

**HAMPTON REGIONAL MEDICAL
CENTER AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

As of and for Years Ended September 30, 2019 and 2018

And Report of Independent Auditor

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY
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Report of Independent Auditor

To the Board of Trustees
Hampton Regional Medical Center
Varnville, South Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hampton Regional Medical Center and Subsidiary (the "Hospital") (a nonprofit organization), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations and changes in net deficit 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital'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 Hospital'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 Hampton Regional Medical Center and Subsidiary as of September 30, 2019 and 2018, and the changes in their net deficit and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Hospital adopted the new accounting guidance in Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as required by accounting principles general accepted in the United States of America. The accounting principle was applied retrospectively to the prior period presented with the exception of the disclosure of functional expenses and liquidity and availability of resources, which has been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying information on pages 23 through 26 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits 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.

A handwritten signature in black ink that reads "Cheryl Bekart LLP". The signature is written in a cursive, flowing style.

Augusta, Georgia
February 6, 2020

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,625,655	\$ 3,349,968
Patient accounts receivable (net of allowance for doubtful accounts of approximately \$1,841,000 in 2019 and \$2,300,000 in 2018)	3,738,193	4,005,115
Certificates of deposit	538,515	527,958
Other receivables	2,767	75
Inventories	447,370	425,215
Prepaid expenses	266,176	287,921
Total Current Assets	9,618,676	8,596,252
Property and equipment, net	20,113,802	20,291,882
Investments	1,494,838	1,487,506
Assets limited as to use	4,823,775	5,615,983
Total Assets	\$ 36,051,091	\$ 35,991,623
LIABILITIES AND NET DEFICIT		
Current Liabilities:		
Accounts payable	\$ 1,105,514	\$ 1,125,279
Accrued payroll and payroll withholdings	387,936	441,487
Accrued paid time off	591,065	547,743
Accrued interest payable	759,618	748,211
Current portion of long-term debt	682,904	115,040
Current portion of capital lease obligations	14,072	75,902
Total Current Liabilities	3,541,109	3,053,662
Capital lease obligations, net of current portion	-	14,917
Long-term debt, net of current portion and debt issuance costs	37,660,719	37,796,588
Deferred compensation liability	414,707	287,616
Total Liabilities	41,616,535	41,152,783
Net Deficit:		
Net deficit without donor restrictions	(5,575,682)	(5,171,398)
Net assets with donor restrictions	10,238	10,238
Total Net Deficit	(5,565,444)	(5,161,160)
Total Liabilities and Net Deficit	\$ 36,051,091	\$ 35,991,623

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET DEFICIT

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Unrestricted Revenues, Gains, and Other Support:		
Net patient service revenue	\$ 24,306,448	\$ 23,250,733
Other operating revenue	285,593	305,226
Total Revenues, Gains, and Other Support	<u>24,592,041</u>	<u>23,555,959</u>
Expenses:		
Professional care of patients	13,971,649	13,199,624
Dietary and cafeteria	423,453	403,166
General services	772,767	732,057
Administrative services	4,617,799	4,327,246
Depreciation and amortization	1,493,632	1,666,913
Employee benefits	2,335,996	2,219,600
Interest	1,728,675	1,735,858
Total Expenses	<u>25,343,971</u>	<u>24,284,464</u>
Operating Loss	<u>(751,930)</u>	<u>(728,505)</u>
Other Income (Expenses):		
Interest income	194,197	131,451
Unrestricted nonoperating income	153,449	50,480
Loss on early extinguishment of debt	-	(858,048)
Total Other Income (Expenses)	<u>347,646</u>	<u>(676,117)</u>
Excess of revenues, gains, and other support under expenses	<u>(404,284)</u>	<u>(1,404,622)</u>
Change in net deficit without donor restrictions	(404,284)	(1,404,622)
Net deficit, beginning of year	<u>(5,161,160)</u>	<u>(3,756,538)</u>
Net deficit, end of year	<u>\$ (5,565,444)</u>	<u>\$ (5,161,160)</u>

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net deficit without donor restrictions	\$ (404,284)	\$ (1,404,622)
Adjustments to reconcile change in net deficit without donor restrictions to net cash from operating activities:		
Depreciation and amortization	1,493,632	1,666,913
Contributions in-kind	(83,825)	-
Loss on refinancing of debt	-	858,048
Amortization of bond discount (premium) included in interest expense	(48,084)	(40,072)
Interest income, reinvested	(17,889)	(45,354)
Deferred compensation expense	127,091	146,569
Changes in net operating assets and liabilities:		
Patient receivables	266,922	(127,591)
Other receivables	(2,692)	14,876
Inventories	(22,155)	(28,344)
Prepaid expenses	21,745	(25,831)
Accounts payable	(19,765)	(151,633)
Accrued expenses	1,178	75,710
Estimated third party settlements	-	(11,219)
Net cash from operating activities	<u>1,311,874</u>	<u>927,450</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,207,480)	(379,427)
Purchase of investments, net	-	(450,003)
Net cash from investing activities	<u>(1,207,480)</u>	<u>(829,430)</u>
Cash flows from financing activities:		
Transfers from escrow accounts	792,208	(1,684,490)
Payments on capital leases	(76,747)	(166,638)
Proceeds from issuance of revenue refunding bonds	-	35,004,600
Repayment of revenue bonds	-	(31,397,911)
Repayments of long-term debt	(312,567)	(1,069,765)
Note payable to South Carolina Department of Health and Human Services	768,399	-
Bond issuance costs	-	(678,911)
Net cash from financing activities	<u>1,171,293</u>	<u>6,885</u>
Increase in cash and cash equivalents	1,275,687	104,905
Cash and cash equivalents, beginning of year	3,349,968	3,245,063
Cash and cash equivalents, end of year	<u>\$ 4,625,655</u>	<u>\$ 3,349,968</u>

Supplemental disclosure of cash flow information:

Cash paid for interest for the years ended September 30, 2019 and 2018 was \$1,708,322 and \$1,716,218, respectively.

Supplemental schedule of noncash financing activities:

During the year ended September 30, 2019, the Hospital received an in-kind contribution of equipment in the amount of \$83,825.

During the year ended September 30, 2019, the Hospital entered into \$768,399 note payable with the South Carolina Department of Health and Human Services.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 1—Nature of operations and summary of significant accounting policies

Nature of Operations and Reporting Entity – Hampton Regional Medical Center is a not-for-profit corporation organized under the laws of South Carolina. Hampton Regional Medical Center operates an acute care facility in Varnville, South Carolina. The consolidated financial statements of Hampton Regional Medical Center and Subsidiary (the “Hospital”) include the accounts of Hampton Regional Medical Center and Coastal Plains Physician Associates, an entity for which Hampton Regional Medical Center is the sole corporate member and has a controlling financial interest. Coastal Plains Physicians Associates is a not-for-profit corporation organized under the laws of South Carolina. Coastal Plains Physicians Associates operates physician offices in Varnville, South Carolina. The Hospital is organized under the control of a single Board of Trustees. The Board of Trustees makes decisions and sets policy for the Hospital. The mission of the Hospital is to provide compassion, quality, and service excellence to all people within the communities the Hospital serves. All intercompany accounts have been eliminated in consolidation.

Cash and Cash Equivalents – Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Restricted and designated cash and cash equivalents included in assets limited as to use are not classified as cash and cash equivalents.

Certificates of Deposit – Certificates of deposit consist of certificates of deposit held at local financial institutions with original maturity dates of greater than three months.

Patient Accounts Receivable – Patient accounts receivable consist of amounts due from patients and third party payors and are stated at gross charges less an allowance for doubtful accounts and contractual adjustments. Credit is extended to patients after an evaluation of the patient’s financial condition and collateral is not required. In determining the allowance for doubtful accounts, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third party coverage, the Hospital reviews contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected, after all reasonable collection efforts have been exhausted, is charged off against the allowance for doubtful accounts.

Inventories – Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. The Hospital’s inventories consist mainly of office supplies and medical supplies, including drugs.

Assets Limited as to Use – Assets limited as to use primarily include assets held by a trustee under indenture agreements, cash which is internally designated for repairs and maintenance of facilities, and a certificate of deposit. The certificate of deposit is permanently restricted by the donor. The interest income earned on the certificate is unrestricted.

Assets limited as to use consists of cash and cash equivalents including repurchase agreements, money market funds, certificates of deposit, and U.S. Treasury obligations which are carried at cost. Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, is reported as other revenue. All other investment income is reported as interest income.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 1—Nature of operations and summary of significant accounting policies (continued)

Investments – Investments in marketable securities with readily determinable fair values are measured at fair value in the consolidated balance sheets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value was determined based on quoted market prices. Unrealized gains and losses are included as investment income on the consolidated statements of operations and changes in net deficit.

Property and Equipment – Property and equipment are recorded at cost, except donated assets, which are recorded at fair value at the date of receipt. The Hospital capitalizes all assets over \$1,000. All capital assets other than land are depreciated using the straight-line method of depreciation using these asset lives:

Land improvements	5 to 40 years
Buildings and building improvements	3 to 40 years
Equipment	3 to 25 years

Costs of Borrowing – Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest costs were capitalized in 2019 or 2018.

Bond Premiums, Discounts, and Issuance Costs – Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds on a straight-line basis, which does not differ materially from the use of the effective interest method. Bond premiums are presented as an addition to the face amount of bonds payable. Bond discounts and issuance costs are presented as a reduction of the face amount of bonds payable.

Net Patient Service Revenue – The Hospital has agreements with third party payors that provide for payments for medical services rendered at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. These amounts are subject to audit by the governmental agencies. Adjustments, if any, are included in contractual revenue adjustments in the year of determination. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its discounted rates as provided by policy. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Medicare and Medicaid Electronic Health Records (“EHR”) Incentives – EHR incentive reimbursements are payments received under the Health Information Technology for Economic and Clinical Health Act (the “HITECH Act”) which was enacted into law on February 17, 2009 as part of the American Recovery and Reinvestment Act of 2009 (“ARRA”). The HITECH Act includes provisions designed to increase the use of EHR by both physicians and hospitals. Beginning with federal fiscal year 2011 (federal fiscal year is October 1 through September 30) and extending through federal fiscal year 2017, eligible hospitals participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of their certified EHR technology. Conversely, those hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 1—Nature of operations and summary of significant accounting policies (continued)

The Hospital did not recognize any revenues related to the Medicare and Medicaid incentive programs for the years ended September 30, 2019 and 2018. In prior years, these revenues were reflected in other operating revenues on the accompanying consolidated statements of operations and changes in net deficit. Future incentive payments could vary due to certain factors such as availability of federal funding for both Medicare and Medicaid incentive payments and the Hospital's ability to implement and demonstrate meaningful use of certified EHR technology. The Hospital has and will continue to incur both capital costs and operating expenses in order to implement its certified EHR technology and meet meaningful use requirements in the future. These expenses are ongoing and are projected to continue over all stages of implementation of meaningful use. The timing of recognizing the expenses may not correlate with the receipt of the incentive payments and the recognition of revenues. There can be no assurance that the Hospital will be able to continue to demonstrate meaningful use of certified EHR technology in the future, and the failure to do so could have a material, adverse effect on the results of operations. As a part of operating this program, there is a possibility that government authorities may make adjustments to amounts previously recorded by the Hospital. The Hospital's attestation of demonstrating meaningful use is also subject to review by the appropriate government authorities.

Net Assets – Net assets, revenue, and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets not subject to or are no longer subject to donor-imposed restrictions.

Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Net assets without donor restrictions represent resources derived from operating and nonoperating income, including patient service revenue. These resources are used for transactions relating to fulfilling the purpose of the Hospital, including providing healthcare services to patients. Net assets with donor restrictions are those for which use by the Hospital has been limited by donors to a specific time period or purpose. Revenues from grants are presented as net assets without donor restrictions when the restrictions are met in the same reporting period. Amounts previously reported as permanently restricted net assets that have been restricted by donors to be maintained by the Hospital in perpetuity have been reclassified to be net assets with donor restrictions.

Donor Restricted Gifts – Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net deficit as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

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

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 1—Nature of operations and summary of significant accounting policies (continued)

Income Taxes – The Hampton Regional Medical Center and Subsidiary, Coastal Plains Physician Associates, are not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. In accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for uncertainty in income taxes, management has evaluated all tax positions that could have a significant effect on the consolidated financial statements and determined the Hospital had no uncertain income tax positions at September 30, 2019 and 2018.

Risk Management – The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; errors and omissions; employee injuries and illness; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters.

Concentrations of Credit Risk – Financial instruments that potentially expose the Hospital to concentrations of credit risk consist primarily of cash and cash equivalents, patient accounts receivable, and investments.

Credit risk associated with patient receivables is generally diversified due to the large number of patients comprising the patient base, although the geographic concentration in the southeast results in the Hospital being susceptible to economic conditions in the region.

As discussed in Note 12, at times, cash balances at financial institutions are in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance coverage. The cash balances are maintained at financial institutions with high credit-quality ratings and the Hospital believes no significant risk of loss exists with respect to those balances.

Use of Estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any 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.

Excess of Revenues, Gains, and Other Support over Expenses – The consolidated statements of operations and changes in net deficit, include excess of revenues, gains, and other support over expenses. Changes in unrestricted net deficit which are excluded from excess of revenues, gains, and other support over expenses, consistent with industry practice, include contributions which by donor restriction were to be used for the purpose of acquiring long-lived assets.

Functional Expenses – The costs of providing the Hospital’s programs and other activities have been reported on a functional basis in the consolidated statements of operations and changes in net deficit. Directly identifiable costs have been allocated to the program or supporting service benefited. Indirect costs have been allocated based on management’s estimate of resources used on behalf of the program or supporting service.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 1—Nature of operations and summary of significant accounting policies (continued)

Recently Adopted Accounting Pronouncements – In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Hospital has adjusted the presentation of its consolidated financial statements accordingly. The new standards change the following aspects of the Hospital’s consolidated financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The permanently restricted net asset class has been renamed net assets with donor restrictions.
- The investment return is presented net of investment expenses.
- The consolidated financial statements include a new disclosure that presents expenses by both their nature and function (see Note 15).
- The consolidated financial statements include a new disclosure about liquidity and availability of resources (see Note 16).

Amounts previously reported for the year ended September 30, 2019 have been reclassified on a retrospective basis to achieve consistent presentation with the exception of the disclosures of functional expenses and availability and liquidity, which have been implemented prospectively as allowed under the provisions of ASU 2016-14.

In May 2014, the FASB issued ASU 2014-09 (“ASU 2014-09”), *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)* and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Subsequent to ASU 2014-09, the FASB issued several related ASU’s (collectively “ASC 606”). The Hospital adopted the provisions of ASC 606 as of October 1, 2018 using a modified retrospective approach, which resulted in no material impact on the Hospital’s current financial position, results of operations, or cash flows. In accordance with ASC 606, the Hospital now recognizes the majority of its previously reported provision for doubtful accounts, primarily related to its self-pay patient population, as a direct reduction to revenues as an implicit pricing concession, instead of separately as a discrete deduction to arrive at revenue. Subsequent material events that alter the payor’s ability to pay are recorded as bad debt expense.

Future Accounting Pronouncements – In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard is effective for the Hospital in fiscal year 2022. The Hospital is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

Note 2—Net patient service revenue and patient accounts receivable

Net Patient Revenues – Effective October 1, 2018, the Hospital adopted the provisions of ASC 606 guidance, which supersedes most existing revenue recognition guidance, including industry-specific healthcare guidance, by applying the full retrospective method for all periods presented.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 2—Net patient service revenue and patient accounts receivable (continued)

ASC 606 provides for a single comprehensive principles-based standard for the recognition of revenue across all industries through the application of the following five-step model to apply to revenue recognition, consisting of: (1) determination of whether a contract, an agreement between two or more parties that creates legally enforceable rights and obligations, exists; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when (or as) the performance obligation is satisfied.

Net patient revenue is reported at the amount that reflects the consideration the Hospital expects to receive in exchange for the services provided in the period. These amounts are due from patients or third party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Patient fee revenue is recognized as performance obligations are satisfied.

The Hospital enters into contracts to provide outpatient services including surgery, oncology, and clinical service; radiology; emergency room services; laboratory services; rehabilitation services; and bundled services including nursing, hospitalist, materials management, intensive care, and pharmacy. The Hospital recognizes revenue for services in accordance with the provisions of ASC 606. With the exception of laboratory services, each visit provided under the contract is capable of being distinct, and thus, are considered individual and separate performance obligations which are satisfied as services are provided and revenue is recognized as services provided. Each requisition order for diagnostic laboratory tests is a distinct performance obligation. Revenue for laboratory services is recognized when result are reported.

The Hospital has agreements with third party payors that provide for payments to the Hospital at amounts different from its established rates. The primary programs are Medicare and Medicaid. Patient revenue is reported net of contractual adjustments arising from these third party arrangements.

A summary of the payment arrangements with major third party payors follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per procedure. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the Hospital. Final settlement has been reached for Medicare cost reports through September 30, 2015. Tentative settlements have been reached with Medicare for the years ended September 30, 2016, 2017, and 2018, but such settlements are subject to audit.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid at prospectively determinable rates per procedures. Final settlement has been reached for Medicaid cost reports through September 30, 2015. Tentative settlements have been reached with Medicaid for the years ended September 30, 2016, 2017, and 2018, but such settlements are subject to audit.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 2—Net patient service revenue and patient accounts receivable (continued)

Revenue from the Medicare and Medicaid programs accounted for approximately 38% and 5%, respectively, of the Hospital's net patient revenue for the year ended September 30, 2019 and 33% and 7%, respectively, of the Hospital's net patient revenue for the year ended September 30, 2018.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The filed cost reports are subject to audits, reviews, and investigations.

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

For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its discounted rates as provided by its policy. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

The Hospital's revenues before provision for bad debts were as follows for the years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Gross patient charges at established rates from third party payors	\$ 62,158,406	\$ 59,222,477
Gross patient charges at discounted rates from self-pay patients	4,662,916	4,863,347
Gross patient revenue	<u>66,821,322</u>	<u>64,085,824</u>
Deductions:		
Medicare and Medicaid contractual adjustments	(28,574,271)	(26,793,748)
Other adjustments	<u>(9,984,415)</u>	<u>(10,153,614)</u>
	<u>(38,558,686)</u>	<u>(36,947,362)</u>
Net patient service revenue before provision for bad debts	28,262,636	27,138,462
Provision for bad debts	<u>(3,956,188)</u>	<u>(3,887,729)</u>
Net patient service revenue	<u>\$ 24,306,448</u>	<u>\$ 23,250,733</u>

The Hospital qualified for disproportionate share payments from the South Carolina Medicaid Program through September 30, 2019. The Hospital received quarterly lump-sum payments totaling approximately \$1,579,000 and \$1,823,000 in the years ended September 30, 2019 and 2018, respectively. These amounts are reflected as a reduction of contractual adjustments.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 2—Net patient service revenue and patient accounts receivable (continued)

The following is a summary of the activity in the allowance for doubtful accounts for the fiscal years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Allowance for doubtful accounts, beginning of year	\$ 2,302,225	\$ 1,871,113
Additions recognized as a reduction to revenues	3,956,188	3,887,729
Accounts written off, net of recoveries	<u>(4,417,274)</u>	<u>(3,456,617)</u>
Allowance for doubtful accounts, end of year	<u>\$ 1,841,139</u>	<u>\$ 2,302,225</u>

Note 3—Charity care

The amount of charges foregone for services and supplies furnished under the Hospital's indigent and charity care policies aggregated approximately \$2,540,000 and \$2,372,000 for the years ended September 30, 2019 and 2018, respectively.

The Hospital calculates the cost of providing charity care to patients using a cost-to-charge ratio method. Using this method, the costs of providing charity care services under the Hospital's indigent and charity care policies were approximately \$879,000 and \$821,000 for the years ended September 30, 2019 and 2018, respectively.

Note 4—Property and equipment

A summary of property and equipment at September 30, 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 3,070,790	\$ 3,062,699
Buildings and building improvements	27,773,645	27,758,748
Equipment	<u>14,424,618</u>	<u>13,162,151</u>
	45,269,053	43,983,598
Less accumulated depreciation	<u>(25,155,251)</u>	<u>(23,691,716)</u>
Property and equipment, net	<u>\$ 20,113,802</u>	<u>\$ 20,291,882</u>

Depreciation expense for the years ended September 30, 2019 and 2018 amounted to \$1,451,200 and \$1,648,728, respectively.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 5—Investments

Investments carried at fair value consisted of the following at September 30:

		<u>2019</u>		<u>2018</u>
Fixed income investments	100%	\$ 1,494,838	66%	\$ 987,506
Total securities		<u>1,494,838</u>		<u>987,506</u>
Certificates of deposit	0%	<u> </u>	34%	<u>500,000</u>
Total certificates		<u>-</u>		<u>500,000</u>
Total investments		<u>\$ 1,494,838</u>		<u>\$ 1,487,506</u>

Note 6—Fair value measurements

The Hospital has adopted the provision of the FASB Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, which requires fair value measurement be classified and disclosed in one of the following three categories (“Fair Value Hierarchy”):

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments which would generally be included in Level 1 include listed equity securities, mutual funds, and money market funds. As required by U.S. GAAP, the Hospital, to the extent that it holds such investments, does not adjust the quoted price for these investments, even in situations where the Hospital holds a large position and a sale could reasonably impact the quoted price.

Level 2 – Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1; inputs include comparable market transactions, pricing of similar instruments, values reported by the administrator, and pricing expectations based on internal modeling. Fair value is determined through the use of models or other valuation methodologies. The types of investments which would generally be included in this category include publicly traded securities with restrictions on disposition, corporate obligations, and U.S. Government and Agency Treasury Inflation Indices.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investments. The types of investments which would generally be included in this category include debt and equity securities issued by private entities and partnerships. The inputs into the determination of fair value require significant judgment or estimation. Inputs include recent transactions, earnings forecasts, market multiples, and future cash flows.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 6—Fair value measurements (continued)

The tables below summarize the valuation of the Hospital's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2019 and 2018, based on the level of input utilized to measure fair value:

Description	Fair Value Measurements at September 30, 2019			
	Level 1	Level 2	Level 3	Total
Investments				
Fixed income:				
Corporate bonds - financial services	\$ -	\$ 1,494,838	\$ -	\$ 1,494,838
Total fixed income	-	1,494,838	-	1,494,838
Total investments - recurring basis	\$ -	\$ 1,494,838	\$ -	\$ 1,494,838

Description	Fair Value Measurements at September 30, 2018			
	Level 1	Level 2	Level 3	Total
Investments				
Fixed income:				
Corporate bonds - financial services	\$ -	\$ 987,506	\$ -	\$ 987,506
Total fixed income	-	987,506	-	987,506
Total investments - recurring basis	\$ -	\$ 987,506	\$ -	\$ 987,506

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

Note 7—Assets limited as to use

The composition of assets limited as to use at September 30, 2019 and 2018 is set forth in the following table.

	2019	2018
Under indenture agreements held by trustees:		
Debt service fund	\$ 4,813,537	\$ 5,605,745
Donor restricted:		
Certificate of deposit	10,238	10,238
	\$ 4,823,775	\$ 5,615,983

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 8—Long-term debt

A summary of long-term debt at September 30, 2019 and 2018 follows:

	2019	2018
\$33,570,000 series 2017 refunding and improvement revenue bonds, due in annual installments ranging from \$590,000 to \$2,300,000, with interest only semi-annual payments (on 5/1 and 11/1) at an interest rate ranging from 4.0% to 5.0% from May 1, 2018 through November 1, 2047, collateralized by Hospital revenues and gains.	\$ 33,570,000	\$ 33,570,000
During the year ended September 30, 2009, the Hospital obtained a \$1,300,000 United States Department of Agriculture (“USDA”) Rural Development real estate mortgage loan for the construction of the Coastal Plains Physician Building due in monthly installments of \$5,642, including principal and interest at an interest rate of 4.25% from October 28, 2008 through September 28, 2048, collateralized by real estate owned by the Hospital.	1,123,862	1,143,179
During the year ended September 30, 2013, the Hospital obtained a \$300,000 real estate mortgage loan for the construction of a medical building through South Carolina Office of Rural Health due in monthly installments of \$2,219, including principal and interest, at a rate of 4.00% from February 7, 2013 through February 25, 2028, collateralized by real estate owned by the Hospital.	188,464	207,148
During the year ended September 30, 2013, the Hospital obtained a \$2,325,000 USDA Rural Development real estate mortgage loan for the construction of the Coastal Plains Physician Building due in monthly installments of \$9,021, including principal and interest at an interest rate of 3.50% from December 20, 2012 through December 20, 2052, collateralized by real estate owned by the Hospital.	2,104,007	2,137,187
During the year ended September 30, 2015, the Hospital obtained a \$187,000 note payable through the South Carolina Office of Rural Health for equipment due in monthly installments of \$2,556, including principle and interest, at a rate of 4.0% from January 25, 2015 through December 25, 2021, collateralized by equipment owned by the Hospital.	63,558	91,088

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 8—Long-term debt (continued)

	<u>2019</u>	<u>2018</u>
During the year ended September 30, 2018, the Hospital obtained a \$12,654 non-interest bearing note payable for equipment due in monthly installments of \$703, from September 8, 2018 to February 8, 2020, collateralized by equipment owned by the Hospital.	\$ 3,255	\$ 11,066
During the year ended September 30, 2017, the Hospital obtained a \$24,500 note payable for a vehicle due in monthly installments of \$543, including principal and interest at an interest rate of 3.0% from September 4, 2017 to August 4, 2021, collateralized by the vehicle.	12,111	18,156
During the year ended September 30, 2019, the Hospital entered into a \$768,399 South Carolina Department of Health and Human Services note payable due in monthly installments ranging from \$50,000 to \$100,000 from July 10, 2019 to May 10, 2020.	568,399	-
	37,633,656	37,177,824
Plus bond issue premiums	1,346,446	1,394,530
Less unamortized debt issuance costs	(636,479)	(660,726)
	38,343,623	37,911,628
Less current portion	(682,904)	(115,040)
Total long-term debt	<u>\$ 37,660,719</u>	<u>\$ 37,796,588</u>

Maturities of long-term debt at September 30, 2019 are as follows:

Years Ending September 30,

2020	\$ 682,904
2021	747,776
2022	757,828
2023	783,343
2024	826,599
Thereafter	33,835,206
	<u>\$ 37,633,656</u>

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 8—Long-term debt (continued)

In December 2017, the Hospital obtained \$33,570,000 in Series 2017 revenue bonds with interest rates ranging from 4.0% to 5.0%. The bond proceeds were used to pay off the existing Series 2006 revenue bonds. The bonds are term and serial bonds due in increasing principal payments beginning in November 2020 with final maturity due in November 2047. The Series 2017 revenue bonds proceeds were used to refund \$31,710,000 of outstanding Series 2006 revenue bonds with interest rates ranging from 4.6% to 5.25%. The net proceeds of \$29,076,540 from the Series 2017 revenue bonds issuance along with \$223,414 of Series 2006 bonds debt service funds and \$2,685,304 of Series 2006 bonds debt service reserve funds were deposited into an escrow fund pursuant to an escrow agreement dated December 20, 2017 and were used to pay the principal of and interest on the Series 2006 revenue bonds when due through and including the redemption date of December 20, 2017. As a result, \$31,710,000 of outstanding Series 2006 revenue bonds were defeased and the liability for those bonds was removed from the consolidated balance sheets during 2018. The Series 2006 revenue bonds were redeemed in full on December 20, 2017.

The refunding resulted in a loss which consisted of the difference between the reacquisition price and the net carrying amount of the old debt of \$858,048. The Hospital completed the refunding to increase its total debt service payments through 2047 by \$13,502,437 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,006,265 at an effective interest rate of 4.28%.

Under the terms of the Series 2017 revenue bonds indentures, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The revenue note indenture also requires maintenance of certain financial covenants. Management is not aware of any violations of the covenants at September 30, 2019.

Note 9—Line of credit

On November 24, 2015, the Hospital obtained a line of credit in the amount of \$500,000, maturing on November 25, 2018, with a fixed interest rate of 4.00%. The line of credit is secured by a certificate of deposit held with the lender. There was no balance outstanding at September 30, 2019 and 2018. On October 30, 2018, the Hospital extended the line of credit with the same terms, maturing on November 1, 2019. On October 18, 2019, the Hospital extended the line of credit with the same terms, maturing on October 19, 2022.

Note 10—Capital leases

The Hospital is the lessee of equipment under various capital leases expiring from September 2018 to March 2020. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense during the years ended September 30, 2019 and 2018. The leases include a \$1 purchase option at the end of the lease period.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 10—Capital leases (continued)

Following is a summary of property held under capital leases:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 268,102	\$ 268,102
Less accumulated depreciation	(157,754)	(100,879)
	<u>\$ 110,348</u>	<u>\$ 167,223</u>

Minimum future lease payments under capital leases as of September 30, 2019 were as follows:

<u>Years Ending September 30,</u>	
2020	<u>\$ 14,072</u>
Total minimum lease payments	14,072
Less amount representing interest	<u>-</u>
Present value of minimum lease payments	14,072
Less current portion	<u>(14,072)</u>
	<u>\$ -</u>

Note 11—Employee retirement plan

The Hospital has a defined contribution (profit-sharing) plan that covers substantially all employees. Contributions, if any, are determined annually by the Board of Trustees. The Hospital contributed approximately \$135,000 and \$139,000 during the fiscal years ended September 30, 2019 and 2018, respectively.

Note 12—Concentrations of risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third party payor agreements. The mix of receivables from patients and third party payors at September 30, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Patient	35%	36%
Medicare	36%	32%
Medicaid	8%	10%
Other third party payors	13%	13%
Blue Cross	8%	9%
	<u>100%</u>	<u>100%</u>

The Hospital places its cash and cash equivalents on deposit with financial institutions in the United States. The FDIC covers \$250,000 for substantially all depository accounts. The Hospital from time to time may have had amounts on deposit in excess of the insured limits. As of September 30, 2019 and 2018, the Hospital had approximately \$8,694,000 and \$2,879,300, respectively, which exceeded these insured amounts.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 13—Commitments and contingencies

Litigation – From time to time, the Hospital is involved in various litigation arising in the ordinary course of business. In addition, other claims may be asserted which relate to services already rendered. Management is of the opinion that adequate provisions have been made for all asserted and unasserted claims and that the effects of these claims will not have a significant impact on the consolidated financial statements.

Medical Malpractice Insurance – The Hospital maintains professional malpractice liability insurance coverage on an occurrence basis in amounts up to \$300,000 per claim and \$600,000 for aggregate annual claims. Excess professional malpractice liability coverage is maintained through the South Carolina Patients Compensation Fund on an occurrence basis with an unlimited amount of coverage subject to South Carolina regulations and availability.

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

Grant Programs – From time to time, the Hospital participates in state and private grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Significant program compliance violations could result in repayment of grant money received. The Hospital management believes there are no significant contingent liabilities relating to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying consolidated financial statements.

Commitments – The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2019 that have an initial or remaining lease terms in excess of one year:

Years Ending September 30,

2020	\$	73,026
2021		58,264
2022		45,368
2023		32,285
2024		32,285
		<u>241,228</u>
	\$	<u>241,228</u>

Rental expense was \$166,000 and \$163,000 during the years ended September 30, 2019 and 2018, respectively.

Note 14—Net assets with donor restrictions

Earnings from net assets with donor restrictions of \$10,238 as of September 30, 2019 and 2018 are available for the purpose of convalescent care.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 15—Functional expenses

The Hospital provides general healthcare services to residents within its geographic location. Expenses by function and nature related to providing these services for the year ended September 30, 2019 are as follows:

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Health Care Services</u>	<u>Management and General</u>	<u>Total</u>
Professional care of patients	\$ 10,990,099	\$ 2,981,550	\$ 13,971,649
Dietary and cafeteria	333,088	90,365	423,453
General services	607,859	164,908	772,767
Administrative services	3,632,361	985,438	4,617,799
Depreciation and amortization	1,174,891	318,741	1,493,632
Employee benefits	1,837,494	498,502	2,335,996
Interest	1,359,776	368,899	1,728,675
Total Expenses	<u>\$ 19,935,568</u>	<u>\$ 5,408,403</u>	<u>\$ 25,343,971</u>

Note 16—Liquidity and availability of resources

The Hospital's financial assets available for general expenditure that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date are as follows:

Cash and cash equivalents	\$ 4,625,655
Certificates of deposit	538,515
Investments	<u>1,494,838</u>
	<u>\$ 6,659,008</u>

As part of the Hospital's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Hospital considers all expenditures related to its ongoing activities of management and general expenses to be general expenditures.

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

Note 17—Deferred compensation plan

On December 16, 2016, the Hospital entered into a deferred compensation agreement with a key executive. The agreement provides for postretirement benefits contingent on certain conditions. One third of the initial grant earned on December 31, 2016, became vested on January 3, 2017, an additional one third became vested on January 3, 2018, and the final one third became vested on January 3, 2019. Additional grants are earned based as defined in the agreement. An additional \$100,000 was earned on both January 1, 2018 and January 1, 2019. The Hospital has accrued the present value of the estimated future benefit payments of the initial grant as of the vesting date, which has been adjusted for the time value of money, using a discount rate of 1.94%, resulting in the net present value recorded as of September 30, 2019 and 2018 of \$414,707 and \$287,616, respectively. As a result, for the years ended September 30, 2019 and 2018, \$8,946 and \$7,537, respectively, is included in interest expense in the consolidated statements of operations and changes in net deficit. All amounts credited earn interest at a rate of 5%. The interest expense related to the plan was \$44,713 and \$48,458 during the years ended September 30, 2019 and 2018, respectively.

Note 18—Subsequent events

On October 18, 2019, the Hospital extended the line of credit with the same terms, maturing on October 18, 2022. See Note 9.

The Hospital has evaluated subsequent events through February 6, 2020, which was the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2019

	Hampton Regional Medical Center	Coastal Plains Physician Associates	Total	Eliminating Entries	Consolidated Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 4,592,160	\$ 33,495	\$ 4,625,655	\$ -	\$ 4,625,655
Patient accounts receivable, net	3,416,601	321,592	3,738,193	-	3,738,193
Certificates of deposit	538,515	-	538,515	-	538,515
Other receivables	2,767	-	2,767	-	2,767
Due from related party	13,425,680	-	13,425,680	(13,425,680)	-
Inventories	447,838	(468)	447,370	-	447,370
Prepaid expenses	230,276	35,900	266,176	-	266,176
Total Current Assets	22,653,837	390,519	23,044,356	(13,425,680)	9,618,676
Property and equipment, net	18,099,975	2,013,827	20,113,802	-	20,113,802
Investments	1,494,838	-	1,494,838	-	1,494,838
Assets limited as to use	4,823,775	-	4,823,775	-	4,823,775
Total Assets	\$ 47,072,425	\$ 2,404,346	\$ 49,476,771	\$ (13,425,680)	\$ 36,051,091
LIABILITIES AND NET ASSETS (DEFICIT)					
Current Liabilities:					
Accounts payable	\$ 961,978	\$ 143,536	\$ 1,105,514	\$ -	\$ 1,105,514
Accrued payroll and payroll withholdings	312,726	75,210	387,936	-	387,936
Accrued paid time off	578,523	12,542	591,065	-	591,065
Accrued interest payable	759,618	-	759,618	-	759,618
Due to related party	-	13,425,680	13,425,680	(13,425,680)	-
Current portion of long-term debt	606,537	76,367	682,904	-	682,904
Current portion of capital lease obligations	14,072	-	14,072	-	14,072
Total Current Liabilities	3,233,454	13,733,335	16,966,789	(13,425,680)	3,541,109
Capital lease obligations, net of current portion	-	-	-	-	-
Long-term debt, net of current portion and debt issuance costs	34,320,753	3,339,966	37,660,719	-	37,660,719
Deferred compensation liability	414,707	-	414,707	-	414,707
Total Liabilities	37,968,914	17,073,301	55,042,215	(13,425,680)	41,616,535
Net Assets (Deficit):					
Net assets (deficit) without donor restrictions	9,093,273	(14,668,955)	(5,575,682)	-	(5,575,682)
Net assets with donor restrictions	10,238	-	10,238	-	10,238
Total Net Assets (Deficit)	9,103,511	(14,668,955)	(5,565,444)	-	(5,565,444)
Total Liabilities and Net Assets (Deficit)	\$ 47,072,425	\$ 2,404,346	\$ 49,476,771	\$ (13,425,680)	\$ 36,051,091

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2018

	Hampton Regional Medical Center	Coastal Plains Physician Associates	Total	Eliminating Entries	Consolidated Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 3,306,286	\$ 43,682	\$ 3,349,968	\$ -	\$ 3,349,968
Patient accounts receivable, net	3,655,566	349,549	4,005,115	-	4,005,115
Certificates of deposit	527,958	-	527,958	-	527,958
Other receivables	75	-	75	-	75
Due from related party	12,483,983	-	12,483,983	(12,483,983)	-
Inventories	425,689	(474)	425,215	-	425,215
Prepaid expenses	246,103	41,818	287,921	-	287,921
Total Current Assets	20,645,660	434,575	21,080,235	(12,483,983)	8,596,252
Property and equipment, net	18,144,757	2,147,125	20,291,882	-	20,291,882
Investments	1,487,506	-	1,487,506	-	1,487,506
Assets limited as to use	5,615,983	-	5,615,983	-	5,615,983
Total Assets	\$ 45,893,906	\$ 2,581,700	\$ 48,475,606	\$ (12,483,983)	\$ 35,991,623
LIABILITIES AND NET ASSETS (DEFICIT)					
Current Liabilities:					
Accounts payable	\$ 956,273	\$ 169,006	\$ 1,125,279	\$ -	\$ 1,125,279
Accrued payroll and payroll withholdings	357,531	83,956	441,487	-	441,487
Accrued paid time off	527,945	19,798	547,743	-	547,743
Accrued interest payable	748,211	-	748,211	-	748,211
Due to related party	-	12,483,983	12,483,983	(12,483,983)	-
Current portion of long-term debt	41,388	73,652	115,040	-	115,040
Current portion of capital lease obligations	75,902	-	75,902	-	75,902
Total Current Liabilities	2,707,250	12,830,395	15,537,645	(12,483,983)	3,053,662
Capital lease obligations, net of current portion	14,917	-	14,917	-	14,917
Long-term debt, net of current portion and debt issuance costs	34,382,726	3,413,862	37,796,588	-	37,796,588
Deferred compensation liability	287,616	-	287,616	-	287,616
Total Liabilities	37,392,509	16,244,257	53,636,766	(12,483,983)	41,152,783
Net Assets (Deficit):					
Net assets (deficit) without donor restrictions	8,491,159	(13,662,557)	(5,171,398)	-	(5,171,398)
Net assets with donor restrictions	10,238	-	10,238	-	10,238
Total Net Assets (Deficit)	8,501,397	(13,662,557)	(5,161,160)	-	(5,161,160)
Total Liabilities and Net Assets (Deficit)	\$ 45,893,906	\$ 2,581,700	\$ 48,475,606	\$ (12,483,983)	\$ 35,991,623

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATING STATEMENT OF OPERATIONS

YEAR ENDED SEPTEMBER 30, 2019

	Hampton Regional Medical Center	Coastal Plains Physician Associates	Total	Eliminating Entries	Consolidated Total
Unrestricted Revenues, Gains, and Other Support:					
Net patient service revenue	\$ 22,891,135	\$ 1,415,313	\$ 24,306,448	\$ -	\$ 24,306,448
Other operating revenue	278,673	6,920	285,593	-	285,593
Total Revenues, Gains, and Other Support	<u>23,169,808</u>	<u>1,422,233</u>	<u>24,592,041</u>	<u>-</u>	<u>24,592,041</u>
Expenses:					
Professional care of patients	12,319,663	1,759,986	14,079,649	(108,000)	13,971,649
Dietary and cafeteria	423,453	-	423,453	-	423,453
General services	705,666	67,101	772,767	-	772,767
Administrative services	4,275,637	342,162	4,617,799	-	4,617,799
Depreciation and amortization	1,360,334	133,298	1,493,632	-	1,493,632
Employee benefits	2,207,198	128,798	2,335,996	-	2,335,996
Interest	1,597,272	131,403	1,728,675	-	1,728,675
Total Expenses	<u>22,889,223</u>	<u>2,562,748</u>	<u>25,451,971</u>	<u>(108,000)</u>	<u>25,343,971</u>
Operating Income (Loss)	<u>280,585</u>	<u>(1,140,515)</u>	<u>(859,930)</u>	<u>108,000</u>	<u>(751,930)</u>
Other Income (Expenses):					
Interest income	194,197	-	194,197	-	194,197
Unrestricted nonoperating income	127,333	134,116	261,449	(108,000)	153,449
Total Other Income (Expenses)	<u>321,530</u>	<u>134,116</u>	<u>455,646</u>	<u>(108,000)</u>	<u>347,646</u>
Excess of revenues, gains, and other support under expenses	<u>602,115</u>	<u>(1,006,399)</u>	<u>(404,284)</u>	<u>-</u>	<u>(404,284)</u>
Change in net assets (deficit) without donor restrictions	<u>\$ 602,115</u>	<u>\$ (1,006,399)</u>	<u>\$ (404,284)</u>	<u>\$ -</u>	<u>\$ (404,284)</u>

HAMPTON REGIONAL MEDICAL CENTER AND SUBSIDIARY

CONSOLIDATING STATEMENT OF OPERATIONS

YEAR ENDED SEPTEMBER 30, 2018

	Hampton Regional Medical Center	Coastal Plains Physician Associates	Total	Eliminating Entries	Consolidated Total
Unrestricted Revenues, Gains, and Other					
Support:					
Net patient service revenue	\$ 21,789,087	\$ 1,461,646	\$ 23,250,733	\$ -	\$ 23,250,733
Other operating revenue	295,260	9,966	305,226	-	305,226
Total Revenues, Gains, and Other Support	<u>22,084,347</u>	<u>1,471,612</u>	<u>23,555,959</u>	<u>-</u>	<u>23,555,959</u>
Expenses:					
Professional care of patients	11,540,717	1,766,907	13,307,624	(108,000)	13,199,624
Dietary and cafeteria	403,166	-	403,166	-	403,166
General services	665,588	66,469	732,057	-	732,057
Administrative services	3,923,528	403,718	4,327,246	-	4,327,246
Depreciation and amortization	1,502,222	164,691	1,666,913	-	1,666,913
Employee benefits	2,073,576	146,024	2,219,600	-	2,219,600
Interest	1,601,782	134,076	1,735,858	-	1,735,858
Total Expenses	<u>21,710,579</u>	<u>2,681,885</u>	<u>24,392,464</u>	<u>(108,000)</u>	<u>24,284,464</u>
Operating Income (Loss)	<u>373,768</u>	<u>(1,210,273)</u>	<u>(836,505)</u>	<u>108,000</u>	<u>(728,505)</u>
Other Income (Expenses):					
Interest income	131,451	-	131,451	-	131,451
Unrestricted nonoperating income	26,763	131,717	158,480	(108,000)	50,480
Loss on early extinguishment of debt	(858,048)	-	(858,048)	-	(858,048)
Total Other Income (Expenses)	<u>(699,834)</u>	<u>131,717</u>	<u>(568,117)</u>	<u>(108,000)</u>	<u>(676,117)</u>
Excess of revenues, gains, and other support over (under) expenses	<u>(326,066)</u>	<u>(1,078,556)</u>	<u>(1,404,622)</u>	<u>-</u>	<u>(1,404,622)</u>
Change in net assets (deficit) without donor restrictions	<u>\$ (326,066)</u>	<u>\$ (1,078,556)</u>	<u>\$ (1,404,622)</u>	<u>\$ -</u>	<u>\$ (1,404,622)</u>