciary Assets	10,331	9,810
Subject to FirstHealth Spending Policy and Appropriation		
Endowment Funds	<u>21,949</u>	<u>21,622</u>
	<u>\$ 41,419</u>	<u>\$ 41,048</u>

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NOTE 12 NET ASSETS (CONTINUED)

During the years ended September 30, 2019 and 2018, net assets were released from donor restrictions by purchasing equipment or incurring expenses satisfying the restricted purposes as follows:

	<u>2019</u>	<u>2018</u>
Donor Restrictions Accomplished:		
Health Education	\$ 669	\$ 390
Health Care Services	2,440	1,924
	<u>3,109</u>	<u>2,314</u>
Equipment Acquired and Placed in Service	190	197
Time Restrictions Expired:		
Termination of Annuity or Trust	373	1,397
Release for Appropriated Endowment Returns	<u>587</u>	<u>562</u>
Total Net Assets Release from Restrictions	<u>\$ 4,259</u>	<u>\$ 4,470</u>

Endowment Funds

FFH has several endowment funds, the income of which may be expended for specific purposes. Effective October 1, 2008, FirstHealth adopted the provisions of the financial accounting standard for endowments of not-for-profit organizations (the UPMIFA Standard) with respect to the accounting for the corpus and income recognition on endowment funds as follows:

Corpus

Endowment funds include: (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment. FirstHealth consults with legal counsel on the interpretation of UPMIFA with regard to preserving the fair value of original gifts as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

Income

Income earned on endowment funds that is not required by the donor to be added to the corpus of the endowment is classified as net assets with restrictions until those amounts are appropriated for expenditure by FirstHealth in a manner consistent with the standard of prudence prescribed in UPMIFA.

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NOTE 12 NET ASSETS (CONTINUED)

Endowment Funds (Continued)

FirstHealth considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of FirstHealth and the donor restricted endowment fund
- General economic conditions
- The expected total return from income and the appreciation of investments
- Other resources of FirstHealth
- The investment policy of FirstHealth

Investment Objectives and Strategies

FirstHealth has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that FirstHealth must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve and grow capital, strive for consistent absolute returns, preserve purchasing power by striving for long-term returns which either match or exceed the set payout, fees and inflation without putting the principal value at imprudent risk, and diversify investments consistent with commonly accepted industry standard to minimize the risk of large losses.

To satisfy its long-term rate of return objectives, FirstHealth relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Management targets a diversified asset allocation that meets FirstHealth's long-term rate-of-return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

Appropriation Policy

FirstHealth's appropriation or spending policy is consistent with its objective to preserve the fair value of the original gift of the endowment assets held in perpetuity as well, as to provide additional real growth through new gifts and investment return.

Deficiencies

From time to time, the fair value of assets in endowment funds may fall below the required level stipulated by the donor. Deficiencies of this nature are reported in net assets with donor restrictions. If future investment returns do not alleviate the deficiency, FirstHealth may be required to contribute additional amounts to the fund. There were no deficiencies at September 30, 2019 and 2018.

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NOTE 12 NET ASSETS (CONTINUED)

Endowment Funds (Continued)

The following table summarizes endowment fund activity, including contributions, income earned, appropriations and deficiencies, for the years ended September 30, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets, Year Ended September 30, 2017	\$ -	\$ 19,659	\$ 19,659
Contributions	-	1,067	1,067
Investment Income	-	1,011	1,011
Appropriations for Expenditures	-	(115)	(115)
Net Assets, Year Ended September 30, 2018	-	21,622	21,622
Contributions	-	248	248
Investment Income	-	406	406
Appropriations for Expenditures	-	(327)	(327)
Net Assets, Year Ended September 30, 2019	<u>\$ -</u>	<u>\$ 21,949</u>	<u>\$ 21,949</u>

NOTE 13 RETIREMENT AND SAVINGS PLANS

FirstHealth has a Retirement Growth Plan for eligible employees. In order to be eligible for both the annual and the discretionary contributions in any given year, an employee must: (1) have completed one full year of service, (2) have received pay for at least 1,000 hours of service during the calendar year, and (3) be actively employed on the last non-holiday weekday of the year. If an employee retires, becomes disabled or passes away before the end of the year, the contribution will still be made to their account for that year.

The Retirement Growth Plan allows eligible employees to accumulate contributions in a special account to be used for retirement. FirstHealth contributes to the employee's account an amount based on the employee's pay and FirstHealth's performance. There are two parts to the annual FirstHealth contribution: (1) the annual plan contribution and (2) the discretionary contribution. The annual plan contribution is an amount equal to 1% of the employee's annual earnings. This will be added to the employee's Retirement Growth Plan account at the end of each year. In addition, the employee may receive a discretionary contribution from FirstHealth based on FirstHealth's performance for that year.

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NOTE 13 RETIREMENT AND SAVINGS PLANS (CONTINUED)

FirstHealth maintains a Matching Savings Plan organized under the provisions of Section 403(b) of the Internal Revenue Code of 1986, as amended. The Matching Savings Plan uses tax-deferred contributions as a means for employees to accumulate additional savings for retirement.

Employees are eligible to contribute to the plan as soon as they receive their first pay check. As a participant in the plan, employees may save up to 20% of their annual income (or less if IRS maximum contributions apply) on a pretax basis. When an employee contributes to the plan, FirstHealth will also match up to 4% of annual compensation at the end of each year. The matching contribution will depend on the employee's contribution amount and eligible years of service.

FirstHealth has accrued \$89 and \$363 at September 30, 2019 and 2018, respectively, for a liability associated with a defined benefit supplemental executive retirement plan. This liability is included in other liabilities in the consolidated balance sheets.

FirstHealth's expense under these plans totaled \$12,525 and \$8,020 for the years ended September 30, 2019 and 2018, respectively.

NOTE 14 CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the entities to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, and investments in debt securities. FirstHealth places its cash and cash equivalents, the balances of which may exceed the federally insured limits, with high credit quality financial institutions.

FirstHealth provides patient services without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to the large number of patients served and the formalized agreements with third-party payers. FirstHealth has significant accounts receivable (approximately 38% and 43% at September 30, 2019 and 2018, respectively) whose collectability or realizability is dependent upon the performance of certain governmental programs, primarily Medicare and Medicaid. Management does not believe there are significant credit risks associated with these government programs. With respect to the self-pay portion of accounts receivable, an allowance for uncollectible accounts is provided in an amount equal to the estimated expected losses to be incurred during the collection of the receivables. The allowance is based on historical collection experience and a review of the status of the existing receivables.

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NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS

FirstHealth's financial instruments consist primarily of cash and cash equivalents, patient receivables, other accounts receivable, marketable securities, accounts payable, accrued expenses, derivative financial instruments and short-term and long-term debt. The carrying value of these items, excluding investments, derivative financial instruments and long-term debt, approximates fair value due to their short maturity. Investments are recorded at fair value, determined using quoted market prices. At September 30, 2019 and 2018, the estimated fair value of long-term debt, determined by broker quotes, was \$194,555 and \$200,531, respectively, compared to a carrying value of \$194,510 and \$200,399, respectively. These fair value measurements are measured using Level 3 inputs under the fair value hierarchy.

NOTE 16 FAIR VALUE MEASUREMENTS

FirstHealth uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how FirstHealth measures fair value refer to Note 2 – Summary of Significant Accounting and Reporting Policies. The following table presents the fair value hierarchy for the balances of the assets and liabilities of FirstHealth measured at fair value on a recurring basis as of September 30, 2019:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Mutual Funds	\$ 6,207	\$ -	\$ -	\$ 6,207
Fixed Income	242,264	-	-	242,264
Equity Investments	295,455	-	-	295,455
U.S. Gov. Obligations	3,918	-	-	3,918
Alternative Investments	-	-	61,280	61,280
Total Investments	<u>547,844</u>	<u>-</u>	<u>61,280</u>	<u>609,124</u>
Fiduciary Assets:				
Mutual Funds	-	-	-	-
Fixed Income	4,633	-	-	4,633
Equity Investments	2,736	-	-	2,736
Alternative Investments	-	-	133	133
Insurance Contracts	-	-	-	-
Other	-	-	5,655	5,655
Total Fiduciary Assets	<u>7,369</u>	<u>-</u>	<u>5,788</u>	<u>13,157</u>
Total Assets	<u>\$ 555,213</u>	<u>\$ -</u>	<u>\$ 67,068</u>	<u>\$ 622,281</u>
Liabilities:				
Annuity and Trust Obligations	\$ -	\$ 2,850	\$ -	\$ 2,850
Derivative Financial Instruments	-	(5,475)	-	(5,475)
Total Liabilities	<u>\$ -</u>	<u>\$ (2,625)</u>	<u>\$ -</u>	<u>\$ (2,625)</u>

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NOTE 16 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the fair value hierarchy for the balances of the assets and liabilities of FirstHealth measured at fair value on a recurring basis as of September 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Mutual Funds	\$ 5,888	\$ -	\$ -	\$ 5,888
Fixed Income	201,796	-	-	201,796
Equity Investments	287,008	-	-	287,008
U.S. Gov. Obligations	4,011	-	-	4,011
Alternative Investments	-	-	56,490	56,490
Total Investments	<u>498,703</u>	<u>-</u>	<u>56,490</u>	<u>555,193</u>
Fiduciary Assets:				
Mutual Funds	-	-	-	-
Fixed Income	4,676	-	-	4,676
Equity Investments	3,106	-	-	3,106
Alternative Investments	-	-	159	159
Insurance Contracts	-	-	-	-
Property	-	-	-	-
Other	-	-	4,947	4,947
Total Fiduciary Assets	<u>7,782</u>	<u>-</u>	<u>5,106</u>	<u>12,888</u>
Total Assets	<u>\$ 506,485</u>	<u>\$ -</u>	<u>\$ 61,596</u>	<u>\$ 568,081</u>
Liabilities:				
Annuity and Trust Obligations	\$ -	\$ 3,145	\$ -	\$ 3,145
Derivative Financial Instruments	-	(7,673)	-	(7,673)
Total Liabilities	<u>\$ -</u>	<u>\$ (4,528)</u>	<u>\$ -</u>	<u>\$ (4,528)</u>

The following table presents changes in alternative investments measured at fair value using Level 3 inputs on a recurring basis for the years ended September 30, 2019 and 2018:

Balance at September 30, 2017	\$ 64,750
Total Gains (Losses) Included in:	
Deficiency of Revenues Over Expenses	225
Changes in Net Assets	3,745
Purchases, Sales, Settlements, Net	(6,411)
Transfers In (Out)	(713)
Balance at September 30, 2018	<u>61,596</u>
Total Gains (Losses) Included in:	
Deficiency of Revenues Over Expenses	12
Changes in Net Assets	3,197
Purchases, Sales, Settlements, Net	2,369
Transfers In (Out)	(106)
Balance at September 30, 2019	<u>\$ 67,068</u>

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NOTE 16 FAIR VALUE MEASUREMENTS (CONTINUED)

The alternative investments seek both current income and long-term capital appreciation through investing in underlying funds that acquire, manage, and dispose of commercial real estate properties as well as hedge funds and limited liability corporations. The value of these investments has been estimated based on the underlying account balances subject to the fund manager's review. The value of the alternative investments is calculated on a month lag.

The following tables set forth additional disclosures for the fair value measurement of certain investments measured at net asset value as of September 30, 2019:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Multi-Strategy Hedge Funds	\$ 17,002	\$ -	Qrtly/Semi-Annual	65-95 Days
Real Estate Funds	21,256	-	Quarterly	65 Days
Structured Credit Funds	19,175	-	Quarterly	65 Days
Private Equity	3,847	12,356	N/A	N/A
Total	<u>\$ 61,280</u>	<u>\$ 12,356</u>		

Multi-strategy hedge funds use a wide range of global strategies, including long/short equity, event driven, distressed securities, long/short credit, merger/risk arbitrage, capital structure arbitrage, convertible arbitrage, mortgage backed securities and global macro. Hedge funds generally employ leverage and short selling and can invest in a wide variety of both public and private securities including equities, fixed income, commodities, private placements, currencies, real estate, loans, derivatives and special situation investments.

Real estate funds include investments in public real estate equity investment trusts, private real estate, direct investments in properties, land mortgages, loans, public natural resource equities and commodities, as well as private and public investments in energy, oil and gas, timber, industrial and precious metals or other hard assets.

Structured credit funds invest in portfolios comprised of collateralized debt obligations (CDOs) including primarily equity and mezzanine debt securities of CDOs and other structured credit investments. In addition to CDOs, the investments may include fixed income securities, loan participations, credit-linked notes, medium term notes, registered and unregistered companies or pooled investment vehicles, and derivative investments such as credit default swaps and total return swaps.

Private equity funds make long-term investments in non-publicly traded companies and assets, including investments in early to late stage high growth private companies, funding for acquisition or re-capitalization of more mature companies, distressed debt, debt and equity investments in real estate projects, and investments in real infrastructure assets.

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NOTE 17 INSURANCE COVERAGE AND RESERVES

SF insures, on a claims-made basis, the professional and general liability risks of FirstHealth and all wholly-owned or controlled affiliates. Under the new structure, FirstHealth absorbs first-dollar risk up to \$1,000 per occurrence or aggregate. In excess of these amounts, SF provides an additional layer of coverage to a total of \$2,000 per occurrence or aggregate. Prior to the formation of SF, FirstHealth was self-insured in an underlying layer of \$3,000 per occurrence and \$9,000 in the aggregate.

Incurred losses under FirstHealth's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate FirstHealth's past experience, as well as other considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries. Reserves for professional liability losses, including SF, totaled \$14,643 and \$16,967 as of September 30, 2019 and 2018, respectively, and are included in accrued expenses and other liabilities in the consolidated balance sheets.

FirstHealth maintains excess professional and general liability coverage from \$3,000 to \$30,000 with commercial carriers available under the provisions of a claims-made policy which expired October 1, 2019, but was renewed effective the same day. The renewed policy will expire on October 1, 2020. To the extent that any claims-made coverage is not renewed or replaced with equivalent insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through FirstHealth's incident reporting system, that any such claims would not have a material effect on FirstHealth's operations or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires.

Members of the medical staff are required to carry professional liability insurance with coverage limits of not less than \$1,000 per occurrence and \$3,000 in the aggregate.

FirstHealth is self-insured with respect to Workers' Compensation coverage, up to a limit of \$350 per individual claim. Reserves for Workers' Compensation losses totaling \$2,168 and \$2,657 as of September 30, 2019 and 2018, respectively, are included in other liabilities in the consolidated balance sheets. Coverage with a third-party is maintained for excess losses in excess of \$350 per claim.

FirstHealth self-insures its medical benefit plan for its employees and is reinsured through FCCIC on the commercial market for amounts over \$325 per claim through December 31, 2014. Effective January 1, 2015, the amount was increased to \$350 per claim. FCCIC supervises and administers the program and acts as FirstHealth's representative. Provisions for expected future payments are accrued based on FirstHealth's experience and include amounts for claims filed and claims incurred but not reported. FirstHealth has established a liability for claims payable totaling \$8,908 and \$12,700 as of September 30, 2019 and 2018, respectively. This liability is included in accrued expenses and other liabilities in the consolidated balance sheets, and includes both the self-funded FirstHealth liability, and the liability for other FCCIC claims under its HMO and Medicare managed care lines of business.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

NOTE 18 COMMITMENTS AND CONTINGENCIES

FirstHealth is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management accrues losses which are considered to be probable and reasonably estimable. In management's judgment, these matters will be resolved without material adverse effect on FirstHealth's future financial position or results from operations.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with these and other laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

NOTE 19 FUNCTIONAL EXPENSES

FirstHealth provides general health care services to residents within its geographic location. The table below presents expenses by both nature and function for the year ended September 30, 2019:

	Health Care Services	Granting Activities	Health Insurance	Total Program Services	Management and General	Total
Salaries and Fringe Benefits	\$ 297,534	\$ 409	\$ 4,672	\$ 302,615	\$ 45,170	\$ 347,785
Supplies	157,047	24	67	157,138	1,033	158,171
Purchased Services	38,151	46	12,670	50,867	21,793	72,660
Depreciation and Amortization	35,006	-	22	35,028	1,715	36,743
Interest	77	-	-	77	4,255	4,332
Other	45,783	2,703	66,764	115,250	35,283	150,533
Total Operating Expenses	<u>\$ 573,598</u>	<u>\$ 3,182</u>	<u>\$ 84,195</u>	<u>\$ 660,975</u>	<u>\$ 109,249</u>	<u>\$ 770,224</u>

The table below presents expenses by both nature and function for the year ended September 30, 2018:

	Health Care Services	Granting Activities	Health Insurance	Total Program Services	Management and General	Total
Salaries and Fringe Benefits	\$ 281,420	\$ 388	\$ 5,109	\$ 286,917	\$ 42,431	\$ 329,348
Supplies	143,183	25	79	143,287	1,208	144,495
Purchased Services	36,113	52	13,395	49,560	22,241	71,801
Depreciation and Amortization	34,356	-	35	34,391	1,617	36,008
Interest	67	-	-	67	3,973	4,040
Other	42,553	1,605	77,040	121,198	28,615	149,813
Total Operating Expenses	<u>\$ 537,692</u>	<u>\$ 2,070</u>	<u>\$ 95,658</u>	<u>\$ 635,420</u>	<u>\$ 100,085</u>	<u>\$ 735,505</u>

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018
(IN \$000s)

NOTE 19 FUNCTIONAL EXPENSES (CONTINUED)

FirstHealth provides general health care services to residents within its geographic location. FFH guides philanthropic initiatives and grants funds supporting FirstHealth's health care mission. FCCIC sells and administers health insurance products.

Occasionally the consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that may be allocated include Depreciation, which are allocated on a square footage basis, as well as salaries and fringe benefits, which are allocated on the basis of time and effort.

NOTE 20 LIQUIDITY

FirstHealth invests cash in excess of short-term requirements in short-term investments. In addition, FirstHealth has long-term fixed income and equity investments which are liquid within one week. Alternative investments are liquid within one year or less.

As of September 30, 2019 and 2018, FirstHealth had working capital of \$54,783 and \$83,815, respectively.

FirstHealth's financial assets available within one year of the consolidated balance sheets date for general expenditures are as follows:

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 36,305	\$ 40,906
Fixed Income Investments	201,867	154,782
Equity Investments	275,117	264,791
Alternative Investments	<u>58,652</u>	<u>54,009</u>
	571,941	514,488
Patient Accounts Receivable	<u>87,760</u>	<u>82,973</u>
Total Assets Available to Meet Liquidity Needs	<u>\$ 659,701</u>	<u>\$ 597,461</u>

NOTE 21 SUBSEQUENT EVENT

Subsequent to year end, FirstHealth agreed to terms to create an insurance affiliation whereby FirstHealth will sell an 80% interest in FCCIC to a third party, leaving FirstHealth as a 20% owner of FCCIC. Because FirstHealth will no longer manage or control FCCIC upon closing, FCCIC will no longer be consolidated as of the closing date.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2019
(IN \$000s)

ASSETS	<u>Restricted Group Consolidated</u>	<u>FirstHealth Physician Group, LLC</u>	<u>FirstHealth Professional Services, Inc.</u>	<u>FirstCarolinaCare Insurance Company, Inc.</u>	<u>StarFirst, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS							
Cash and Cash Equivalents	\$ 31,499	\$ 66	\$ -	\$ 1,930	\$ 122	\$ -	\$ 33,617
Patient Accounts Receivable, Net	83,406	8,491	-	-	-	(4,137)	87,760
Other Receivables	7,718	224	200	3,123	79	-	11,344
Inventories	13,121	-	-	-	-	-	13,121
Prepaid Expenses	6,486	240	-	12	-	-	6,738
Estimated Settlements Due from Third-Party Payers	7,793	-	-	-	-	-	7,793
Due from (to) Affiliates	(5,428)	(5,169)	(221)	(38)	-	10,856	-
Total Current Assets	<u>144,595</u>	<u>3,852</u>	<u>(21)</u>	<u>5,027</u>	<u>201</u>	<u>6,719</u>	<u>160,373</u>
ASSETS LIMITED AS TO USE							
Internally Designated by Board	495,843	-	-	-	23,519	-	519,362
Held by Trustee Under Bond Indenture Agreements	6,607	-	-	-	-	-	6,607
Self-Insurance Reserves	13,475	-	-	-	5,634	-	19,109
Statutory and Capital Insurance Reserves	-	-	-	14,848	-	-	14,848
Held by Foundations	60,647	-	-	-	-	-	60,647
Total Assets Limited as to Use	<u>576,572</u>	<u>-</u>	<u>-</u>	<u>14,848</u>	<u>29,153</u>	<u>-</u>	<u>620,573</u>
INVESTMENTS IN AFFILIATES	99	-	-	-	-	(99)	-
PROPERTY AND EQUIPMENT, NET	385,261	6,247	-	16	-	-	391,524
FIDUCIARY ASSETS	13,181	-	-	-	-	-	13,181
OTHER ASSETS	7,910	368	-	13,435	-	-	21,713
Total Assets	<u>\$ 1,127,618</u>	<u>\$ 10,467</u>	<u>\$ (21)</u>	<u>\$ 33,326</u>	<u>\$ 29,354</u>	<u>\$ 6,620</u>	<u>\$ 1,207,364</u>

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET (CONTINUED)
SEPTEMBER 30, 2019
(IN \$000s)

LIABILITIES AND NET ASSETS	<u>Restricted Group Consolidated</u>	<u>FirstHealth Physician Group, LLC</u>	<u>FirstHealth Professional Services, Inc.</u>	<u>FirstCarolinaCare Insurance Company, Inc.</u>	<u>StarFirst, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT LIABILITIES							
Accounts Payable	\$ 26,518	\$ 714	\$ 2	\$ 1,919	\$ 27	\$ -	\$ 29,180
Accrued Expenses and Other Liabilities	40,339	2,568	-	6,936	5,634	(4,137)	51,340
Estimated Settlements Due to Third-Party Payers	8,213	-	-	-	-	-	8,213
Current Portion of Long-Term Debt	14,368	-	-	-	-	-	14,368
Due to Affiliates	(162,893)	152,503	(1,435)	947	22	10,856	-
Total Current Liabilities	(73,455)	155,785	(1,433)	9,802	5,683	6,719	103,101
LONG-TERM DEBT, LESS CURRENT PORTION, NET OF DEFERRED FINANCING COSTS	180,142	-	-	-	-	-	180,142
OTHER LIABILITIES	6,423	-	-	-	-	-	6,423
Total Liabilities	113,110	155,785	(1,433)	9,802	5,683	6,719	289,666
NET ASSETS							
Without Donor Restrictions	973,089	(145,318)	1,412	23,524	23,671	(99)	876,279
With Donor Restrictions	41,419	-	-	-	-	-	41,419
Total Net Assets	1,014,508	(145,318)	1,412	23,524	23,671	(99)	917,698
Total Liabilities and Net Assets	<u>\$ 1,127,618</u>	<u>\$ 10,467</u>	<u>\$ (21)</u>	<u>\$ 33,326</u>	<u>\$ 29,354</u>	<u>\$ 6,620</u>	<u>\$ 1,207,364</u>

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED SEPTEMBER 30, 2019
(IN \$000s)

	Restricted Group Consolidated	FirstHealth Physician Group, LLC	FirstHealth Professional Services, Inc.	FirstCarolinaCare Insurance Company, Inc.	StarFirst, LLC	Eliminations	Consolidated
REVENUE, GAINS, AND OTHER SUPPORT							
Patient Service Revenue	\$ 627,534	\$ 52,057	\$ -	\$ -	\$ -	\$ (49,676)	\$ 629,915
Other Revenue	31,618	1,622	-	129,239	1,948	(5,114)	159,313
Net Assets Released from Restrictions Used for Operations	4,069	-	-	-	-	-	4,069
Total Revenue, Gains, and Other Support	<u>663,221</u>	<u>53,679</u>	<u>-</u>	<u>129,239</u>	<u>1,948</u>	<u>(54,790)</u>	<u>793,297</u>
OPERATING EXPENSES							
Salaries	244,240	38,554	-	3,725	-	-	286,519
Fringe Benefits	54,504	5,815	-	947	-	-	61,266
Supplies	154,894	3,210	-	67	-	-	158,171
Purchased Services	40,560	19,720	-	12,670	135	(425)	72,660
Depreciation and Amortization	35,990	731	-	22	-	-	36,743
Interest	4,332	-	-	-	-	-	4,332
Other	72,532	14,476	2	116,440	1,448	(54,365)	150,533
Total Operating Expenses	<u>607,052</u>	<u>82,506</u>	<u>2</u>	<u>133,871</u>	<u>1,583</u>	<u>(54,790)</u>	<u>770,224</u>
OPERATING INCOME (LOSS)	56,169	(28,827)	(2)	(4,632)	365	-	23,073
NONOPERATING INCOME (EXPENSE)							
Investment Income (Loss)	26,241	-	-	484	987	-	27,712
Gain on Asset Disposals, Net	111	5	-	-	-	-	116
Other	(1,859)	-	-	-	-	-	(1,859)
Nonoperating Income (Expense)	<u>24,493</u>	<u>5</u>	<u>-</u>	<u>484</u>	<u>987</u>	<u>-</u>	<u>25,969</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES BEFORE UNREALIZED (GAIN) LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS							
	80,662	(28,822)	(2)	(4,148)	1,352	-	49,042
Realized and Unrealized Loss on Derivative Financial Instruments	<u>(2,197)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,197)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES	78,465	(28,822)	(2)	(4,148)	1,352	-	46,845
Unrealized Losses on Investments Other Than Trading Securities, Net	(10,806)	-	-	(437)	(170)	-	(11,413)
Distributions to Joint Venture Members, Net of Contributions	230	-	-	-	-	-	230
Transfers	(1,000)	-	-	1,000	-	-	-
Net Assets Released from Restrictions for the Purchase of Property and Equipment	190	-	-	-	-	-	190
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 67,079</u>	<u>\$ (28,822)</u>	<u>\$ (2)</u>	<u>\$ (3,585)</u>	<u>\$ 1,182</u>	<u>\$ -</u>	<u>\$ 35,852</u>

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET – RESTRICTED GROUP
SEPTEMBER 30, 2019
(IN \$000s)

ASSETS	Combined Moore Regional Hospital - Pinehurst	Moore Regional Hospital - Richmond	Moore Regional Hospital - Hoke	Moore Regional Hospital - Hamlet	Montgomery Memorial Hospital	The Foundation of FirstHealth	Eliminations	Restricted Group Consolidated
CURRENT ASSETS								
Cash and Cash Equivalents	\$ 30,742	\$ (10)	\$ (1)	\$ -	\$ 2	\$ 766	\$ -	\$ 31,499
Patient Accounts Receivable, Net	1,337	50,305	29,761	10	1,993	-	-	83,406
Other Receivables	7,705	12	1	-	-	-	-	7,718
Inventories	10,690	1,601	557	12	261	-	-	13,121
Prepaid Expenses	6,429	35	10	-	12	-	-	6,486
Estimated Settlements Due from Third-Party Payers	6,680	-	-	-	1,113	-	-	7,793
Due from (to) Affiliates	243,798	4,556	176	(118)	599	-	(254,439)	(5,428)
Total Current Assets	<u>307,381</u>	<u>56,499</u>	<u>30,504</u>	<u>(96)</u>	<u>3,980</u>	<u>766</u>	<u>(254,439)</u>	<u>144,595</u>
ASSETS LIMITED AS TO USE								
Internally Designated by Board	495,843	-	-	-	-	-	-	495,843
Held by Trustee Under Bond Indenture Agreements	6,607	-	-	-	-	-	-	6,607
Self-Insurance Reserves	13,475	-	-	-	-	-	-	13,475
Held by Foundations	-	-	-	-	-	60,647	-	60,647
	<u>515,925</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,647</u>	<u>-</u>	<u>576,572</u>
INVESTMENTS IN AFFILIATES	99	-	-	-	-	-	-	99
PROPERTY AND EQUIPMENT, NET	303,467	22,808	39,409	12,809	2,914	3,854	-	385,261
FIDUCIARY ASSETS	-	-	-	-	-	13,181	-	13,181
OTHER ASSETS	7,701	-	-	-	-	209	-	7,910
Total Assets	<u>\$ 1,134,573</u>	<u>\$ 79,307</u>	<u>\$ 69,913</u>	<u>\$ 12,713</u>	<u>\$ 6,894</u>	<u>\$ 78,657</u>	<u>\$ (254,439)</u>	<u>\$ 1,127,618</u>

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET – RESTRICTED GROUP (CONTINUED)
SEPTEMBER 30, 2019
(IN \$000s)

LIABILITIES AND NET ASSETS	Combined Moore Regional Hospital - Pinehurst	Moore Regional Hospital - Richmond	Moore Regional Hospital - Hoke	Moore Regional Hospital - Hamlet	Montgomery Memorial Hospital	The Foundation of FirstHealth	Eliminations	Restricted Group Consolidated
CURRENT LIABILITIES								
Accounts Payable	\$ 24,747	\$ 1,290	\$ 356	\$ 14	\$ 111	\$ -	\$ -	\$ 26,518
Accrued Expenses and Other Liabilities	38,105	1,140	300	-	427	367	-	40,339
Estimated Settlements Due to Third-Party Payers	8,213	-	-	-	-	-	-	8,213
Current Portion of Long-Term Debt	14,368	-	-	-	-	-	-	14,368
Due to Affiliates	-	16,400	48,961	15,278	10,236	671	(254,439)	(162,893)
Total Current Liabilities	<u>85,433</u>	<u>18,830</u>	<u>49,617</u>	<u>15,292</u>	<u>10,774</u>	<u>1,038</u>	<u>(254,439)</u>	<u>(73,455)</u>
LONG-TERM DEBT, LESS CURRENT PORTION, NET OF DEFERRED FINANCING COSTS	180,142	-	-	-	-	-	-	180,142
OTHER LIABILITIES	<u>3,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,482</u>	<u>-</u>	<u>6,423</u>
Total Liabilities	269,516	18,830	49,617	15,292	10,774	3,520	(254,439)	113,110
NET ASSETS								
Without Donor Restrictions	864,440	60,107	20,296	(2,579)	(4,694)	35,519	-	973,089
With Donor Restrictions	617	370	-	-	814	39,618	-	41,419
Total Net Assets	<u>865,057</u>	<u>60,477</u>	<u>20,296</u>	<u>(2,579)</u>	<u>(3,880)</u>	<u>75,137</u>	<u>-</u>	<u>1,014,508</u>
Total Liabilities and Net Assets	<u>\$ 1,134,573</u>	<u>\$ 79,307</u>	<u>\$ 69,913</u>	<u>\$ 12,713</u>	<u>\$ 6,894</u>	<u>\$ 78,657</u>	<u>\$ (254,439)</u>	<u>\$ 1,127,618</u>

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS – RESTRICTED GROUP
YEAR ENDED SEPTEMBER 30, 2019
(IN \$000s)

	Combined Moore Regional Hospital - Pinehurst	Moore Regional Hospital - Richmond	Moore Regional Hospital - Hoke	Moore Regional Hospital - Hamlet	Montgomery Memorial Hospital	The Foundation of FirstHealth	Eliminations	Restricted Group Consolidated
REVENUE, GAINS, AND OTHER SUPPORT								
Patient Service Revenue	\$ 527,803	\$ 60,223	\$ 26,889	\$ (1)	\$ 12,620	\$ -	\$ -	\$ 627,534
Other Revenue	33,855	1,305	140	-	32	668	(4,382)	31,618
Net Assets Released from Restrictions Used for Operations	-	-	-	-	-	4,069	-	4,069
Total Revenue, Gains, and Other Support	<u>561,658</u>	<u>61,528</u>	<u>27,029</u>	<u>(1)</u>	<u>12,652</u>	<u>4,737</u>	<u>(4,382)</u>	<u>663,221</u>
OPERATING EXPENSES								
Salaries	206,508	22,695	8,372	7	6,658	-	-	244,240
Fringe Benefits	45,443	5,392	2,106	2	1,646	-	(85)	54,504
Supplies	142,866	8,609	2,410	6	1,007	-	(4)	154,894
Purchased Services	31,780	5,715	3,692	232	1,995	-	(2,854)	40,560
Depreciation and Amortization	29,747	2,725	1,987	751	495	285	-	35,990
Interest	4,130	202	-	-	-	-	-	4,332
Other	62,404	4,749	1,324	288	439	4,767	(1,439)	72,532
Total Operating Expenses	<u>522,878</u>	<u>50,087</u>	<u>19,891</u>	<u>1,286</u>	<u>12,240</u>	<u>5,052</u>	<u>(4,382)</u>	<u>607,052</u>
OPERATING INCOME (LOSS)	38,780	11,441	7,138	(1,287)	412	(315)	-	56,169
NONOPERATING INCOME (EXPENSE)								
Investment Income	23,649	1	-	-	-	2,591	-	26,241
Loss on Bond Refunding	-	-	-	-	-	-	-	-
Loss on Asset Disposals, Net	140	(28)	(1)	-	-	-	-	111
Other	(1,058)	-	-	(815)	14	-	-	(1,859)
Nonoperating Income (Loss)	<u>22,731</u>	<u>(27)</u>	<u>(1)</u>	<u>(815)</u>	<u>14</u>	<u>2,591</u>	<u>-</u>	<u>24,493</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE UNREALIZED GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS	61,511	11,414	7,137	(2,102)	426	2,276	-	80,662
Realized and Unrealized Loss on Derivative Financial Instruments	(2,197)	-	-	-	-	-	-	(2,197)
EXCESS OF REVENUES OVER EXPENSES	59,314	11,414	7,137	(2,102)	426	2,276	-	78,465
Unrealized Losses on Investments Other Than Trading Securities	(8,992)	-	-	-	-	(1,814)	-	(10,806)
Distributions to Joint Venture Members, Net of Contributions	230	-	-	-	-	-	-	230
Net Assets Released from Restrictions for Purchase of Property and Equipment	-	138	-	-	52	-	-	190
Transfers	(1,000)	-	-	-	-	-	-	(1,000)
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 49,552</u>	<u>\$ 11,552</u>	<u>\$ 7,137</u>	<u>\$ (2,102)</u>	<u>\$ 478</u>	<u>\$ 462</u>	<u>\$ -</u>	<u>\$ 67,079</u>

