

Hugh Chatham Memorial Hospital, Inc. and Affiliates

Consolidated Financial Statements and

Supplementary Information

Years Ended September 30, 2017 and 2016

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Independent Auditors' Report

To the Board of Trustees
Hugh Chatham Memorial Hospital, Inc. and Affiliates
Elkin, North Carolina

Report on the Consolidated Financial Statements

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

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

Report on Supplementary Information

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

Dixon Hughes Goodman LLP

**Charlotte, North Carolina
January 23, 2018**

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Consolidated Balance Sheets
September 30, 2017 and 2016

	<u>2017</u>	<u>As Adjusted 2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,198,882	\$ 12,690,332
Assets limited as to use	4,040,297	4,065,282
Patient accounts receivable (net of allowance for uncollectible accounts of approximately \$12,436,000 in 2017 and \$14,663,000 in 2016)	9,526,802	9,651,796
Other receivables	689,604	977,004
Supplies	922,659	924,705
Prepaid expenses	1,746,165	1,915,242
	<hr/>	<hr/>
Total current assets	30,124,409	30,224,361
Assets limited as to use, net of current portion	936,196	892,011
Investments	132,802,723	113,600,624
Property and equipment, net	64,992,393	67,655,569
Investment in joint venture	5,332,400	4,656,695
Intangible assets and goodwill, net	1,309,064	1,290,779
Other assets	81,290	101,790
	<hr/>	<hr/>
Total assets	<u>\$ 235,578,475</u>	<u>\$ 218,421,829</u>

See accompanying notes.

	<u>2017</u>	<u>As Adjusted 2016</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of capital lease obligations	\$ 17,685	\$ -
Current portion of long-term debt	2,435,000	2,400,000
Interest payable	477,225	489,881
Accounts payable	2,324,535	1,983,840
Accrued expenses	7,971,628	8,202,789
Resident trust funds	62,927	67,696
Physician recruitment guarantee	218,651	188,818
Estimated third-party payor settlements payable	5,076,214	5,305,742
	<u>18,583,865</u>	<u>18,638,766</u>
Interest rate swaps	4,970,979	8,418,643
Capital lease obligations, less current portion	80,927	-
Long-term debt, less current portion	61,931,815	64,317,377
	<u>85,567,586</u>	<u>91,374,786</u>
Net assets:		
Unrestricted	146,386,620	123,595,692
Temporarily restricted	3,624,269	3,451,351
	<u>150,010,889</u>	<u>127,047,043</u>
Total liabilities and net assets	<u>\$ 235,578,475</u>	<u>\$ 218,421,829</u>

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Consolidated Statements of Operations
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted revenues:		
Patient service revenue, net of contractual allowances, discounts and charity care	\$ 106,743,634	\$ 103,293,341
Provision for uncollectible accounts	<u>(14,305,066)</u>	<u>(14,581,904)</u>
Net patient service revenue	92,438,568	88,711,437
Other operating revenue	<u>1,855,598</u>	<u>2,471,112</u>
Total unrestricted revenues	<u>94,294,166</u>	<u>91,182,549</u>
Expenses:		
Salaries and wages	41,021,143	40,551,158
Employee benefits	10,674,350	10,251,503
Medical supplies and other expenses	32,915,641	32,328,044
Depreciation and amortization	6,446,036	6,442,123
Interest expense	<u>2,500,137</u>	<u>3,719,778</u>
Total expenses	<u>93,557,307</u>	<u>93,292,606</u>
Operating income (loss)	<u>736,859</u>	<u>(2,110,057)</u>
Nonoperating revenues and expenses:		
Investment income, net	12,289,948	8,279,045
Income from investment in joint venture	295,024	233,323
Change in value of interest rate swaps	3,447,664	(2,474,150)
Recognized losses on other than temporarily impaired investments	<u>(713,954)</u>	<u>(1,600,561)</u>
Total net nonoperating revenues and expenses	<u>15,318,682</u>	<u>4,437,657</u>
Excess of revenues over expenses	16,055,541	2,327,600
Change in net unrealized gains on investments	6,159,278	1,918,069
Gifts, grants and bequests	<u>576,109</u>	<u>19,592</u>
Increase in unrestricted net assets	<u>\$ 22,790,928</u>	<u>\$ 4,265,261</u>

See accompanying notes.

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2017 and 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance, September 30, 2015	\$ 119,330,431	\$ 3,190,489	\$ 122,520,920
Excess of revenues over expenses	2,327,600	-	2,327,600
Change in net unrealized gains on investments	1,918,069	-	1,918,069
Gifts, grants and bequests	19,592	260,862	280,454
Change in net assets	<u>4,265,261</u>	<u>260,862</u>	<u>4,526,123</u>
Balance, September 30, 2016	<u>123,595,692</u>	<u>3,451,351</u>	<u>127,047,043</u>
Excess of revenues over expenses	16,055,541	-	16,055,541
Change in net unrealized gains on investments	6,159,278	-	6,159,278
Gifts, grants and bequests	576,109	303,505	879,614
Net assets released from restrictions for operations	<u>-</u>	<u>(130,587)</u>	<u>(130,587)</u>
Change in net assets	<u>22,790,928</u>	<u>172,918</u>	<u>22,963,846</u>
Balance, September 30, 2017	<u><u>\$ 146,386,620</u></u>	<u><u>\$ 3,624,269</u></u>	<u><u>\$ 150,010,889</u></u>

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating activities:		
Change in net assets	\$ 22,963,846	\$ 4,526,123
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss (gain) on disposal of property and equipment	34,791	(8,865)
Contributions for long-term purposes	(879,614)	(280,454)
Net realized and unrealized gains on investments	(14,489,211)	(6,823,024)
Realized gain on investment in joint venture	(675,705)	(38,278)
Depreciation and amortization	6,446,036	6,442,123
Deferred financing costs interest	49,438	1,132,213
Amortization of intangible asset included in medical supplies and other expenses	86,565	193,762
Provision for uncollectible accounts	14,305,066	14,581,904
Change in value of interest-rate swap	(3,447,664)	2,474,150
Changes in assets and liabilities:		
Patient accounts receivable	(14,180,072)	(16,226,504)
Other operating assets, net	458,523	(195,799)
Estimated third-party payor settlements	(229,528)	687,032
Accounts payable, accrued expenses, and other current liabilities	142,442	(2,026,850)
Net cash provided by operating activities	<u>10,584,913</u>	4,437,533
Investing activities:		
Purchase of property and equipment	(3,582,480)	(2,967,047)
Proceeds from sale of nursing center	1,760	-
(Payments) receipts of physician recruitment guarantees	29,833	(182,246)
Purchase of goodwill related to physician practice	(104,850)	-
Purchase of assets limited as to use	(26,511,820)	(59,607,612)
Sales of assets limited as to use	21,779,732	56,958,509
Net cash used by investing activities	<u>(8,387,825)</u>	(5,798,396)
Financing activities:		
Payment of accounts payable to purchase property and equipment	(160,339)	(54,496)
Contributions for long-term purposes	879,614	280,454
Net changes in unconditional promises to give	-	6,240
Payments on capital lease obligations	(7,813)	-
Payments on long-term debt	(2,400,000)	(1,990,000)
Net cash used by financing activities	<u>(1,688,538)</u>	(1,757,802)
Net increase (decrease) in cash and cash equivalents	508,550	(3,118,665)
Cash and cash equivalents, beginning of year	<u>12,690,332</u>	15,808,997
Cash and cash equivalents, end of year	<u>\$ 13,198,882</u>	<u>\$ 12,690,332</u>
Supplemental cash flow disclosure information:		
Cash paid during the year for interest, excluding amounts capitalized	<u>\$ 2,512,793</u>	<u>\$ 2,844,373</u>
Supplemental schedule of noncash investing and financial activities:		
Purchases of property and equipment included in accounts payable	<u>\$ 110,006</u>	<u>\$ 160,339</u>
Property and equipment financed with capital lease	<u>\$ 106,425</u>	<u>\$ -</u>
Acquisition of intangible asset through physician recruitment guarantee	<u>\$ 29,833</u>	<u>\$ -</u>

See accompanying notes.

Notes to Consolidated Financial Statements

1. Organization

Hugh Chatham Memorial Hospital, Inc. is a not-for-profit acute care hospital located in Elkin, North Carolina. The Hospital provides birthing and acute care services in addition to retirement community and home health services, primarily to the residents of Surry County, North Carolina and surrounding counties.

During fiscal 1997, the Hugh Chatham Memorial Hospital Foundation (the "Foundation") was established. Substantially all of the funds solicited by the Foundation are intended by the contributor or are otherwise required to be transferred to Hugh Chatham Memorial Hospital, Inc. Additionally, the Foundation's Board of Trustees is appointed by Hugh Chatham Memorial Hospital, Inc.'s Board of Trustees. As a result, the Foundation has been consolidated for presentation purposes.

During fiscal 1958, the Hugh Chatham Memorial Hospital Auxiliary (the "Auxiliary") was established. This corporation was established to engage in activities that are devoted to charitable purposes, and shall promote, enhance, and support Hugh Chatham Memorial Hospital. Additionally, the Auxiliary's Board of Trustees is appointed by Hugh Chatham Memorial Hospital, Inc.'s Board of Trustees. As a result, the Auxiliary has been consolidated for presentation purposes.

2. Summary of Significant Accounting and Reporting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Hugh Chatham Memorial Hospital, Inc., the Foundation and the Auxiliary for the years ended September 30, 2017 and 2016. Collectively, they are referred to as the "Hospital." All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less when purchased, excluding amounts whose use is limited.

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements

Patient Accounts Receivable

Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. Allowances for uncollectible accounts are computed based on statistical information from current and prior years' experience. Patient accounts receivable are written off when deemed uncollectible.

The Hospital grants credit to patients without collateral, substantially all of whom are from Surry county and surrounding areas. The Hospital's allowance for doubtful accounts for self-pay patients decreased from 88% percent of self-pay accounts receivable at September 30, 2016, to 86% percent of self-pay accounts receivable at September 30, 2017, due to a proportional decrease in patient receivables in the self-pay classification. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Supplies

Supplies are stated at the lower of cost (weighted average method) or market.

Assets Limited as to Use

Assets limited as to use include assets restricted by a third party for resident trust funds and assets restricted by trustee under an indenture agreement.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities 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 excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments except those determined to be other than temporarily impaired are excluded from excess of revenues over expenses, as the investments do not include any trading securities. Any other-than-temporary declines are accounted for as a recognized loss within nonoperating revenues and expenses, whereby the historical cost of the related investment would be adjusted to the then-current fair market value.

Interest Rate Swaps

The Hospital holds two interest rate swap agreements to mitigate variable interest rate exposure. The notional amounts dictate the payments between the counterparties. The changes in fair value and balance sheet classifications are consistent with accounting standards for derivative instruments (see Note 9).

Property and Equipment

Property and equipment are recorded at cost, except donated assets, which are recorded at fair value at date of receipt. Depreciation for financial reporting purposes is calculated using the straight-line method over the estimated useful life as established by the American Hospital Association, with the following ranges:

Land improvements	5 to 25 years
Buildings	5 to 40 years
Fixed and moveable equipment	3 to 20 years

Investment in Joint Venture

During fiscal 1982, Hospice of Surry County, Inc. ("Hospice") was established. This corporation was established to engage in activities that are devoted to health, educational and research purposes, including the establishment of terminal care facilities. As of October 1, 2005, Hospice was transferred to a joint venture between Hugh Chatham Memorial Hospital, Inc. and Northern Hospital District of Surry County. This investment is accounted for using the equity method (see Note 8).

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements

Deferred Financing Costs

Effective October 1, 2016, the Company has adopted ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which amends current presentation guidance by requiring debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. Prior to the issuance of this ASU, an entity would present debt issuance costs as an asset. The new accounting guidance simplifies the presentation as debt issuance costs are now shown as a direct deduction from bonds payable. The balance sheet as of September 30, 2016 has been adjusted to reflect retrospective application of new accounting guidance as follows:

	<u>Previously Reported</u>	<u>Retrospective Adjustments</u>	<u>As Adjusted</u>
Assets:			
Debt financing costs, net	\$ 287,623	\$ (287,623)	\$ -
Total assets	\$ 218,709,452	\$ (287,623)	\$ 218,421,829
Liabilities and stockholders' deficit			
Long-term debt, less current portion	\$ 64,605,000	\$ (287,623)	\$ 64,317,377
Total liabilities	\$ 91,662,409	\$ (287,623)	\$ 91,374,786
Total liabilities and net assets	\$ 218,709,452	\$ (287,623)	\$ 218,421,829

Deferred financing costs are amortized over the period the related obligation is outstanding. Amortization is included in interest expense in the consolidated statements of operations. The Hospital reported interest expense of \$49,438 and \$1,132,213 related to these amortized costs during the years ended September 30, 2017 and 2016, respectively.

Intangible Assets and Goodwill

Intangible assets and goodwill include physician contracts which are being amortized over the term of the agreements and goodwill related to the purchase of physician practices which are being tested annually for impairment. The physician contract assets are the result of physician income guarantees and are based on the expected payments over the term of the guarantees. The Hospital acquired goodwill through the purchase of physician practices. Fair value of the goodwill is determined using discounted cash flow analysis. There was no impairment calculated as of September 30, 2017 or 2016.

Physician Recruitment Guarantee

The Hospital accounts for physician income guarantee agreements based on the net present value of expected future payments.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are transferred to unrestricted net assets when donor restrictions as to time and purpose have been met, and are shown as assets released from restrictions in the accompanying consolidated financial statements.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, reviews and investigations. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews or investigations.

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements

Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, estimated costs have been incurred, but associated charges have not been reflected in net patient service revenues. The Hospital estimates the costs incurred by multiplying the cost-to-charge ratio by the charges forgone by the Hospital. The amount of charity costs incurred were approximately \$1,278,000 and \$1,375,000 for the years ended September 30, 2017 and 2016, respectively.

Income Taxes

The Hospital, Foundation, and Auxiliary are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Hospital has determined that it does not have any material unrecognized tax benefits or obligations as of September 30, 2017.

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 either temporarily restricted or permanently restricted support if they are received with donor stipulations that restrict the donated assets as to use or time. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the consolidated financial statements as net assets released from restriction.

Operating Income (Loss)

The consolidated statements of operations distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Operating expenses are all expenses incurred to provide healthcare services. Nonoperating revenues and expenses include investment income and other transactions that are not directly attributable to providing health care services.

Excess of Revenues over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for purposes of acquiring such assets).

Functional Expenses

The Hospital does not present expense information by functional classification because its resources and activities are primarily related to providing healthcare services. Further, since the Hospital receives substantially all of its resources from providing healthcare services in a manner similar to a business enterprise, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged their stewardship responsibilities.

Hugh Chatham Memorial Hospital, Inc. and Affiliates

Notes to Consolidated Financial Statements

Fair Value Measurements

Fair value, as defined under generally accepted accounting principles, is an exit price representing 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. The Hospital utilizes market data or assumptions that market participants would use in pricing the asset or liability. Generally accepted accounting principles establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Hospital's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities, and their placement within the fair value hierarchy levels.

Medicare Incentive Payments for Meaningful Use of Electronic Health Records

The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that "meaningfully use" certified electronic health record ("EHR") technology. The Hospital successfully demonstrated "meaningful use" during fiscal years 2017 and 2016. The Hospital recognizes payments using the cliff recognition method under the grant accounting model. Under the cliff recognition method, revenue is recorded once all conditions associated with grant compliance are met. The amount of grant income recognized is based on management's estimates, which are subject to change. During the years ended September 30, 2017 and 2016, the Hospital recognized revenue of \$118,000 and \$503,000, respectively, which has been included in other operating revenue in the consolidated statement of operations. Changes in management's estimates could impact the operations in the period in which the change occurs. The Hospital's attestation to meaningful use of EHR is subject to audit by the federal government or its designee.

Subsequent Events

The Hospital evaluated the effect subsequent events would have on the consolidated financial statements through January 23, 2018, which is the date the consolidated financial statements were available for issuance.

3. Net Patient Service Revenue, Less Provision for Uncollectible Accounts

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with third-party payors follows:

- **Medicare** - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge using a DRG (Diagnosis-Related Group) system. These rates vary according to patient classification and clinical, diagnostic and other factors. Inpatient non-acute services, and certain defined capital and medical education costs related to Medicare beneficiaries, are paid based on a cost reimbursement methodology. Inpatient capital costs are paid at prospectively determined rates as a component of the DRG payment. Certain outpatient services are paid based on APCs (Ambulatory Payment Classifications), the outpatient equivalent of DRGs. Certain outpatient Medicare services paid under a Medicare fee schedule and certain therapy charges are exempt from this payment method. The Hospital is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the fiscal intermediary for cost report years ended through September 30, 2013.

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements

- **Medicaid** - The North Carolina Department of Human Resources Division of Medical Assistance reimburses costs for Medicaid inpatient services using a payment per discharge system with case-mix adjustments based on DRGs similar to those used by the Medicare program. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after it submits its annual Medicaid cost reports. The Hospital's Medicaid cost reports have been audited by the Medicaid program through September 30, 2014.
- **Other** - The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations, and directly with local employers. The bases for payment to the Hospital under these arrangements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Revenues from the Medicare and Medicaid programs accounted for approximately 41% and 42% of the Hospital's patient revenue for the years ended 2017 and 2016, respectively. 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.

Net patient service revenue increased approximately \$613,000 and \$291,000 in the years ended September 30, 2017 and 2016, respectively, due to prior-year retroactive adjustments varying from amounts previously estimated.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or 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 uncollectible accounts related to uninsured patients in the period the services are provided.

The composition of net patient service revenue for the years ended September 30 is as follows:

	<u>2017</u>	<u>2016</u>
Gross patient service charges	\$ 311,574,494	\$ 308,244,651
Less: contractual allowances and discounts	(199,637,846)	(199,842,592)
Less: charity care	<u>(5,193,014)</u>	<u>(5,108,718)</u>
Patient service revenue, net of contractual allowances, discounts and charity care	106,743,634	103,293,341
Less: provision for uncollectible accounts	<u>(14,305,066)</u>	<u>(14,581,904)</u>
Net patient service revenue	<u>\$ 92,438,568</u>	<u>\$ 88,711,437</u>

In April 2012, the Centers for Medicare and Medicaid Services ("CMS") approved a North Carolina Medicaid Gap Assessment Plan ("GAP") to reduce the gap between Medicaid/ uninsured costs and payments retroactive to January 1, 2011. Hospitals that participate in the program pay an assessment fee and, in turn, receive a payment from GAP.

Hugh Chatham Memorial Hospital, Inc. and Affiliates Notes to Consolidated Financial Statements

The Hospital paid approximately \$11,355,000 and \$8,857,000 and recognized (received) approximately \$25,438,000 and \$20,169,000 for the years ended September 30, 2017 and 2016, respectively, for the GAP program. The net impact of approximately \$14,083,000 and \$11,312,000 is included in other operating revenue on the statement operations and changes in net assets.

Medicaid Disproportionate Share Program

The Hospital participates in a voluntary Medicaid disproportionate share program (the "Program"). The Program allows the Hospital to receive additional annual Medicaid funding. Prior to 2001, funding was received prior to final approval of the Program by the Centers for Medicare and Medicaid Services ("CMS") and was subject to final settlement by the state of North Carolina once approved by CMS. Beginning in 2001, CMS approved the Program year concurrent with the funding of the Program. Program years run concurrent with the federal fiscal year, which is the period from October 1 through September 30. Fiscal years through 2007 have been final settled or determined to be prospective and no settlement is anticipated. Fiscal years 2009 through 2013 are pending final settlement as of September 30, 2017; however, with increased history of no settlements being required, management has released or reclassified all Program reserves. No Program monies were received during the year ending September 30, 2017. Management will continue to evaluate the program and the likelihood of settlement annually.

4. Concentration of Credit Risk

The Hospital maintains deposits at various financial institutions covered by federal depository insurance ("FDIC"). At various times throughout the year, the Hospital may maintain amounts in excess of the FDIC-insured limits. The Hospital believes that any credit risk related to these deposits is minimal.

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

	<u>2017</u>	<u>2016</u>
Medicare	14%	16%
Medicaid	4	5
Commercial insurance	61	56
Self-pay patients	<u>21</u>	<u>23</u>
	<u>100%</u>	<u>100%</u>

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements

5. Investments

The composition of investments at September 30, 2017 and 2016 is set forth in the following table. Investments are stated at fair value.

	<u>2017</u>	<u>2016</u>
Cash and money market	\$ 4,007,615	\$ 5,289,869
U.S. government securities		
FNMA notes	6,021,035	4,709,926
Federal farm credit	970,160	1,000,010
U.S. Treasury notes	771,090	836,088
U.S. Treasury bonds	1,735,006	1,914,081
Corporate bonds	21,154,904	16,417,554
Equity securities		
Domestic equity securities	85,982,640	74,984,551
International equity securities	287,051	290,789
Mutual funds	11,662,517	7,843,240
Alternative investments	-	154,600
Accrued interest	<u>210,705</u>	<u>159,916</u>
Total investments	<u>\$ 132,802,723</u>	<u>\$ 113,600,624</u>

Investment income and gains (losses) on assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended September 30:

	<u>2017</u>	<u>2016</u>
Nonoperating revenues and expenses:		
Interest and dividends (net of expenses of approximately \$592,000 in 2017 and \$519,000 in 2016)	\$ 3,242,602	\$ 1,773,529
Recognized losses on other than temporarily impaired investments	(713,954)	(1,600,561)
Net realized gains on sale of investments	<u>9,047,346</u>	<u>6,505,516</u>
	<u>\$ 11,575,994</u>	<u>\$ 6,678,484</u>
Other changes in unrestricted net assets:		
Net unrealized gain (loss) on investments	<u>\$ 6,159,278</u>	<u>\$ 1,918,069</u>

The Hospital recorded a loss on investments held at September 30, 2017 and 2016 in nonoperating revenues and expenses that are considered other than temporarily impaired or for which there is a lack of ability and intent to hold the investment until recovery, based on the policy outlined in Note 2.

Risks and Uncertainties

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, the possibility is reasonable that changes in the values of investment securities will occur in the near term and that these changes could materially affect the amounts reported in the consolidated balance sheets.

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements

6. Assets limited as to use

The composition of assets limited as to use at September 30, 2017 and 2016 is set forth in the following table. Investments are stated at fair value.

	<u>2017</u>	<u>2016</u>
By third party for resident trust funds:		
Cash	\$ 62,927	\$ 67,697
By trustee under indenture agreement:		
Cash and money market	4,524,892	2,903,324
U.S. government securities		
Federal farm credit obligations	<u>388,674</u>	<u>1,986,272</u>
	<u>4,976,493</u>	<u>4,957,293</u>
Less current portion, by trustee under indenture agreement	<u>4,040,297</u>	<u>4,065,282</u>
Assets limited as to use, noncurrent	<u>\$ 936,196</u>	<u>\$ 892,011</u>

7. Property and Equipment

A summary of property and equipment as of September 30 is as follows:

	<u>2017</u>	<u>2016</u>
Property and equipment:		
Land and land improvements	\$ 11,732,616	\$ 11,743,354
Buildings	89,701,470	89,515,258
Fixed and movable equipment	<u>50,251,874</u>	<u>49,237,933</u>
	<u>151,685,960</u>	<u>150,496,545</u>
Less: accumulated depreciation	<u>(87,791,073)</u>	<u>(83,775,861)</u>
	<u>63,894,887</u>	<u>66,720,684</u>
Construction-in-progress	<u>1,097,506</u>	<u>934,885</u>
Property and equipment, net	<u>\$ 64,992,393</u>	<u>\$ 67,655,569</u>

There is \$81,290 in land held for sale in other assets on the consolidated balance sheet that was received as the result of a donation.

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements

8. Investment in Joint Venture

On October 1, 2005, the Hospital entered into a joint venture with Northern Hospital District of Surry County to combine and operate the hospice services previously provided separately. Hospice of Surry County, Inc., d/b/a Mountain Valley Hospice and Palliative Care (the "Hospice"), is a tax-exempt entity under section 501(c)(3) and is audited separately from the Hospital. The Hospice is equally owned and controlled by the Hospital and Northern Hospital District of Surry County. The Hospital transferred assets including cash and capital assets to the new entity in exchange for the investment in joint venture. Income or loss from this joint venture is reported on a consistent basis with the Hospital reporting. The Hospital's portion of operating income or loss of the Hospice is reported as other operating revenue in unrestricted revenues; and nonoperating revenues and expenses of Hospice are reported as income from investment in joint venture in nonoperating revenues and expenses. The Hospital's portion of operating income (loss) reported for the years ended September 30, 2017 and 2016 was approximately \$(338,000) and (196,000), respectively. The Hospital's portion of nonoperating revenues for the years ended September 30, 2017 and 2016 was approximately \$295,000 and \$233,000, respectively. The total investment at September 30, 2017 and 2016 was approximately \$5,332,000 and \$4,657,000, respectively.

9. Long-Term Debt

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

	<u>2017</u>	<u>2016</u>
North Carolina Medical Care Commission Healthcare Facilities Refunding Revenue Bonds, Series 2015, serial bonds with principal maturing in varying annual amounts through fiscal year 2030, and interest paid semi-annually at 3.26%	\$ 23,845,000	\$ 25,495,000
North Carolina Medical Care Commission Variable Rate Demand Health Care Facilities Revenue Bonds, Series 2008, serial bonds with principal maturing in varying annual amounts through fiscal year 2038	<u>40,760,000</u>	<u>41,510,000</u>
	64,605,000	67,005,000
Less: current portion	(2,435,000)	(2,400,000)
Less: unamortized debt issuance costs	(238,185)	(287,623)
Long-term debt, net of current portion	<u>\$ 61,931,815</u>	<u>\$ 64,317,377</u>

During 2008, the Hospital issued \$45.4 million North Carolina Medical Care Commission Variable Rate Demand Health Care Facilities Revenue Bonds. Interest on the financing project is computed at variable rates subject to adjustment as stipulated in the loan agreements. During the year ended September 30, 2013, the Hospital converted the 2008 bonds to a direct purchase index interest rate mode with Wells Fargo Bank. At September 30, 2017 and 2016 interest on the bonds was for 4.06% both years.

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements

The future debt service requirements of long-term debt based upon the prevailing interest rate at September 30, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,435,000	\$ 2,376,093	\$ 4,811,093
2019	2,465,000	2,289,315	4,754,315
2020	2,495,000	2,201,320	4,696,320
2021	2,530,000	2,111,920	4,641,920
2022	2,570,000	2,020,914	4,590,914
Thereafter	<u>52,110,000</u>	<u>18,570,037</u>	<u>70,680,037</u>
	<u>\$ 64,605,000</u>	<u>\$ 29,569,599</u>	<u>\$ 94,174,599</u>

10. Capital Lease Obligations

The Hospital leases various vehicles under capital leases. The monthly payments range from \$234 to \$276 per month, including interest at approximately 9.4%. The leases expire on various dates through 2022.

At September 30, future minimum lease payments required under capital leases are as follows:

2018	\$ 26,208
2019	26,208
2020	26,208
2021	25,546
2022	<u>18,069</u>
Total minimum lease payments	122,239
Less interest	<u>(23,627)</u>
	98,612
Less current portion	<u>(17,685)</u>
Noncurrent portion	<u>\$ 80,927</u>

As of September 30, 2017, depreciable capital assets on the balance sheet included \$96,127 of equipment under capital leases, net of accumulated depreciation of \$10,298. Amortization of property under capital leases is included in depreciation and amortization expense.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	<u>2017</u>	<u>2016</u>
Capital campaign	\$ 3,433,108	\$ 3,300,686
Other	<u>191,161</u>	<u>150,665</u>
	<u>\$ 3,624,269</u>	<u>\$ 3,451,351</u>

12. Board-Designated Endowment Funds

The Foundation's board-designated endowment consists of funds established for a variety of purposes. The endowment includes no donor-restricted endowment funds and is therefore reported as unrestricted. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original designated endowment funds, absent board action to the contrary. As a result of this interpretation, the Foundation classifies as board-designated net assets (a) the original value of gifts designated as endowment, (b) the original value of any subsequent designations to the endowment, and (c) accumulations to the endowment earnings at the discretion of the board is added to the fund. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate earnings within the endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation's endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment Net Asset Composition by Type of Fund as of September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds				
Board-designated	<u>\$ 618,674</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 618,674</u>

Endowment Net Asset Composition by Type of Fund as of September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds				
Board-designated	<u>\$ 618,674</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 618,674</u>

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets designated by the Board of the Foundation with the intent to hold the assets in perpetuity. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return on equity investments comparable to the S&P 500 average and a fixed-income yield comparable to market indices annually. Actual returns in any given year may vary from this amount.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of spending the net investment earnings of the assets, but spending is ultimately at the Board's discretion. Accordingly, over the long term, the Foundation expects the current spending policy to use investment earnings, in whole or in part, and allow its endowment to grow through earnings.

13. Employee Health Benefit Plan

The Hospital has a nontrusteed Employee Health Benefit Plan (the "Plan") for the purpose of providing health and welfare benefits for its employees and their eligible dependents. The Plan is funded by Hospital contributions and employee withholdings. Benefits provided are similar to those previously provided through group insurance contracts. Monthly contributions are made based upon expected claims for the year, and such contributions are recorded as expenses when made. Total employee health benefit plan expense for the years ended September 30, 2017 and 2016 was approximately \$5,772,000 and \$5,611,000, respectively. The Hospital's liability for claims payable of approximately \$751,000 and \$858,000 at September 30, 2017 and 2016, respectively, is included in accrued expenses within the accompanying consolidated balance sheets.

14. Employee Savings Plan

The Hospital's 401(k) plan covers substantially all employees who have completed one year of service and have attained 21 years of age. The Hospital contributes 50% of the first 4% of base compensation that an employee contributes to the 401(k) plan. The 401(k) plan also provides for a gain-sharing contribution to be made at the discretion of the Hospital's Board of Trustees. The Hospital's contribution to the 401(k) plan was approximately \$577,000 and \$581,000 for the years ended September 30, 2017 and 2016, respectively.

15. Commitments and Contingencies

The Hospital is subject to legal proceedings and claims that arise in the course of providing healthcare services. The Hospital is self-insured for malpractice claims up to \$1,000,000 per occurrence and is insured through a third-party general liability policy for claims arising that exceed this limit, with a maximum of \$5,000,000. At September 30, 2017 and 2016, the Hospital has recorded a liability for potential unasserted claims in the amount of approximately \$1,800,000 and \$2,275,000, respectively. This liability is included in accrued expenses within the accompanying consolidated balance sheets.

The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without a material adverse effect on the Hospital's financial position or results of operations.

Hugh Chatham Memorial Hospital, Inc. and Affiliates

Notes to Consolidated Financial Statements

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.

Management believes the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. 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.

The Hospital has a contract with an outside organization to provide equipment and staffing for a radiation oncology department. Fees paid to the organization total approximately \$1,155,000 and \$1,161,000 for the years ended September 30, 2017 and 2016, respectively. The contract ended June 30, 2017 and was renewed through June 30, 2018.

The Hospital has committed to provide certain financial assistance pursuant to recruiting agreements with various physicians practicing in the communities it serves. In consideration for a physician relocating to the community and agreeing to engage in private practice for the benefit of the respective community, the Hospital may loan certain amounts of money to a physician, normally over a period of two years, to assist in establishing his or her practice. The Hospital has guarantee agreements with maximum payments of approximately \$1,280,000 and \$1,050,000 at September 30, 2017 and 2016, respectively, over periods of one to two years. The payments are forgiven over the two- to five-year contract periods.

As of September 30, 2017 and 2016, the Hospital had paid approximately \$1,062,000 and \$861,000, respectively, related to the agreements, and expected to make additional payments, which are recorded in physician recruitment guarantee liabilities in the accompanying consolidated financial statements, totaling approximately \$219,000 and \$189,000, respectively. During the years ended September 30, 2017 and 2016, approximately \$238,000 and \$272,000, respectively, was recorded as amortization related to the agreements.

16. Management Agreement

The Hospital entered into a management agreement in June 2006 with an unrelated corporation whereby the management company will perform management and administration services on a day-to-day basis. The agreement, which expired in June 2016 and was renewed in October 2016 with terms extended to September 2021, calls for a base management fee of approximately \$220,000 in the first year with annual increases to approximate the increase in consumer price index. In addition to the annual fee, the Hospital is required to pay the salaries, bonuses agreed upon by the Board, and all fringe benefits of the management company's key personnel who perform the administrative duties. For the years ended September 30, 2017 and 2016, the management fees were approximately \$233,000. The amount of salary and fringe benefit expense related to the agreement was approximately \$480,000 and \$477,000 for the years ended September 30, 2017 and 2016, respectively.

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements

17. Fair Value of Financial Assets and Liabilities

The carrying amounts of cash and cash equivalents and accounts receivable approximate fair value because of the short maturity of these financial instruments. Investments are reported at fair value. The carrying amounts of accounts payable, accrued liabilities, and estimated third-party settlements approximate fair value because of the short maturity of these financial instruments.

Prices for certain cash equivalents, such as commercial paper and money market mutual funds, and investment securities are readily available in the active markets in which those securities are traded, and the resulting fair values are categorized as Level 1. Prices for mortgage-backed securities and interest rate swaps are determined on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2. Interest rate swap values are based on present value of discounted future cash flows.

There were no changes during the years ended September 30, 2017 and 2016 to the Hospital's valuation techniques used to measure asset and liability fair values on a recurring basis.

The following table sets forth by level within the fair value hierarchy the Hospital's financial assets and liabilities accounted for at fair value on a recurring basis as of September 30, 2017 and 2016. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Hospital's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Assets (Liabilities) at Fair Value as of September 30, 2017

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets:			
Mutual funds	\$ 11,662,518	\$ -	\$ -
Marketable equity securities			
Domestic equity securities	85,982,640	-	-
International equity securities	287,051	-	-
U.S. government securities			
FNMA notes	6,021,035	-	-
U.S. Treasury notes	771,090	-	-
U.S. Treasury bonds	1,735,006	-	-
Federal farm credit obligations	1,358,834	-	-
Corporate bonds	<u>21,154,904</u>	-	-
Total assets	<u>\$128,973,078</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:			
Interest rate swaps	<u>\$ -</u>	<u>\$ 4,970,979</u>	<u>\$ -</u>

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Notes to Consolidated Financial Statements

Assets (Liabilities) at Fair Value as of September 30, 2016

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets:			
Mutual funds	\$ 7,843,240	\$ -	\$ -
Marketable equity securities			
Domestic equity securities	74,984,551	-	-
International equity securities	290,789	-	-
U.S. government securities			
FNMA notes	4,709,924	-	-
U.S. Treasury notes	836,088	-	-
U.S. Treasury bonds	1,914,081	-	-
Federal farm credit obligations	2,986,282	-	-
Alternative investment	154,600	-	-
Corporate bonds	<u>16,417,554</u>	-	-
Total assets	<u>\$110,137,109</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:			
Interest rate swaps	<u>\$ -</u>	<u>\$ 8,418,643</u>	<u>\$ -</u>

There was no Level 3 activity during the years ended September 30, 2017 and 2016.

The Hospital has approximately \$8,595,000 and \$8,261,000 of cash and cash equivalents and \$211,000 and \$160,000 of accrued interest included in assets limited as to use as of September 30, 2017 and 2016, respectively, which were not classified as a level.

18. Related-Party Transactions

The Hospital has sold supplies and provided other services to Hospice. Total supplies and services amounted to approximately \$45,000 and \$28,000 for the years ended September 30, 2017 and 2016, respectively. In addition, at September 30, 2017 and 2016, Hospice owed balances of approximately \$1,100 and \$200, respectively, related to these supplies and services.

Supplementary Information

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Consolidating Balance Sheet Information
September 30, 2017

	<u>Hospital</u>	<u>Foundation</u>	<u>Auxiliary</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS					
Cash and cash equivalents	\$ 12,693,512	\$ 302,536	\$ 202,834	\$ -	\$ 13,198,882
Assets limited as to use	4,040,297	-	-	-	4,040,297
Patient accounts receivable (net of allowance for uncollectible accounts of approximately \$12,436,000)	9,526,802	-	-	-	9,526,802
Other receivables	800,989	2,350	-	(113,735)	689,604
Unconditional promises to give, current	-	233,621	-	(233,621)	-
Supplies	907,403	-	15,256	-	922,659
Prepaid expenses	1,746,165	-	-	-	1,746,165
	<u>29,715,168</u>	<u>538,507</u>	<u>218,090</u>	<u>(347,356)</u>	<u>30,124,409</u>
Total current assets	29,715,168	538,507	218,090	(347,356)	30,124,409
Assets limited as to use, net of current portion	936,196	-	-	-	936,196
Investments	131,614,507	1,188,216	-	-	132,802,723
Property and equipment, net	64,992,393	-	-	-	64,992,393
Investment in joint venture	5,332,400	-	-	-	5,332,400
Intangible assets and goodwill, net	1,309,064	-	-	-	1,309,064
Other assets	-	81,290	-	-	81,290
	<u>233,899,728</u>	<u>1,808,013</u>	<u>218,090</u>	<u>(347,356)</u>	<u>235,578,475</u>
Total assets	\$ 233,899,728	\$ 1,808,013	\$ 218,090	\$ (347,356)	\$ 235,578,475
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current portion of capital lease obligations	\$ 17,685	\$ -	\$ -	\$ -	\$ 17,685
Current portion of long-term debt	2,435,000	-	-	-	2,435,000
Interest payable	477,225	-	-	-	477,225
Accounts payable	2,314,006	-	10,529	-	2,324,535
Accrued expenses	7,971,628	113,735	244,000	(357,735)	7,971,628
Resident trust funds	62,927	-	-	-	62,927
Physician recruitment guarantee	218,651	-	-	-	218,651
Estimated third-party payor settlements payable	5,076,214	-	-	-	5,076,214
	<u>18,573,336</u>	<u>113,735</u>	<u>254,529</u>	<u>(357,735)</u>	<u>18,583,865</u>
Total current liabilities	18,573,336	113,735	254,529	(357,735)	18,583,865
Interest rate swaps	4,970,979	-	-	-	4,970,979
Capital lease obligations, less current portion	80,927	-	-	-	80,927
Long-term debt, less current portion	61,931,815	-	-	-	61,931,815
	<u>85,557,057</u>	<u>113,735</u>	<u>254,529</u>	<u>(357,735)</u>	<u>85,567,586</u>
Net assets:					
Unrestricted	145,238,124	1,174,556	(36,439)	10,379	146,386,620
Temporarily restricted	3,104,547	519,722	-	-	3,624,269
	<u>148,342,671</u>	<u>1,694,278</u>	<u>(36,439)</u>	<u>10,379</u>	<u>150,010,889</u>
Total liabilities and net assets	\$ 233,899,728	\$ 1,808,013	\$ 218,090	\$ (347,356)	\$ 235,578,475

Hugh Chatham Memorial Hospital, Inc. and Affiliates
Consolidating Statement of Operations Information
Year Ended September 30, 2017

	<u>Hospital</u>	<u>Foundation</u>	<u>Auxiliary</u>	<u>Eliminations</u>	<u>Consolidated</u>
Unrestricted revenues:					
Patient service revenue, net of contractual allowances, discounts and charity care	\$ 106,743,634	\$ -	\$ -	\$ -	\$ 106,743,634
Provision for uncollectible accounts	(14,305,066)	-	-	-	(14,305,066)
Net patient service revenue	92,438,568	-	-	-	92,438,568
Other operating revenue	1,726,157	-	119,062	10,379	1,855,598
Total unrestricted revenues	94,164,725	-	119,062	10,379	94,294,166
Expenses:					
Salaries and wages	40,948,550	50,852	21,741	-	41,021,143
Employee benefits	10,673,255	1,095	-	-	10,674,350
Medical supplies and other expenses	32,711,174	151,832	52,635	-	32,915,641
Depreciation and amortization	6,446,036	-	-	-	6,446,036
Interest expense	2,500,137	-	-	-	2,500,137
Total expenses	93,279,152	203,779	74,376	-	93,557,307
Operating income (loss)	885,573	(203,779)	44,686	10,379	736,859
Nonoperating revenues and expenses:					
Investment income, net	12,195,330	94,618	-	-	12,289,948
Income from investment in joint venture	295,024	-	-	-	295,024
Change in value of interest rate swaps	3,447,664	-	-	-	3,447,664
Recognized losses on other than temporarily impaired investments	(709,009)	(4,945)	-	-	(713,954)
Total net nonoperating revenues and expenses	15,229,009	89,673	-	-	15,318,682
Excess of revenues over expenses	16,114,582	(114,106)	44,686	10,379	16,055,541
Change in net unrealized gains on investments	6,082,202	77,076	-	-	6,159,278
Gifts, grants and bequests	558,003	18,106	-	-	576,109
Increase (decrease) in unrestricted net assets	<u>\$ 22,754,787</u>	<u>\$ (18,924)</u>	<u>\$ 44,686</u>	<u>\$ 10,379</u>	<u>\$ 22,790,928</u>