



PIEDMONT HEALTHCARE, INC. AND AFFILIATES

Consolidated Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

PIEDMONT HEALTHCARE, INC. AND AFFILIATES

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KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

Independent Auditors' Report

The Board of Directors
Piedmont Healthcare, Inc. and Affiliates:

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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 did not audit the 2018 financial statements of Columbus Regional Healthcare System, Inc., a wholly owned subsidiary, which statements reflect total assets constituting approximately 13.6% of consolidated total assets at June 30, 2018, and total revenues constituting approximately 4.7% of consolidated total revenues for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the 2018 amounts included for Columbus Regional Healthcare System, Inc., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Piedmont Healthcare, Inc. and Affiliates as of June 30, 2019 and 2018, and the results of their operations, their changes in net assets, and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 2(x) to the consolidated financial statements, in 2019, Piedmont Healthcare, Inc. and Affiliates adopted new accounting guidance in connection with its implementation of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, (Topic 606) and FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Atlanta, Georgia
October 8, 2019

PIEDMONT HEALTHCARE, INC. AND AFFILIATES

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 390,696	458,213
Patient accounts receivable, net	504,346	445,628
Bond proceeds receivable	—	37,755
Current portion of self-insurance investments	19,226	14,293
Other current assets	170,791	151,211
Total current assets	1,085,059	1,107,100
Investments and assets limited as to use	1,135,407	1,090,048
Property and equipment, net	1,906,454	1,624,888
Self-insurance investments, net of current portion	48,368	34,990
Beneficial interest in perpetual trust	8,082	8,032
Other assets	228,193	192,067
Total assets	\$ 4,411,563	4,057,125
Liabilities and Net Assets		
Current liabilities:		
Current portion of bonds payable	\$ 25,053	20,795
Accounts payable and accrued expenses	448,279	386,651
Estimated third-party payor settlements	67,325	44,590
Current portion of self-insurance reserves	47,973	41,641
Total current liabilities	588,630	493,677
Bonds payable, net of current portion	836,899	865,750
Medical office building financing obligation	43,586	43,602
Notes payable to banks	335,169	337,119
Self-insurance reserves, net of current portion	85,363	67,743
Accrued pension cost and other benefits	118,671	83,832
Other long-term liabilities	139,283	127,964
Total liabilities	2,147,601	2,019,687
Net assets:		
Without donor restrictions	2,203,170	1,974,376
With donor restrictions	60,792	63,062
Total net assets	2,263,962	2,037,438
Total liabilities and net assets	\$ 4,411,563	4,057,125

See accompanying notes to consolidated financial statements.

PIEDMONT HEALTHCARE, INC. AND AFFILIATES

Consolidated Statements of Operations

Years ended June 30, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Revenue, gains and other support:		
Net patient service revenue	\$ 3,603,041	2,987,053
Other revenue	93,807	88,658
Total revenue, gains and other support	<u>3,696,848</u>	<u>3,075,711</u>
Expenses:		
Salaries and benefits	1,932,912	1,644,108
Supplies and other	1,365,221	1,134,192
Depreciation and amortization	133,177	109,145
Interest	35,037	34,398
Total expenses	<u>3,466,347</u>	<u>2,921,843</u>
Operating income before loss on extinguishment of debt, acquisition costs and contribution received in acquisition	230,501	153,868
Loss on extinguishment of debt	—	(14,524)
Acquisition costs	(30,377)	(16,283)
Contribution received in acquisition	—	117,262
Operating income	<u>200,124</u>	<u>240,323</u>
Nonoperating income (expense):		
Investment income, net	56,080	78,446
Other components of pension expense	26	179
(Loss) gain from equity investments, net	(1,982)	3,638
Change in fair value of interest rate swaps	(6,009)	7,010
Total nonoperating income, net	<u>48,115</u>	<u>89,273</u>
Excess of revenue, gains and other support over expenses	248,239	329,596
Net assets released from restrictions used for purchase of property and equipment	19,504	4,026
Pension adjustments	(40,313)	18,867
Other	1,364	1,100
Change in net assets without donor restrictions	\$ <u><u>228,794</u></u>	<u><u>353,589</u></u>

See accompanying notes to consolidated financial statements.

PIEDMONT HEALTHCARE, INC. AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions:		
Excess of revenue, gains and other support over expenses	\$ 248,239	329,596
Net assets released from restrictions used for purchase of property and equipment	19,504	4,026
Pension adjustments	(40,313)	18,867
Other	<u>1,364</u>	<u>1,100</u>
Change in net assets without donor restrictions	<u>228,794</u>	<u>353,589</u>
Net assets with donor restrictions:		
Contributions	27,922	15,498
Change in beneficial interest in perpetual trust	50	338
Restricted contribution received in acquisition	—	8,353
Net assets released from restrictions used for purchase of property and equipment	(19,504)	(4,026)
Net assets released from restrictions used for operations	(6,977)	(6,507)
Other	<u>(3,761)</u>	<u>(1,813)</u>
Change in net assets with donor restrictions	<u>(2,270)</u>	<u>11,843</u>
Change in net assets	226,524	365,432
Net assets at beginning of year	<u>2,037,438</u>	<u>1,672,006</u>
Net assets at end of year	<u>\$ 2,263,962</u>	<u>2,037,438</u>

See accompanying notes to consolidated financial statements.

PIEDMONT HEALTHCARE, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 226,524	365,432
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	133,177	109,145
Contribution received in acquisitions, net of cash acquired	—	(102,246)
Investment income, net	(50,074)	(61,204)
Change in beneficial interest in perpetual trust	(50)	(338)
Amortization of bond (premium) discount and debt issuance costs	(3,766)	(6,079)
Loss on extinguishment of debt	—	14,524
Pension adjustments	40,313	(18,867)
Change in fair value of interest rate swaps	6,009	(7,010)
Contributions donor restricted for long-term investment	(11,176)	(23,851)
(Increase) decrease in:		
Patient accounts receivable	(58,718)	(78,723)
Other current assets	18,175	(17,807)
Other assets	(36,177)	2,143
(Decrease) increase in:		
Accounts payable and accrued expenses	61,596	63,326
Estimated third-party payor settlements	22,735	6,437
Self-insurance reserves	23,952	14,019
Accrued pension cost	(5,474)	(8,013)
Other long-term liabilities	5,310	(7,767)
Net cash provided by operating activities	<u>372,356</u>	<u>243,121</u>
Cash flows from investing activities:		
Purchases of investments and assets limited as to use	(235,960)	(208,840)
Proceeds from sale of investments and assets limited as to use	222,364	113,450
Acquisitions, net of cash acquired	—	(119,000)
Capital expenditures	<u>(414,708)</u>	<u>(246,292)</u>
Net cash used in investing activities	<u>(428,304)</u>	<u>(460,682)</u>
Cash flows from financing activities:		
Contributions donor restricted for long-term investment	11,176	23,851
Repayments on note payable to a bank	(1,950)	(101,615)
Proceeds from issuance of notes payable	—	387,600
Repayments of indebtedness	(20,795)	(24,290)
Bond redemptions	—	(175,771)
Net cash (used in) provided by financing activities	<u>(11,569)</u>	<u>109,775</u>
Net decrease in cash and cash equivalents	<u>(67,517)</u>	<u>(107,786)</u>
Cash and cash equivalents at beginning of year	<u>458,213</u>	<u>565,999</u>
Cash and cash equivalents at end of year	\$ <u>390,696</u>	\$ <u>458,213</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 36,686	36,850
Income taxes (net of refunds)	86,000	—

See accompanying notes to consolidated financial statements.

PIEDMONT HEALTHCARE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(1) Organization and General

The Board of Directors of Piedmont Healthcare, Inc. and Affiliates (collectively, PHC) appoints the governing boards of:

- Piedmont Atlanta Hospital, Inc. (Atlanta). Atlanta, located in Atlanta, Georgia, is a not-for-profit acute care hospital providing inpatient, outpatient, and emergency care services primarily for residents of the Atlanta metropolitan area.
- Piedmont Fayette Hospital, Inc. (Fayette). Fayette, located in Fayetteville, Georgia, is a not-for-profit acute care hospital providing inpatient, outpatient, and emergency care services primarily for residents of Fayette County.
- Piedmont Mountainside Hospital, Inc. (Mountainside). Mountainside, located in Jasper, Georgia, is a not-for-profit acute care hospital providing inpatient, outpatient, and emergency care services primarily for residents of Pickens County and Gilmer County.
- Piedmont Newnan Hospital, Inc. (Newnan). Newnan, located in Newnan, Georgia, is a not-for-profit acute care hospital providing inpatient, outpatient, and emergency care services primarily for residents of Coweta County.
- Piedmont Henry Hospital (Henry). Henry, located in McDonough, Georgia, is a not-for-profit acute care hospital providing inpatient, outpatient, and emergency care services primarily for residents of Henry County.
- Piedmont Newton Hospital (Newton). Newton, located in Covington, Georgia, is a not-for-profit acute care hospital providing inpatient, outpatient, and emergency care services primarily for residents of Newton County.
- Piedmont Athens Regional Hospital (Athens). Athens, located in Athens, Georgia, is a not-for-profit acute care hospital providing inpatient, outpatient, and emergency care services for residents of northeast Georgia and provides a home care nursing service to patients residing in the five Georgia counties of Clarke, Oconee, Madison, Barrow, and Jackson.
- Piedmont Rockdale Hospital (Rockdale). Rockdale, located in Conyers, Georgia, is a not-for-profit acute care hospital providing inpatient, outpatient, and emergency care services primarily for residents of Rockdale County.
- Piedmont Columbus Regional Midtown Hospital (Midtown). Midtown, located in Columbus, Georgia, is a not-for-profit acute care hospital providing inpatient, outpatient, and emergency care services primarily for residents of Muscogee County.
- Piedmont Columbus Regional Northside Hospital (Northside). Northside, located in Columbus, Georgia, is a not-for-profit acute care hospital providing inpatient, outpatient, and emergency care services primarily for residents of Muscogee County.
- Piedmont Walton Hospital (Walton). Walton, located in Monroe, Georgia, is an acute care hospital providing inpatient, outpatient, and emergency care services primarily for residents of Walton County.
- Piedmont Medical Care Corporation (PMCC). PMCC is a taxable, not-for-profit entity whose purpose is to develop a network of primary care, hospital-based and certain specialty physicians for the benefit of the PHC affiliates.

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- Piedmont Heart Institute Physicians, Inc. (PHIP). PHIP is a taxable, not-for-profit entity whose purpose is to provide an integrated cardiovascular healthcare delivery program for the benefit of the PHC affiliates.
- Athens Regional Physician Services, Inc. (ARPS). ARPS is a not-for-profit corporation whose purpose is acquiring and operating primary care physician practices.
- Athens Regional Specialty Services Inc. (ARSS). ARSS is not-for-profit corporation whose purpose is acquiring and operating specialty physician practices.
- Regional FirstCare, Inc. (RFC). RFC is a not-for-profit corporation whose purpose is acquiring and operating urgent care centers and developing workers' compensation/occupational medicine programs.
- Columbus Regional Medical Group (CRMG). CRMG is a taxable, not-for-profit entity whose purpose is to develop a network of primary care, hospital-based and certain specialty physicians for the benefit of the PHC affiliates.
- Athens Regional Health Resources, Inc. (ARHS). ARHS is a not-for-profit corporation whose purpose is to provide outpatient medical care and health services outside the Athens-Clarke County, Georgia area.
- Columbus Regional Health System (CRHS). CRHS is a nonprofit integrated healthcare delivery organization providing a wide range of healthcare services to areas of southwest Georgia and southeast Alabama through the operation of two acute care hospitals, physician practices, retail pharmacies, and joint ventures providing diagnostic imaging, a provider hospital organization (PHO), and a rehabilitation hospital.
- Columbus Regional Health Resources, Inc. (CRHR). CRHR is a for-profit corporation, which exists primarily to hold leases on or own and manage real estate utilized in connection with CRHS operations.
- Piedmont Heart Institute, Inc. (PHI). PHI is a not-for-profit entity whose purpose is to provide cardiovascular research services for the benefit of the PHC affiliates.
- Amster-McRae Insurance Company (AMIC). AMIC was incorporated on December 10, 2003, under the laws of the Cayman Islands. AMIC insures the hospital professional liability and commercial general liability risks of PHC and certain PHC affiliates.
- Piedmont Clinic, Inc. (The Clinic). The Clinic is a physician-hospital organization whose purpose is to negotiate contracts with various managed care payors for the PHC affiliates.
- My Health Alliance, LLC (MHA). MHA is a collaborative effort between Columbus Regional Health System and physicians pursuing clinical integration.
- My Health Network, LLC (MHN). MHN is a PHO made up of employed and other community physicians providing credentialing services and access to payer contracts.
- Piedmont Healthcare Foundation, Inc. (PHF). The Foundation's primary purpose is assisting PHC in fund-raising and related management, making grants, and soliciting gifts.
- Athens Regional Foundation, Inc. (ARF). ARF is a not-for-profit corporation whose purpose is assisting Athens, ARPS, ARSS and RFC in fund-raising and related management, making grants, and soliciting gifts.
- Columbus Regional Medical Foundation, Inc. (CRMF). CRMF provides fund-raising services, soliciting tax-exempt contributions to support and enhance the operations of certain PHC entities.

PIEDMONT HEALTHCARE, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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(2) Significant Accounting and Reporting Policies

A summary of the significant accounting and reporting policies followed by PHC in the preparation of its consolidated financial statements is presented below:

(a) Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and include the accounts of PHC, Atlanta, Fayette, Mountainside, Newnan, Henry, Newton, Athens, Rockdale, Midtown, Northside, Walton, PMCC, PHIP, ARPS, ARSS, RFC, CRMG, ARHS, CRHS, CRHR, PHI, AMIC, The Clinic, MHA, MHN, PHF, ARF and CRMF. All significant intercompany transactions and accounts have been eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the collectability of receivables, net realizable patient service revenue, fair value of investments and assets limited as to use and interest rate swaps, reserves for general and professional liability, workers' compensation and health insurance claims, third-party payor settlements, and the actuarially determined liability related to PHC's defined-benefit pension plans.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks, and investments in highly liquid debt instruments with maturities of three months or less when purchased, excluding amounts limited as to use. PHC invests cash not required for immediate operating needs principally with major financial institutions with strong credit ratings. By policy, the amount of credit exposure to any one institution is limited, and such investments are generally not collateralized.

(d) 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 unrealized and realized gains and losses on investments, interest, and dividends) is included in the excess of revenue, gains and other support over expenses unless the income or loss is restricted by donor or law. PHC accounts for investment transactions on a settlement-date basis. All of PHC's investment portfolio is classified as trading, with unrealized gains and losses included in excess of revenue, gains and other support over expenses. Fair values are based on quoted market prices if available, or estimated using quoted market prices for similar securities. PHC invests in alternative investments, which provide PHC with a proportionate share of the fair value of the fund returns. PHC accounts for its ownership interests in the alternative investments based upon the net asset value, which is a practical expedient estimate of fair value. Accordingly, PHC's share of the alternative investments' income or loss, both realized and unrealized, is recognized

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as investment income. Alternative investments held by the noncontributory defined-benefit plans are accounted for at estimated fair value. The cost of substantially all securities sold is based on the average-cost method.

PHC classifies investments with maturities of less than one year from the balance sheet date when purchased as short term and investments with maturities of greater than one year from the balance sheet date when purchased as long term.

(e) Assets Limited as to Use

These assets are limited as to use by donor restrictions, debt instruments or designations by PHC's governing board for plant replacement, expansion of certain facilities, purchase of equipment, and payment of certain future debt service requirements.

(f) Other Current Assets

Other current assets consists primarily of inventory, prepaid assets and non-patient receivables as of June 30, 2019 and 2018. Inventory is stated at the lower of average cost or net realizable value. Inventory consists primarily of pharmaceuticals and medical supplies and is recorded within other current assets in the accompanying consolidated balance sheets.

(g) Property and Equipment

Property and equipment acquisitions are recorded at cost, with the exception of donated items, which are recorded at fair value at the date of donation. Expenditures for renewals and improvements are charged to the property accounts. For properties sold or retired, the cost and related accumulated depreciation are removed from the property accounts. Any resulting gains or losses are included in the accompanying statement of operations. Replacements, maintenance, and repairs that do not improve or extend the life of the respective assets are charged to operations. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The ranges of estimated useful lives are 10–25 years for land improvements, 15–40 years for buildings and fixtures, and 3–20 years for equipment.

Property and equipment under capital leases is stated at the lower of the present value of minimum lease payments at the beginning of the lease term or fair value at inception of the lease. All property and equipment under capital leases is amortized using the straight-line method over the shorter of the asset life or term of the lease.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support in net assets without donor restrictions and are excluded from excess of revenue, gains and other support over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as donor restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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(h) Software and Software Development Costs

Software and software development costs include costs incurred by PHC to develop software for internal use in medical records maintenance, physician order entry, and clinical documentation.

Costs of software developed for internal use are accounted for in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350-40, *Internal-Use Software*. In accordance with ASC 350-40, internal and external costs incurred to develop internal-use computer software during the application development stage are capitalized. Application development stage costs generally include software configuration, coding, installation of hardware, and testing. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized.

All other costs incurred in connection with an internal software project, including maintenance, minor upgrades, enhancements, and training, are expensed as incurred. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the related software applications (3–12 years).

(i) Long-Lived Assets

PHC periodically reviews long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized to the extent that the carrying amount of an asset exceeds its fair value. Assets to be disposed of are separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale are presented separately in the appropriate asset and liability sections of the consolidated balance sheet. In the period in which the disposal group is sold or classified as held-for-sale, the results of its operations are classified as discontinued operations in the consolidated statements of operations. Management believes that the long-lived assets in the accompanying consolidated balance sheets are appropriately valued at June 30, 2019 and 2018 and no related impairment losses were recognized during the years then ended.

(j) Other Assets

Other assets include goodwill of \$108,243,000 at June 30, 2019 and 2018, respectively. In accordance with ASC 350, *Intangibles – Goodwill and Other*, PHC evaluates its goodwill annually for potential impairment. No impairment losses on goodwill were recognized for the years ended June 30, 2019 or 2018.

Also included in other assets at June 30, 2019 and 2018 are investments in joint ventures and assets relating to deferred compensation plans.

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(k) Beneficial Interest in Perpetual Trust

PHC is the beneficiary of six separate endowments held in trust by a local bank, with fair values at June 30, 2019 and 2018 aggregating \$8,082,000 and \$8,032,000, respectively. The beneficial interest at June 30, 2019 and 2018 has been recorded in other assets at fair value and the change in value for the years then ended has been recorded as a change in net assets with donor restrictions.

(l) Vacation Policy

PHC accrues employee vacation pay as earned by the employee.

(m) Advertising Costs

Advertising costs are expensed as incurred and approximated \$14,664,000 and \$13,842,000 for the years ended June 30, 2019 and 2018, respectively, and are included in supplies and other expenses in the accompanying consolidated statements of operations.

(n) Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported and are included in self-insurance reserves on the accompanying consolidated balance sheets.

(o) Net Assets with Donor Restrictions

Net assets with donor restrictions include those whose use by PHC is restricted by the donor to a specific time period or purpose, and those that have been restricted by donors to be maintained in perpetuity. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of operations as net assets released from restrictions.

(p) Net Patient Service Revenue and Patient Accounts Receivable

PHC has agreements with third-party payors that provide for payments to PHC at amounts different from their 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, and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payors due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

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June 30, 2019 and 2018

Net patient service revenue is summarized below (in thousands):

	Year ended June 30	
	2019	2018
Patient service charges	\$ 15,788,207	12,969,018
Less contractual adjustments, implicit price concessions, and other deductions	<u>12,185,166</u>	<u>9,981,965</u>
Net patient service revenue	<u>\$ 3,603,041</u>	<u>2,987,053</u>

Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by PHC. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. PHC believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in PHC hospitals receiving inpatient, outpatient or emergency services. PHC measures the performance obligation from admission, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to PHC's patients and customers in a retail setting (e.g., pharmaceuticals) as a component of other revenue in the accompanying consolidated statements of operations and PHC does not believe it is required to provide additional goods or services related to that sale.

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

PHC determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third party payors, discounts provided to uninsured patients in accordance with PHC's policy, and implicit price concessions provided to patients. PHC determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience.

Consistent with its not-for-profit status, PHC provides care to patients regardless of their ability to pay. Therefore, PHC has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (e.g., co-pays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts PHC expects to collect based on its collection history with those patients considering

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business and economic conditions, trends in healthcare coverage, and other collection indicators. Periodically, management assesses the adequacy of the allowance for implicit price concessions based upon historical write-off experience by payor category. The results of this review are then used to make any modifications to the provision for implicit price concessions to establish an appropriate allowance.

PHC has determined that the nature, amount, and uncertainty of revenue and cash flows are affected by the following factors: payors and service lines. The following tables provide details of these factors.

Patient service revenue, net of contractual adjustments, implicit price concessions, and other discounts recognized from major payor sources are as follows (in thousands):

	Year ended June 30	
	2019	2018
Medicare	\$ 1,605,132	1,096,412
Medicaid	352,129	155,681
Other third-party payors	1,561,990	1,658,108
Self-pay patients	83,790	76,852
Net patient service revenue	<u>\$ 3,603,041</u>	<u>2,987,053</u>

The composition of patient care service revenue, net based on PHC's lines of business for the years ended June 30, 2019 and 2018 are as follows (in thousands):

	2019	2018
Service lines:		
Hospital – inpatient	\$ 1,742,028	1,114,408
Hospital – outpatient and emergency	1,411,549	1,548,776
Physician services	449,464	323,869
Net patient service revenue	<u>\$ 3,603,041</u>	<u>2,987,053</u>

PHC records a provision for implicit price concessions in the period services are provided related to self-pay patients. For receivables associated with patients who have third-party coverage, PHC analyzes contractually due amounts and provides an allowance for implicit price concessions and a provision for implicit price concessions, if necessary. Accounts receivable are written off after collection efforts have been undertaken in accordance with PHC's policies. The allowance for implicit price concessions was 55% and 54% of patient accounts receivable after contractual allowances as of June 30, 2019 and 2018, respectively.

(q) Charity Care

PHC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as patient service revenue.

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(r) Excess of Revenue, Gains and Other Support over Expenses

The consolidated statements of operations include excess of revenue, gains and other support over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue, gains and other support over expenses, consistent with industry practice, include pension adjustments and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction, are to be used for the purposes of acquiring such assets).

(s) Pledges Receivable and Donor-Restricted Gifts

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

In February 2016, PHC was awarded a conditional grant by The Marcus Foundation, Inc. totaling \$75,000,000 to support a portion of the construction of the Marcus Heart and Vascular Center. The grant is conditional upon incurring qualified expenditures toward and completion of the donor-stipulated construction project, which is expected to be completed in late 2020. As of June 30, 2019, PHC had not recognized any contribution revenue related to the grant. Through June 30, 2019 and 2018, PHC has received approximately \$26,040,000 and \$11,807,000, respectively, under the grant, which is included in accounts payable and accrued expenses in the consolidated balance sheets.

FASB ASC 958, *Not-for-Profit Entities*, provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

PHC has historically and to-date received a limited amount of donor-restricted endowment funds. The Board has interpreted Georgia's State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. Income from PHC's donor-restricted endowment funds is generally restricted to specific donor-directed purposes, and is therefore accounted for within net assets with donor restrictions until expended in accordance with the donor's stipulations. PHC oversees individual donor-restricted endowment funds to ensure that the fair value of the original gift is preserved.

PHC invests donor-restricted endowment funds within the framework of PHC's overall investment management program.

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Cash receipts from the sale of donated financial assets are classified consistently with cash donations received in the consolidated statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without the entity imposing any limitations for sale and were converted nearly immediately into cash.

(t) Interest Expense

PHC incurred interest expense totaling approximately \$35,037,000 and \$34,398,000 for the years ended June 30, 2019 and 2018, respectively. During 2019 and 2018, \$12,734,000 and \$6,305,000, respectively, of interest was capitalized and included in property and equipment on the accompanying consolidated balance sheets.

(u) Income Taxes

Piedmont Healthcare, Inc., Atlanta, Fayette, Mountainside, Newnan, Henry, Newton, Athens, Midtown, Northside, ARPS, ARSS, RFC, CRMG, ARHS, CRHR, MHA, MHN, PHI, PHF, ARF, CRMF and CRHS are organizations exempt from federal income tax pursuant to U.S. Internal Revenue Code (IRC) Section 501(a), as organizations described in Section 501(c) (3) of the IRC of 1986, as amended, and state income tax. AMIC is exempt from federal and local income tax pursuant to the laws of the Government of the Cayman Islands. There is currently no taxation imposed on income or capital gains by the Government of the Cayman Islands. If any form of tax legislation were to be enacted, AMIC has been granted an exemption until the year 2024. PMCC, PHIP and The Clinic are taxable, not-for-profit entities that operated in a net loss position for financial reporting and tax purposes during the years ended June 30, 2019 and 2018.

During the year ended June 30, 2018, PHC acquired Rockdale and Walton (note 3). Rockdale and Walton submitted applications to the Internal Revenue Service (IRS) to be recognized as exempt from federal tax under IRC 501(a) as described in 501(c)(3). During the year ended June 30, 2019, both Rockdale and Walton's applications for exempt status were approved retroactive their acquisition dates by PHC.

At June 30, 2019 and 2018, Atlanta (as it relates to unrelated business income), PMCC, the Clinic, and PHIP had net operating loss (NOL) carryforwards totaling approximately \$886,862,000 and \$884,223,000, respectively, which expire at various dates between 2020 and 2035. PMCC, The Clinic, and PHIP had deferred income tax assets totaling approximately \$220,614,000 and \$219,499,000 at June 30, 2019 and 2018, respectively. The deferred income tax assets, which consist primarily of net operating loss carryforwards and differences relating to allowances for doubtful accounts and accruals, were offset by a full valuation allowance.

As a result of the Tax Act, there was a change related to NOLs. Previously, NOLs incurred before December 31, 2017 could be carried forward 20 years. Under the Tax Act, for tax years beginning after December 31, 2017, NOLs may offset 80% of taxable income incurred with an unlimited carryforward period.

PHC accounts for income taxes under the provisions of ASC 740, *Income Taxes* (ASC 740). Under the requirements of ASC 740, tax-exempt organizations may be required to record an obligation as the result of a tax position they have historically taken on various uncertain tax exposure items. There were no material uncertain tax positions at June 30, 2019 or 2018.

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(v) Defined-Benefit Pension Plans

PHC accounts for its defined-benefit pension plans in accordance with ASC 715, *Compensation – Retirement Benefits*. ASC 715 requires an entity to recognize in its balance sheet an asset for a defined-benefit postretirement plan's overfunded status or a liability for a plan's underfunded status; measure a defined-benefit postretirement plan's assets and obligations that determine its funded status at the end of the employer's fiscal year; and recognize changes in the funded status of a defined-benefit postretirement plan as a separate line item or items within changes in net assets without donor restrictions, apart from expenses, in the year in which the changes occur. Certain PHC employees participate in PHC's trustee noncontributory defined-benefit pension plans (the Plans). The Plans' benefits are based on a combination of years of service and the employee's compensation. PHC's funding policy is to contribute annually to the Plans an amount sufficient to meet the minimum funding standards of Employee Retirement Income Security Act (ERISA) or an amount sufficient to maintain the Plans on a sound actuarial basis, as certified by an enrolled actuary. Plan assets consist primarily of common stocks, alternative investments, fixed-income investments, and cash equivalents.

(w) Subsequent Events

PHC evaluated events and transactions occurring subsequent to June 30, 2019 through October 8, 2019, the date the consolidated financial statements were available to be issued. During this period, there were no additional subsequent events that required recognition in the accompanying consolidated financial statements other than as disclosed in note 8(a).

(x) Recent Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, in May 2014. ASU No. 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. As a result, amounts previously classified as the provision for bad debts in the 2018 consolidated statement of operations are now reflected as implicit price concessions and therefore included as a reduction to net patient service revenue. For the years ended June 30, 2019 and 2018, the PHC recorded approximately \$359,512,000 and \$250,712,000, respectively, of implicit price concessions as a direct reduction of patient care service revenue that would have been recorded as provision for bad debt prior to the adoption of ASC 606. For the years ended June 30, 2019 and 2018, PHC recorded approximately \$616,917,000 and \$519,626,000, respectively, as a direct reduction of patient accounts receivable that would have been reflected as allowance for uncollectible accounts prior to the adoption of ASC 606. ASC 606 also requires expanded disclosures regarding PHC's revenue recognition policies and significant judgments employed in the determination of revenue. PHC adopted ASC 606 with a retrospective approach in 2019. Other than these changes in presentation and disclosure, the adoption of ASC 606 did not have a material impact on the accompanying consolidated balance sheets or statements of operations and changes in net assets for the years ended June 30, 2019 and 2018.

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In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU No. 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. ASU No. 2016-02 is effective for annual periods in fiscal years beginning after December 15, 2018, permits early adoption, and mandates a modified retrospective transition method. PHC is required to adopt ASU No. 2016-02 on July 1, 2019. PHC expects ASU No. 2016-02 to add significant right-of-use assets and lease liabilities to its consolidated balance sheet and it is evaluating other effects that the new standard will have on the consolidated financial statements.

The FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 is intended to improve the presentation of net asset classification as well as the information presented in the financial statements and related notes regarding liquidity and expenses on a functional basis for not-for-profit entities. PHC implemented ASU 2016-14 in 2019. As a result, 2018 net assets previously classified as temporarily and permanently restricted net assets prior to the adoption of ASU 2016-14 totaling approximately \$38,091,000 and \$24,971,000, respectively, and changes therein, have been reclassified as net assets with donor restrictions in the accompanying 2018 consolidated financial statements. In addition, 2018 net assets previously classified as unrestricted net assets, and changes therein, have been reclassified as net assets without donor restrictions in the accompanying 2018 consolidated financial statements. These reclassifications had no effect on the reported results of operations.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments – a consensus of the Emerging Issues Task Force*. ASU No. 2016-15 amends ASC Topic 230, *Statement of Cash Flows*, to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows with the intent of reducing diversity in practice with respect to eight types of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted and entities must apply the guidance retrospectively to all periods presented. PHC has not determined the impact of ASU No. 2016-15 on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 requires an entity to evaluate whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance. Additionally, an entity must determine whether a contribution is conditional and the related impact on revenue recognition. The new standard is effective for annual reporting periods beginning after June 15, 2018 for resource recipients and annual reporting periods beginning after December 15, 2018 for resource providers. PHC's adoption of ASU 2018-08 did not have a material impact on the consolidated financial statements.

Additionally, in July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU 2018-11 allows companies to adopt ASC 842 without revising comparative period reporting or disclosures and provides an optional practical expedient to lessors to not separate lease

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and nonlease components of a contract if certain criteria are met. This ASU is effective for PHC at the same time as it adopts ASU 2016-02 (July 1, 2019).

(3) Acquisitions

(a) Walton

Effective April 1, 2018, PHC entered into an asset purchase agreement with Monroe HMA, LLC; Monroe HMA Physician Management, LLC; and Quorum Health Corporation whereby PHC paid \$39,000,000 to acquire certain assets and liabilities related to an acute care hospital f/k/a Clearview Regional Medical Center together with certain related businesses including physician clinic operations and ancillary services (collectively, the Walton Entities). The total cost of the purchase has been allocated to the assets acquired and liabilities assumed based upon their respective fair values in accordance with ASC 958-805, *Not-for-Profit Entities – Business Combinations* (ASC 958-805).

Based on the purchase price allocation as of June 30, 2018, PHC recorded the fair value of all assets acquired and liabilities assumed, resulting in goodwill of approximately \$18,312,000 being recorded on the accompanying 2018 consolidated balance sheet.

A summary of the purchase price allocation, including assumed liabilities, is as follows (in thousands):

Assets:	
Other current assets	\$ 1,940
Property and equipment	19,889
Goodwill	18,312
Liabilities:	
Current liabilities	<u>(1,141)</u>
Total purchase price	<u>\$ 39,000</u>

The revenue, gains and other support; operating income; and change in net assets without donor restrictions attributable to PHC related to the acquired Walton Entities for the period April 1, 2018 through June 30, 2018 were approximately \$12,549,000, \$189,000 and \$189,000, respectively. The revenue, gains and other support; operating income; and change in net assets without donor restrictions attributable to PHC related to the acquired Walton Entities for the period July 1, 2018 through June 30, 2019 were approximately \$45,777,000, \$(13,375,000) and \$(13,369,000), respectively.

(b) The Columbus Entities

Effective March 1, 2018, PHC entered into an affiliation agreement with Columbus Regional Healthcare System, Inc.; The Medical Center, Inc.; Hughston Hospital, Inc.; Columbus Healthcare Resources, Inc.; Columbus Regional Medical Foundation, Inc.; Columbus Ambulatory Healthcare, Services, Inc. and Columbus Regional Senior Living, Inc. whereby it became the sole corporate member of these entities (collectively, the Columbus Entities). Although no consideration was transferred, PHC assumed all the assets and liabilities of the Columbus Entities as of the affiliation date. As part of the affiliation, PHC assumed Midtown and Northside's lease with The Medical Center Hospital Authority (the TMC

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Authority). The lease covers all the assets and liabilities of Midtown and Northside at the inception of the lease. At the termination of the lease, the assets and liabilities revert back to the TMC Authority. In connection with the affiliation and PHC's assumption of the lease, the lease term was extended to expire in 40 years. The total cost of the affiliation with the Columbus Entities has been allocated to the assets acquired and liabilities assumed based upon their respective fair values in accordance with ASC 958-805.

Based on the purchase price allocation as of June 30, 2018, PHC recorded the fair value of all assets acquired and liabilities assumed, resulting in approximately \$125,615,000 being recorded as a contribution received in affiliation on the accompanying 2018 consolidated statements of operations and changes in net assets.

A summary of the purchase price allocation, including assumed liabilities, is as follows (in thousands):

Assets:	
Cash	\$ 23,369
Net patient accounts receivable	50,566
Other current assets	21,918
Assets limited as to use	214,116
Property and equipment	196,128
Other assets	24,113
Liabilities:	
Current liabilities	(47,678)
Long-term debt	(304,689)
Other liabilities	(60,581)
Unrestricted contribution received in affiliation	117,262
Restricted contribution received in affiliation	8,353
Total contribution received in affiliation	\$ 125,615

The revenue, gains and other support; operating income; and change in net assets without donor restrictions attributable to PHC related to the acquired Columbus Entities for the period March 1, 2018 through June 30, 2018 were \$149,007,000, \$5,733,000, and \$44,261,000, respectively. The revenue, gains and other support; operating income; and change in net assets without donor restrictions attributable to PHC related to the acquired Columbus Entities for the period July 1, 2018 through June 30, 2019 were \$490,726,000, \$27,877,000, and \$113,610,000, respectively.

(c) Rockdale

Effective October 1, 2017, PHC entered into an asset purchase agreement with Rockdale Hospital, LLC; Rockdale Clinically Integrated Managed Care Organization, LLC, Rockdale Physician Practices, LLC, and LifePoint Holdings 2, LLC, whereby PHC paid \$80,000,000 for certain assets and liabilities related to an acute care hospital f/k/a Rockdale Medical Center together with certain ancillary businesses and facilities (collectively, the Rockdale Entities). The total cost of the purchase has been

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allocated to the assets acquired and liabilities assumed based upon their respective fair values in accordance with ASC 958-805.

Based on the purchase price allocation as of June 30, 2018, PHC recorded the fair value of all assets acquired and liabilities assumed, resulting in goodwill of approximately \$27,153,000 being recorded on the accompanying 2018 consolidated balance sheet.

A summary of the purchase price allocation, including assumed liabilities, is as follows (in thousands):

Assets:		
Other current assets	\$	3,962
Property and equipment		50,621
Goodwill		27,153
Liabilities:		
Current liabilities		<u>(1,736)</u>
Total purchase price	\$	<u><u>80,000</u></u>

The revenue, gains and other support; operating income; and change in net assets without donor restrictions attributable to PHC related to the acquired Rockdale Entities for the period October 1, 2017 through June 30, 2018 were \$90,719,000, (\$9,480,000), and (\$9,480,000), respectively. The revenue, gains and other support; operating income; and change in net assets without donor restrictions attributable to PHC related to the acquired Rockdale Entities for the period July 1, 2018 through June 30, 2019 were \$129,820,000, \$(22,027,000), and \$(21,856,000), respectively.

The operating results of the Walton Entities, the Columbus Entities, and the Rockdale Entities have been included in the accompanying consolidated statements of operations since their respective acquisition dates. The unaudited pro forma consolidated summary of operations, which gives effect to including the acquired operating results of the Walton Entities, the Columbus Entities, and the Rockdale Entities as if the acquisitions had occurred as of July 1, 2017, is as follows (in thousands):

	Year ended June 30	
	2019	2018
Revenue, gains and other support	\$ 3,696,848	3,437,055
Operating income	200,124	132,220
Change in net assets without donor restrictions	228,794	270,985

Pro forma adjustments to operating income and change in net assets without donor restrictions include adjustments to record the Walton Entities', the Columbus Entities', and the Rockdale Entities' operating results on a consolidated basis, to record depreciation expense based on the estimated fair value assigned to the long-lived assets acquired, and to remove acquisition costs, loss on extinguishment of debt relating to acquired debt and contributions received in acquisition. These pro forma results are not necessarily

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indicative of the actual results of operations that would have occurred if these acquisitions had occurred on July 1, 2017.

(4) Net Patient Service Revenue

PHC has agreements with third-party payors that provide for payments to PHC at amounts different from its established rates. A summary of payment arrangements with major third-party payors is as follows:

(a) Medicare and Medicaid

PHC renders care to patients covered by the Medicare and Medicaid programs. Inpatient acute care services rendered to Medicare 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. CRHS is also reimbursed for certain retrospectively determined items at a tentative rate, with final settlement determined after submission of annual cost reports by CRHS and audits by the Medicare fiscal intermediaries. Medicare reimburses for outpatient services based on a prospective outpatient payment system similar to the inpatient system.

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment reimbursement methodology. Outpatient services are reimbursed under a cost-based methodology. PHC is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by PHC and audits thereof by the Medicaid fiscal intermediary.

Services rendered under these programs are recorded at established rates and reduced to the estimated amount due from the third-party payors through recording of contractual adjustments and other discounts. Because PHC cannot pursue collections for the contractual or discount amounts, they are not reported as revenue.

Net patient service revenue from the Medicare and Medicaid programs accounted for approximately 45% and 10%, respectively, of PHC's net patient service revenue for the year ended June 30, 2019. Net patient service revenue from the Medicare and Medicaid programs accounted for approximately 35% and 5%, respectively, of PHC's net patient service revenue for the year ended June 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. Net patient service revenue is reported at the estimated net realizable amounts from the Medicare and Medicaid programs for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations.

Final settlement has been reached for all Medicare and Medicaid cost reports prior to fiscal year 2014. PHC has recorded amounts due to Medicare and Medicaid of \$67,325,000 and \$44,590,000 at June 30, 2019 and 2018, respectively, as an estimate of final third-party payor settlements for open cost report years. Management recorded a unfavorable change in estimate to net patient service revenue in the accompanying consolidated statements of operations related to third-party settlements of \$4,958,000 and a favorable change of \$8,723,000 for the years ended June 30, 2019 and 2018, respectively. The amounts due to Medicare and Medicaid represent management's best estimates of final settlements.

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(b) Managed Care and Other Payors

PHC has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations (HMOs), and preferred provider organizations. The bases for payments to PHC under these agreements include prospectively determined rates per discharge, discounts from established charges, and daily rates.

(c) Self-Pay

PHC applied implicit price concessions to patient apportioned charges, valued at established charges, totaling \$359,512,000 and \$250,712,000 for the years ended June 30, 2019 and 2018, respectively. In an effort to improve amounts collected from uninsured patients that do not apply and/or qualify for charity assistance, PHC offers discounted prices to the uninsured under its charity care policy, as described in note 5. In addition to charity care implicit price concessions, PHC provided discounts to uninsured patients of \$238,137,000 and \$248,719,000 (recorded as deductions from net patient service revenue) for the years ended June 30, 2019 and 2018, respectively.

(d) Georgia Provider Payment Agreement Act

Effective July 1, 2010, the State of Georgia imposed a fee on not-for-profit hospitals based on net revenue levels as defined by the State of Georgia. Included in supplies and other expenses in the accompanying consolidated statements of operations for the years ended June 30, 2019 and 2018 is approximately \$37,068,000 and \$31,048,000, respectively, relating to this fee.

(5) Charity Care and Community Benefits

PHC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts significantly less than its established rates. Amounts determined to qualify as charity care are not reported as revenue or patient accounts receivable in the accompanying consolidated financial statements.

PHC maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services furnished under its charity care policy. The cost of providing this charity care was estimated to be approximately \$142,138,000 and \$122,060,000 for years ended June 30, 2019 and 2018, respectively. PHC estimates the direct and indirect costs of providing charity care by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients.

PHC offers many other wellness and educational services to the community at low and, in some cases, no cost. PHC also partners with five charitable clinics to provide supportive services for low-income patients, including the provision of free laboratory and diagnostic services to clinic patients at no charge. PHC operates 24-hour emergency rooms that provide care to all patients, regardless of ability to pay. The costs for these services are included in operating expenses in the accompanying consolidated statements of operations.

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(6) Investments

(a) Investments and Assets Limited as to Use

The composition of investments and assets limited as to use is set forth in the following table (in thousands):

	June 30	
	2019	2018
Investments internally designated for capital acquisition:		
Cash and short-term investments	\$ 45,451	22,194
Corporate obligations	38	15,500
Fixed-income securities	222,451	208,399
Corporate stocks	91,344	152,133
Mutual funds	515,960	432,326
Alternative investments	208,478	223,770
	1,083,722	1,054,322
Assets limited as to use:		
Cash and short-term investments	2,312	1,438
Corporate obligations	2	586
Fixed-income securities	10,739	7,069
Corporate stocks	3,754	4,567
Mutual funds	25,078	15,091
Alternative investments	9,800	6,975
	51,685	35,726
Totals	\$ 1,135,407	1,090,048

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(b) Alternative Investments

Alternative investments included in investments and assets limited as to use at June 30, 2019 and 2018 and related net unrealized gains and losses for the years then ended consist of the following (in thousands):

	Estimated fair value, year ended June 30		Net unrealized gains (losses), year ended June 30	
	2019	2018	2019	2018
Clarion Lion Properties ING Fund	\$ 20,525	19,251	846	998
Harvest MLP Income II Fund	—	364	—	(3,218)
Golub Capital Investment Corporation	14,949	4,485	—	—
IFP Global Equity, L.P.	43,306	40,467	2,132	961
Chatham Asset High Yield Offshore Fund, Ltd.	3,406	33,107	(1,288)	3,480
Canyon Balanced Fund	25,337	24,523	814	(1,166)
PHC Fund, Ltd.	110,755	108,548	2,206	7,600
	<u>\$ 218,278</u>	<u>230,745</u>	<u>4,710</u>	<u>8,655</u>

Redemption frequency and redemption notice periods for alternative investments held at June 30, 2019 are as follows:

	Redemption frequency	Redemption notice period
Clarion Lion Properties ING Fund	Quarterly	90 Days
Golub Capital Investment Corporation	Upon IPO	N/A
IFP Global Equity L.P.	Semi-Monthly	15 Days
Chatham Asset High Yield Offshore Fund, Ltd.	Quarterly	45 Days
Canyon Balanced Fund	Quarterly	90 Days
PHC Fund, Ltd.	Monthly	90 Days

As of June 30, 2019 and 2018, PHC had an unfunded commitment with Golub Capital Investment Corporation of \$2,720,000 and \$12,750,000, respectively.

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(7) Property and Equipment

A summary of property and equipment, net is as follows (in thousands):

	June 30	
	2019	2018
Land and land improvements	\$ 140,800	132,115
Buildings and fixtures	1,529,335	1,472,363
Equipment	1,177,860	1,042,624
	2,847,995	2,647,102
Less accumulated depreciation	1,375,101	1,248,226
	1,472,894	1,398,876
Construction in progress	433,560	226,012
Property and equipment, net	\$ 1,906,454	1,624,888

Construction in progress at June 30, 2019 and 2018 relates primarily to ongoing construction at Atlanta expected to be completed during the fiscal year ended June 30, 2021.

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 totaled approximately \$133,177,000 and \$109,145,000, respectively. Amortization of capitalized software costs of approximately \$17,889,000 and \$15,701,000 are included in depreciation and amortization expense in the accompanying consolidated statements of operations for the years ended June 30, 2019 and 2018, respectively.

During the years ended June 30, 2019 and 2018, PHC reviewed the estimated useful lives of certain buildings and equipment. These reviews indicated that the actual lives of certain assets were no longer the estimated useful lives used for depreciation purposes in PHC's consolidated financial statements. As a result, effective July 1, 2017 and 2018, PHC changed its estimated useful lives on certain assets to better reflect the estimated periods during which these assets will remain in service. The effect of these change was a decrease in depreciation expense of \$4,021,000 and \$16,332,000 for the years ended June 30, 2019 and 2018, respectively.

Capitalized software and software development costs included in property and equipment were as follows (in thousands):

	June 30	
	2019	2018
Capitalized software and software development costs	\$ 144,228	123,694
Less accumulated amortization	80,334	62,445
Capitalized software and software development costs, net	\$ 63,894	61,249

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Based on the amortizable capitalized software and software development costs that have been placed into service at June 30, 2019, the estimated amortization expense for the succeeding five fiscal years and thereafter is as follows (in thousands):

Year ending June 30:		
2020	\$	16,608
2021		14,098
2022		11,127
2023		7,862
2024		4,321
Thereafter		<u>9,878</u>
	\$	<u><u>63,894</u></u>

At June 30, 2019 and 2018, PHC's remaining commitment for software and construction contracts approximated \$199,340,000 and \$328,150,000, respectively, primarily relating to ongoing construction at Atlanta expected to be completed during the fiscal year ended June 30, 2021.

During fiscal year 2012, PHC completed construction of a new Piedmont Newnan hospital. In May 2012, the operations of Newnan were transferred to the new hospital. At that time, the replaced hospital building and certain assets that were not transferred to the new hospital were written down to fair value less estimated cost to sell. The building and related assets of \$3,050,000 are classified as held-for-sale and are included in other current assets in the accompanying consolidated balance sheets as of June 30, 2019 and 2018. Sale of the assets is expected to occur within one year.

In August 2006, Fayette entered into a ground lease with Piedmont Fayette Medical Office Building, LLC (PFB), whereby Fayette is leasing real property to PFB. In accordance with ASC 840, *Leases*, Fayette is considered the owner of the Medical Office Building (Fayette MOB) during the construction period and thereafter due to Fayette's continuing involvement in the Fayette MOB. Accordingly, the value of the building and the construction notes paid by the developer are included in the accompanying consolidated balance sheets. At June 30, 2019 and 2018, the net book value of the Fayette MOB included in buildings and fixtures totaled approximately \$13,521,000 and \$13,317,000, respectively, and the related Medical Office Building financing obligation approximated \$13,795,000 and \$13,855,000, respectively.

In August 2005, Atlanta entered into a ground lease with Piedmont Physicians Plaza, L.P. (PPP), whereby Atlanta is leasing real property to PPP. In accordance with ASC 840, Atlanta is considered the owner of the Medical Office Building (Piedmont MOB) during the construction period and thereafter due to Atlanta's continuing involvement in the Piedmont MOB. Accordingly, the cost of the building and the related financing obligation are included in PHC's consolidated balance sheets. At June 30, 2019 and 2018, the net book value of the Piedmont MOB included in buildings and fixtures totaled approximately \$13,811,000 and \$15,110,000, respectively, and the related Medical Office Building financing obligation approximated \$29,791,000 and \$29,747,000, respectively.

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(8) Long-Term Debt

(a) Bonds Payable

Bonds payable consists of the following (in thousands):

	June 30	
	2019	2018
Series 2006, fixed interest rate of 4.50%, interest payments due semiannually, payable through 2024	\$ 3,265	3,835
Series 2007, fixed interest rate of 2.47%, interest payments due semiannually, payable through 2024	7,370	8,672
Series 2009A, fixed interest rates ranging from 4.375% to 5.25%, interest payments due semiannually, payable through 2024	35,895	35,895
Series 2009C, variable interest rates (1.77% at June 30, 2018), interest payments due monthly, payable through 2019	—	9,020
Series 2010, fixed interest rates ranging from 4.50% to 5.00%, interest payments due semiannually, payable through 2045	100,000	100,000
Series 2014A, fixed interest rates ranging from 3.00% to 5.00%, interest payments due semiannually, payable through 2044	86,355	86,625
Series 2014B, variable interest rates (2.77% and 2.40% at June 30, 2019 and 2018, respectively) interest payments due monthly, payable through 2034	81,650	84,330
Series 2016A, fixed interest rates ranging from 3.00% to 5.00%, interest payments due semiannually, payable through 2046	407,820	414,805
Series 2017, fixed interest rate of 4.88%, interest payments due semiannually, payable through 2022	104,280	104,280
Unamortized original issue premium, net	42,487	47,106
Unamortized debt issuance costs	(7,170)	(8,023)
	861,952	886,545
Less current maturities	(25,053)	(20,795)
	\$ 836,899	865,750

In connection with the acquisition of the Columbus Entities effective March 1, 2018, PHC assumed responsibility for payment of the Medical Center Authority's outstanding revenue certificates through the lease agreement described in note 3.

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In February 2017, the Medical Center Authority issued The Medical Center Hospital Authority Revenue Anticipation Certificates Series 2017 (the 2017 Bonds), in the amount of \$104,280,000. The 2017 Bonds are secured by the net revenues of the Columbus Obligated Group (comprised of The Medical Center, Doctors Hospital, Northside Hospital, Columbus Regional Medical Group, Columbus Healthcare Resources, CRHS Long Term and Home Care, CRSL and Columbus Regional Healthcare System) as well as certain security interests in portions of real and personal property owned or leased by such members of the Columbus Obligated Group. The proceeds of the 2017 Bonds were loaned to the Columbus Obligated Group under a loan agreement and were used to refund all outstanding principal with respect to certain revenue notes that were previously issued by the Authority and then loaned to the Columbus Obligated Group for the purpose of advance refunding of the 2008 Bonds and to pay all or a portion of the costs of issuance of the 2017 Bonds. The 2017 Bonds consist of term certificates maturing August 1, 2022 bearing interest at 4.88% paid semi-annually on August 1 and February 1.

In August 2010, the Medical Center Authority issued The Medical Center Hospital Authority Tax-Exempt Revenue Anticipation Certificates Series 2010 (the Columbus 2010 Bonds), in the amount of \$170,680,000. The Columbus 2010 Bonds are secured by the revenues and certain real property of the Columbus Obligated Group. The payment of principal and interest is also secured through a financial guarantee insurance policy.

The proceeds of the Columbus 2010 Bonds were loaned to the Columbus Obligated Group under a loan agreement and were used to refund all remaining outstanding principal amounts with respect to a promissory note that was previously issued to finance the acquisition of Hughston Hospital, to refund all remaining outstanding principal amounts related to a previous bond issuance, to finance certain improvements to the Columbus' facilities and to pay all or a portion of the costs of issuance of the Columbus 2010 Bonds.

The Columbus 2010 Bonds were refinanced as part of The 2018 Bridge Loan described in note 8(b).

In connection with the acquisition of The Athens Entities effective October 1, 2016, PHC assumed responsibility for payment of the Clarke Authority's outstanding revenue certificates through the lease agreement described in note 3.

On October 27, 2016, the Development Authority of Fulton County, the Hospital Authority of Fayette County, and the Hospital Authority of Clarke County, Georgia issued \$197,555,000, \$47,580,000, and \$178,225,000, respectively (\$423,360,000 collectively), in Revenue Bonds Series 2016A (the Series 2016 Bonds) on behalf of PHC. The proceeds of the Series 2016 Bonds were used to redeem previously outstanding Series 2009A and Athens Series 2007 and 2012 Revenue Bonds and for certain construction projects. The Series 2016 Bonds have been issued on a tax-exempt basis and are secured under a master trust indenture with all members of the PHC Obligated Group (Piedmont Healthcare, Inc. and all of its affiliates exclusive of AMIC, ARPS, ARSS, RHC, ARHS, ARF, HPS and the Columbus Entities), which provides for, among other things, the deposit of revenue with the master trustee in the event of certain defaults, pledges of accounts receivable, pledges not to encumber property, and limitations on additional borrowings.

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Included in bond proceeds receivable on the accompanying June 30, 2018 consolidated balance sheets is \$30,994,000, of bond proceeds from the Series 2016 Bonds, which was being held by a trustee and was remitted to PHC during the year ended June 30, 2019 upon completion of certain construction projects.

On November 19, 2014, the Development Authority of Fulton County, the Hospital Authority of Fayette County, and the Hospital Authority of Henry County issued \$87,730,000, \$42,060,000, and \$53,420,000, respectively (\$183,210,000 collectively), in Revenue Bonds Series 2014A and 2014B (the Series 2014 Bonds) on behalf of PHC. The proceeds of the Series 2014 Bonds were used to redeem previously outstanding Series 2004 and Series 2009B Revenue Bonds and for certain construction projects. The Series 2014 Bonds have been issued on a tax-exempt basis and are secured under a master trust indenture with all members of the PHC Obligated Group, which provides for, among other things, the deposit of revenue with the master trustee in the event of certain defaults, pledges of accounts receivable, pledges not to encumber property, and limitations on additional borrowings.

Included in bond proceeds receivable on the accompanying June 30, 2018 consolidated balance sheets is \$6,761,000 of bond proceeds from the Series 2014 Bonds, which was being held by a trustee, and was remitted to PHC during the year ended June 30, 2019 upon completion of certain construction projects.

On October 27, 2010, the Coweta County Development Authority issued \$100,000,000 in Revenue Bonds Series 2010 (the Series 2010 Bonds) on behalf of PHC. The proceeds of the Series 2010 Bonds were used to construct a replacement hospital for Newnan. The Series 2010 Bonds have been issued on a tax-exempt basis and are secured under a master trust indenture with all members of the PHC Obligated Group, which provides for, among other things, the deposit of revenue with the master trustee in the event of certain defaults, pledges of accounts receivable, pledges not to encumber property, and limitations on additional borrowings.

On November 24, 2009, the Development Authority of Fulton County and the Hospital Authority of Fayette County issued \$304,345,000 and \$79,540,000, respectively (\$383,885,000 collectively), in Revenue Bonds Series 2009A, 2009B, and 2009C (the Series 2009 Bonds) on behalf of PHC. The proceeds of the Series 2009 Bonds were used primarily to redeem previously outstanding Series 2007, Series 2005, Series 2001, and Series 1999 Revenue Bonds and fully repay a line of credit totaling approximately \$65,000,000. The Series 2009 Bonds have been issued on a tax-exempt basis and are secured under a master trust indenture with all members of the PHC Obligated Group, which provides for, among other things, the deposit of revenue with the master trustee in the event of certain defaults, pledges of accounts receivable, pledges not to encumber property, and limitations on additional borrowings. The Series 2009A Bonds were partially repaid (\$172,245,000) with proceeds from the Series 2016 Bonds. The Series 2009B Bonds were repaid in full (\$94,735,000) with proceeds from the Series 2014 Bonds.

In connection with the acquisition of Newton effective October 1, 2015, PHC assumed responsibility for payment of the Newton Authority's outstanding revenue certificates through the lease agreement described in note 3.

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In April 2006, the Newton County Hospital Authority issued \$8,930,000 Revenue Certificates, Series 2006 (the Series 2006 Bonds). The certificates were issued for the purpose of financing certain capital additions and improvements to Newton's facilities and paying costs of issuance of the Series 2006 Bonds. The Series 2006 bonds have been issued on a tax-exempt basis and are secured by a pledge of and lien on the gross revenues derived by Newton and payments made by Newton County, Georgia to Newton pursuant to a contract between Newton and Newton County. Under the terms of the Series 2006 Bonds, Newton is required to maintain certain deposits with a trustee for payment of bond principal and interest. Such deposits are included in investments and assets limited as to use on the accompanying June 30, 2018 and 2019 consolidated balance sheets. The Series 2006 Bonds were recorded at their fair value upon acquisition. At June 30, 2019 and 2018, the stated value and carrying value of the Series 2006 Bonds approximated \$3,265,000 and \$3,835,000, respectively.

In May 2007, the Newton County Hospital Authority issued \$17,225,000 Revenue Refunding Certificates, Series 2007 (the Series 2007 Bonds). The certificates were issued for the purpose of advance refunding Newton's Series 1999 bonds and paying costs of issuance of the 2007 bonds. The Series 2007 Bonds have been issued on a tax-exempt basis and are secured by a pledge of and lien on the gross revenues derived by Newton and payments made by Newton County, Georgia to Newton pursuant to a contract between Newton and Newton County. Under the terms of the 2007 Bonds, Newton is required to maintain certain deposits with a trustee for payment of bond principal and interest. Such deposits are included in investments and assets limited as to use on the accompanying June 30, 2019 and 2018 consolidated balance sheets. At the acquisition date, the stated value of the Series 2007 Bonds approximated \$11,985,000; however, they were recorded at their fair value upon acquisition. At June 30, 2019 and 2018, the stated value of the Series 2007 Bonds approximated \$7,195,000 and \$8,465,000, respectively, and the carrying value approximated \$7,370,000 and \$8,672,000, respectively.

Scheduled principal repayments on the Series 2017, Series 2016, Series 2014, Series 2010, Series 2009, Series 2007 and Series 2006 Bonds are as follows (in thousands):

Year ending June 30:	
2020	\$ 25,053
2021	25,065
2022	26,210
2023	125,705
2024	16,925
Thereafter	<u>607,502</u>
	<u>\$ 826,460</u>

In September 2019, PHC's Master Trust Indenture was modified to add the Columbus entities (excluding (CRMF), Walton, Rockdale, ARPS, ARSS, RHS, ARHS and HPS to the PHC Obligated Group. In connection with this modification, the previously existing Columbus Obligated Group was dissolved.

PHC is currently undertaking a process to issue bond obligations totaling approximately \$700,000,000 for the purposes of 1) financing the cost of various healthcare capital projects, 2) refinancing

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\$307,600,000 of principal notes outstanding at June 30, 2019, and 3) refunding of approximately \$135,895,000 of principal bonds outstanding at June 30, 2019. This potential transaction is expected to close during the second fiscal quarter of 2020.

(b) Notes Payable to Banks

Effective June 27, 2018, PHC entered into two note payable agreements with two banks totaling \$307,600,000 (collectively, the 2018 Bridge Loan). The proceeds of the 2018 Bridge Loan were used to fully repay the Columbus 2010 Bonds, to fully repay a loan payable obtained through the affiliation with Columbus (note 3), to fully repay a bridge loan obtained for the purchase of Rockdale (note 3) and finance the purchase of Walton (note 3). Each note is for \$153,800,000, bears an interest rate of LIBOR plus 0.20% (2.64% and 2.30% as of June 30, 2019 and 2018, respectively) payable monthly and is due and payable July 1, 2020. As of June 30, 2019 and 2018, there was \$307,600,000 outstanding under these two note agreements.

Effective February 1, 2012, PHC entered into a note payable with a bank. The proceeds of the note totaling approximately \$44,819,000 were used to fully repay Henry's Series 1999 Bonds during fiscal year 2013. Amounts outstanding at June 30, 2019 and 2018 totaled \$27,569,000 and \$29,519,000, respectively. Effective June 29, 2016, the note was refinanced and certain terms were amended. Previous to June 29, 2016, the note bore interest at a rate of 1.8% per annum, payable monthly. Effective June 29, 2016, the note bears interest at a rate of the London InterBank Offered Rate (LIBOR) floating rate plus 0.650% (3.052% and 2.744% as of June 30, 2019 and 2018, respectively) and the payment terms are as follows: \$2,065,000 due on July 1, 2020 and the remaining principal of \$25,504,000 due on July 1, 2021.

(c) Lines of Credit

PHC had a previously existing line of credit with a local bank with an interest rate of LIBOR plus 0.60% for \$1,000,000 and a maturity date of December 31, 2018. The line of credit was not renewed as of January 1, 2019. There were no outstanding borrowings on the line of credit at June 30, 2018.

CRHS had a previously existing line of credit with a financial institution with a maximum borrowing capacity of \$10,000,000. The line was amended most recently in 2018 to extend maturity to August 31, 2019. The line bore interest at LIBOR plus 2.50%. There were no outstanding borrowings on the line of credit at June 30, 2019 and 2018. The line matured on August 31, 2019 and has not been extended.

(d) Interest Rate Swap Agreements

PHC has five interest rate swap agreements that are not accounted for as cash flow hedges. These interest rate swaps are primarily utilized to economically hedge PHC's exposure to variable interest rates under its debt obligations. The change in value of the interest rate swaps is reported as a component of nonoperating income (expense) in the period it occurs. At June 30, 2019 and 2018, the total notional amount of PHC's interest rate swaps was approximately \$104,020,000 and \$117,920,000, respectively.

These interest rate swap agreements expose PHC to credit losses in the event of nonperformance by the counterparty to the financial instruments. The counterparty is a creditworthy financial institution and PHC management believes the counterparty will be able to fully satisfy its obligations under the contracts.

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PHC's interest rate swaps are reported at estimated fair value in the accompanying consolidated balance sheets, as follows (in thousands):

	June 30	
	2019	2018
Other long-term liabilities	\$ 23,768	17,759

The effects of PHC's interest rate swaps on the accompanying consolidated statements of operations are as follows (in thousands):

	Year ended June 30	
	2019	2018
(Loss) income recognized in nonoperating income	\$ (6,004)	7,010
Loss recognized in supplies and other expenses	(2,258)	(3,115)
	<u>\$ (8,262)</u>	<u>3,895</u>

(9) Medical Office Buildings

As discussed in note 7, PHC is considered the owner of the Fayette MOB and the Piedmont MOB for financial reporting purposes. In accordance with ASC 840, *Leases*, PHC has reflected the operations of the Piedmont and Fayette MOBs in its consolidated financial statements, which resulted in other revenue of approximately \$6,648,000, interest expense of approximately \$5,264,000, and supplies and other expenses of approximately \$2,606,000 for the year ended June 30, 2019 and other revenue of approximately \$5,896,000, interest expense of approximately \$4,772,000, and supplies and other expenses of approximately \$2,503,000 for the year ended June 30, 2018.

(10) Net Assets with Donor Restrictions

Spendable net assets with donor restrictions available primarily for capital purchases, education, and geriatric services were approximately \$36,944,000 and \$38,091,000 at June 30, 2019 and 2018, respectively.

Net assets with donor restrictions in perpetuity are summarized as follows, whose investment income is to be used according to the purpose description below (in thousands):

	June 30	
	2019	2018
Support of education	\$ 1,065	1,065
Beneficial interest in perpetual trust	8,082	8,032
Support of specific services	14,701	15,874
	<u>\$ 23,848</u>	<u>24,971</u>

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(11) Employee Benefits

(a) *Piedmont Healthcare, Inc. Retirement Plan*

PHC has a trustee, noncontributory defined-benefit pension plan (the PHC Plan) covering certain PHC employees. The PHC Plan's benefits are based on a combination of years of service and the employee's compensation. PHC's funding policy is to contribute annually to the PHC Plan an amount sufficient to meet the minimum funding standards of ERISA or an amount sufficient to maintain the Plan on a sound actuarial basis, as certified by an enrolled actuary. PHC Plan assets consist primarily of common stocks, alternative investments and cash equivalents.

In fiscal year 2008, PHC's Board of Directors approved the freezing of the PHC Plan for participation purposes, so that employees hired or rehired on and after July 1, 2008 are not eligible to participate in the PHC Plan. Then-current participants had the option under the "Choice" program to continue to accrue benefits in the PHC Plan or to participate in the new Piedmont 401(k) plan, which began on January 1, 2009. Approximately 64% of active participants elected to continue to accrue benefits in the defined-benefit pension plan.

On September 20, 2012, the PHC Plan was amended to reflect a freeze as of December 31, 2014. Therefore, no further benefit accruals will be provided after that date for additional credited service or earnings. In addition, all existing participants became fully vested as of December 31, 2014.

The following cumulative amounts have not yet been recognized in the net periodic cost, and are recognized as a reduction to net assets without donor restrictions (in thousands):

	June 30	
	2019	2018
Actuarial losses	\$ 129,132	97,559
Prior service cost	—	—
Total	\$ 129,132	97,559

Changes in the PHC Plan's obligations and assets resulted in the following changes in net assets without donor restrictions (in thousands):

	Year ended June 30	
	2019	2018
Amortization of prior service cost	\$ —	—
Amortization of net actuarial loss	2,015	2,487
Net actuarial income (loss) during the year	(33,588)	15,493
Total	\$ (31,573)	17,980

The unrecognized loss included in net assets without donor restrictions and expected to be recognized in net periodic pension cost during the year ending June 30, 2020 is approximately \$3,043,000.

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The following table presents a reconciliation of the beginning and ending balances of the PHC Plan's projected benefit obligation, the fair value of plan assets, the funded status of the PHC Plan, and the accumulated benefit obligation (in thousands):

	<u>June 30</u>	
	<u>2019</u>	<u>2018</u>
Change in benefit obligation:		
Projected benefit obligation, beginning of year	\$ 381,359	394,773
Service cost	—	3,410
Interest cost	15,261	13,656
Benefits paid	(13,570)	(12,448)
Actuarial loss (gain)	37,939	(14,364)
Administrative expenses paid from pension trust	—	(3,668)
	<u>420,989</u>	<u>381,359</u>
Projected benefit obligation, end of year	\$ 420,989	381,359
Accumulated benefit obligation	\$ 420,989	381,359

	<u>June 30</u>	
	<u>2019</u>	<u>2018</u>
Change in Plan assets:		
Fair value of Plan assets, beginning of year	\$ 333,103	317,005
Actual return on Plan assets	21,943	20,214
Employer contributions	—	12,000
Benefits paid	(13,570)	(12,448)
Administrative expenses paid from pension trust	—	(3,668)
	<u>341,476</u>	<u>333,103</u>
Fair value of Plan assets, end of year	\$ 341,476	333,103
Funded status of the Plan	\$ (79,512)	(48,256)

The unfunded status of the PHC Plan of approximately \$79,512,000 and \$48,256,000 at June 30, 2019 and 2018, respectively, is recognized in the accompanying consolidated balance sheets as accrued pension cost. No PHC Plan assets are expected to be returned to PHC during the fiscal year ending June 30, 2020.

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The following table sets forth the components of net periodic benefit cost (in thousands):

	Year ended June 30	
	2019	2018
Components of net periodic benefit cost:		
Service cost	\$ —	3,410
Interest cost	15,261	13,656
Expected return on Plan assets	(17,592)	(19,086)
Amortization of prior service cost	—	—
Amortization of net actuarial loss	2,015	2,487
Total net periodic benefit cost	<u>\$ (316)</u>	<u>467</u>

The actuarial assumptions used in the accounting for the net periodic cost for the PHC Plan were as follows:

	Year ended June 30	
	2019	2018
Discount rate	4.35 %	4.03 %
Rate of increase in future compensation levels	N/A	N/A
Expected long-term rate of return on Plan assets	5.40 %	6.20 %

The actuarial assumptions used to determine the year-end benefit obligations for the PHC Plan were as follows:

	June 30	
	2019	2018
Discount rate	3.70 %	4.35 %
Rate of increase in future compensation levels	N/A	N/A

PHC uses fair value as the market-related value of assets in calculating the expected return on PHC Plan assets component of net periodic pension expense for the years ended June 30, 2019 and 2018.

No contributions are expected to be paid to the PHC Plan during fiscal year 2020.

Benefits expected to be paid in each of the next five fiscal years are as follows: fiscal year 2020, \$16,584,000; fiscal year 2021, \$17,921,000; 2022, \$19,183,000; 2023, \$20,155,000; and fiscal year 2024, \$21,058,000. For fiscal years 2025–2029, the aggregate benefits expected to be paid is \$114,879,000.

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The following table sets forth the asset allocation for the PHC Plan:

	June 30	
	2019	2018
Growth/equity securities	44 %	46 %
Hedge funds/private equity	8	8
Fixed-income securities	39	39
Asset-backed securities	3	3
Cash	6	4
	<u>100 %</u>	<u>100 %</u>

The target allocation for the PHC Plan is as follows:

	June 30	
	2019	2018
Growth/equity securities	45 %	45 %
Hedge funds/private equity	10	10
Fixed-income securities	40	40
Asset-backed securities	5	5
	<u>100 %</u>	<u>100 %</u>

To develop the expected long-term rate of return on assets assumption, PHC considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the PHC Plan's portfolio.

The investment strategy of the PHC Plan is to ensure, over the long-term life of the PHC Plan, an adequate pool of assets, along with contributions by PHC to satisfy the benefit obligations to participants and beneficiaries. PHC desires to achieve market returns consistent with a prudent level of diversification. All investments are made solely in the interest of the PHC Plan's participants and beneficiaries for the exclusive purposes of providing benefits to such participants and their beneficiaries and defraying the expenses related to administering the PHC Plan. The target allocation of all assets is to reflect proper diversification in order to reduce the potential of a single security or single sector of securities having a disproportionate impact on the portfolio. In an effort to maintain the overall risk level of the portfolio within an acceptable range, the relative mix of asset classes will be rebalanced back toward the target allocations as opportunities permit, but in any event not less often than annually. The use of futures and options contracts will be limited to liquid instruments listed and actively traded on major exchanges (except for short-term funds) to over-the-counter options or forward-contract positions executed with major dealers. No derivatives strategy may be used if it would subject the portfolios to greater variance than would be the case with the physical portfolio under a worst case scenario. Short-term funds may use only exchange-traded futures contracts and options-specifically prohibited are any off-exchange instruments and any exotic or structured securities, as well as notes whose

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interest rate is tied to security with a maturity of more than one year. PHC utilizes an outside investment consultant to implement its investment strategy.

The fair value of plan assets of the PHC Plan measured at fair value on a recurring basis was determined using the following inputs (note 16) at June 30, 2019 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and short-term investments	\$ 29,299	—	—	29,299
Corporate obligations	10,778	82,148	—	92,926
Fixed-income securities	3,518	—	—	3,518
Municipal securities	—	5,252	—	5,252
Corporate stocks	7,180	—	—	7,180
Mutual funds	142,551	—	—	142,551
Total assets at fair value	\$ 193,326	87,400	—	280,726
Investments measured at NAV as a practical expedient				60,750
				\$ 341,476

The fair value of PHC Plan assets measured at fair value on a recurring basis was determined using the following inputs (note 16) at June 30, 2018 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and short-term investments	\$ 19,979	—	—	19,979
Corporate obligations	11,994	67,806	—	79,800
Fixed-income securities	4,096	—	—	4,096
Municipal securities	—	4,897	—	4,897
Corporate stocks	7,486	—	—	7,486
Mutual funds	144,534	—	—	144,534
Total assets at fair value	\$ 188,089	72,703	—	260,792
Investments measured at NAV as a practical expedient				72,311
				\$ 333,103

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Alternative investments included in the PHC Plan at June 30, 2019 and 2018 and related net unrealized gains and losses for the years then ended consist of the following (in thousands):

	Estimated fair value, year ended June 30		Net unrealized gains (losses), year ended June 30	
	2019	2018	2019	2018
Clarion Lion Properties ING Fund \$	6,124	5,744	212	414
IFP Global Equity L.P.	14,995	14,012	733	2,689
Chatham Asset High Yield Offshore Fund, Ltd.	—	14,418	413	1,545
Canyon Balanced Fund	10,867	10,243	624	778
PHC Fund, Ltd.	28,764	27,788	2,958	1,889
Harvest MLP Income II Fund	—	106	—	(4,431)
\$	60,750	72,311	4,940	2,884

Redemption frequency and redemption notice periods for alternative investments held by the PHC Plan at June 30, 2019 are as follows:

	Redemption frequency	Redemption notice period
Clarion Lion Properties ING Fund	Quarterly	90 Days
Canyon Balanced Fund	Quarterly	90 Days
IFP Global Equity, L.P.	Semi-monthly	15 Days
PHC Fund, Ltd.	Monthly	90 Days

All investments at June 30, 2019 and 2018 were in domestic investments.

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 financial assets for the corporate obligations were determined through evaluated bid prices provided by third-party pricing services where quoted market prices are not available. The fair value of the remaining alternative investments was determined based on the use of net asset value per share as a practical expedient in accordance with ASC 820, *Fair Value Measurement*.

(b) Columbus Regional Healthcare System, Inc. Pension Plan

July 1, 1986, CRHS established the Columbus Regional Healthcare System, Inc. Pension Plan (the CRHS Pension Plan), a noncontributory defined benefit pension plan covering certain employees of CRHS and its affiliated companies that were employed prior to July 1, 2003. The plan provides benefits to the retired, terminated and active employees and their beneficiaries based on earnings and years of credited service. The funding policy is to contribute annually such amounts as are necessary to provide assets sufficient to meet the benefits to be paid to the plan's members and to keep the plan actuarially sound.

Effective June 30, 2013, the plan was amended to freeze future service benefits.

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The following table presents a reconciliation of the beginning and ending balances of the CRHS Pension Plan's benefit obligation, the fair value of plan assets and the funded status of the plan as of and for the year ended June 30, 2019 and as of and for the period March 1, 2018 through June 30, 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Change in benefit obligations:		
Benefit obligations, beginning of period	\$ 170,525	174,956
Interest cost	6,810	2,199
Benefits paid	(6,052)	(2,137)
Actuarial loss (gain)	<u>15,597</u>	<u>(4,493)</u>
Benefit obligations, end of period	<u>186,880</u>	<u>170,525</u>
Change in plan assets:		
Fair value of plan assets, beginning of period	144,271	146,629
Actual return on plan assets	12,677	(1,031)
Contributions of plan sponsor	1,215	810
Benefits paid	<u>(6,052)</u>	<u>(2,137)</u>
Fair value of plan assets, end of period	<u>152,111</u>	<u>144,271</u>
Funded status of the plan, end of period	\$ <u><u>(34,769)</u></u>	<u><u>(26,254)</u></u>

PHC recognizes the funded status of the CRHS Pension Plan as a liability and the gains or losses and prior service costs or credits not yet recognized as pension expense as changes in net assets without donor restrictions. Amounts reported in the accompanying consolidated balance sheets related to the CRHS Pension Plan consist of the following as of June 30, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Noncurrent liabilities	\$ (34,769)	(26,254)
Unrecognized net actuarial loss in net assets without donor restrictions	10,377	(688)

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The net periodic pension cost of the CRHS Pension Plan and other amounts recognized in net assets without donor restrictions consist of the following for the year ended June 30, 2019 and for the period March 1, 2018 through June 30, 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Net periodic pension benefit:		
Interest cost on benefit obligation	\$ 6,810	2,199
Expected return on plan assets	(8,145)	(2,773)
Amortization of net actuarial loss	<u>—</u>	<u>—</u>
Net periodic pension benefit	\$ <u>(1,335)</u>	<u>(574)</u>
Other changes in net assets without donor restrictions:		
Current net actuarial loss	\$ 10,377	(688)
Amortization of net actuarial loss	<u>—</u>	<u>—</u>
Other changes in net assets without donor restrictions	\$ <u>10,377</u>	<u>(688)</u>

There is no estimated net loss that will be amortized from net assets without donor restrictions into net periodic pension cost over the next fiscal year.

The actuarial assumptions used in the accounting for the net periodic cost for the CRHS Pension Plan were as follows:

	<u>Year ended June 30</u>	
	<u>2019</u>	<u>2018</u>
Discount rate	4.34 %	3.84 %
Rate of increase in future compensation levels	N/A	N/A
Expected long-term rate of return on Plan assets	5.75 %	5.75 %

The actuarial assumptions used to determine the year-end benefit obligations for the CRHS Pension Plan were as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	3.66 %	4.34 %
Rate of increase in future compensation levels	N/A	N/A

PHC uses fair value as the market-related value of assets in calculating the expected return on PHC Plan assets component of net periodic pension expense for the years ended June 30, 2019 and 2018.

The determination of the expected long-term rate of return on plan assets is based on assumptions that are developed by the CRHS Pension Plan investment consultant for each investment category as to

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the rate of return, risk, yield and correlation with other categories that serve as components of the long-term strategy. The expected long-term rate of return reflects assumptions as to continued execution of the current strategic asset allocation and the plan's investment policy.

The investment strategy of the CRHS Pension Plan is to achieve a mix of approximately 95% of investments for long-term growth and 5% for near-term benefit payments. The target allocation for plan assets is 70% equity securities, 25% corporate bonds and government agencies and 5% for all other types of investments. The fair value of plan assets of the CRHS Pension Plan at June 30, 2019 is as follows (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,817	—	—	1,817
Corporate bonds	—	49,663	—	49,663
Government agencies	—	39,674	—	39,674
Equity securities:				
Domestic	47,185	—	—	47,185
International	13,772	—	—	13,772
	<u>\$ 62,774</u>	<u>89,337</u>	<u>—</u>	<u>152,111</u>

The fair value of plan assets of the CRHS Pension Plan at June 30, 2018 is as follows (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 4,572	—	—	4,572
Corporate bonds	—	57,768	—	57,768
Government agencies	—	27,750	—	27,750
Exchange traded funds	3,760	—	—	3,760
Mutual funds	13,006	—	—	13,006
Equity securities:				
Domestic	25,539	—	—	25,539
International	11,876	—	—	11,876
	<u>\$ 58,753</u>	<u>85,518</u>	<u>—</u>	<u>144,271</u>

PHC expects to contribute approximately \$20,000,000 to the CRHS Pension Plan during fiscal year 2020.

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Estimated future benefit payments are expected to be paid by the CRHS Pension Plan as follows for years ending June 30 (in thousands):

2020	\$	7,416
2021		8,032
2022		8,576
2023		9,102
2024		9,546
2025–2029		52,670

(c) The Medical Center Hospital Authority Pension Plan

The TMC Authority sponsors The Medical Center Hospital Authority Pension Plan (the TMC Authority Pension Plan), a frozen noncontributory defined benefit pension plan covering substantially all former employees of the TMC Authority. As a result of the corporate reorganization, PHC is obligated to pay pension benefits to eligible participants in the frozen plan.

The following table presents a reconciliation of the beginning and ending balances of the TMC Authority Pension Plan's benefit obligation and the fair value of plan assets and the funded status of the plan as of and for the year ended June 30, 2019 and as of and for the period March 1, 2018 through June 30, 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Change in benefit obligations:		
Benefit obligations, beginning of period	\$ 26,907	27,664
Interest cost	1,007	327
Benefits paid	(1,812)	(613)
Actuarial loss	1,531	(471)
Benefit obligations, end of period	<u>27,633</u>	<u>26,907</u>
Change in plan assets:		
Fair value of plan assets, beginning of period	23,060	23,047
Actual return on plan assets	1,246	126
Contributions of plan sponsor	750	500
Benefits paid	(1,812)	(613)
Fair value of plan assets, end of period	<u>23,244</u>	<u>23,060</u>
Funded status of the plan, end of period	\$ <u>(4,389)</u>	<u>(3,847)</u>

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PHC recognizes the funded status of the TMC Authority Pension Plan as an asset or liability and the gains or losses and prior service costs or credits not yet recognized as pension expense as a change in net assets without donor restrictions. Amounts reported in the accompanying consolidated balance sheets related to the TMC Authority Pension Plan consist of the following as of June 30, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Noncurrent liabilities	\$ (4,389)	(3,847)
Unrecognized net actuarial loss in net assets without donor restrictions	1,271	(199)

Net periodic pension cost of the TMC Authority Pension Plan and other amounts recognized in net assets without donor restriction consist of the following for the year ended June 30, 2019 and for the period March 1, 2018 through June 30, 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Net periodic pension benefit:		
Interest cost on benefit obligation	\$ 1,007	327
Expected return on plan assets	(1,185)	(398)
Amortization of net actuarial loss	—	—
Net periodic pension benefit	<u>(178)</u>	<u>(71)</u>
Other changes in net assets without donor restrictions:		
Current net actuarial loss	1,470	(199)
Amortization of net actuarial loss	—	—
Other changes in net assets without donor restrictions	<u>1,470</u>	<u>(199)</u>
Total net periodic pension cost and change in net assets without donor restrictions	\$ <u>1,292</u>	<u>(270)</u>

There is no estimated net loss that will be amortized from net assets without donor restrictions into net periodic pension cost over the next fiscal year.

The actuarial assumptions used in the accounting for the net periodic cost for the TMC Authority Pension Plan were as follows:

	<u>Year ended June 30</u>	
	<u>2019</u>	<u>2018</u>
Discount rate	4.21 %	3.99 %
Rate of increase in future compensation levels	2.50	2.50
Expected long-term rate of return on Plan assets	4.50	5.25

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The actuarial assumptions used to determine the year-end benefit obligations for the TMC Authority Pension Plan were as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	3.43 %	4.21 %
Rate of increase in future compensation levels	2.50	2.50

PHC uses fair value as the market-related value of assets in calculating the expected return on PHC Plan assets component of net periodic pension expense for the years ended June 30, 2019 and 2018.

The determination of the expected long-term rate of return on plan assets is based on assumptions that are developed by the TMC Authority Pension Plan investment consultant for each investment category as to the rate of return, risk, yield and correlation with other categories that serve as components of the long-term strategy. The expected long-term rate of return reflects assumptions as to continued execution of the current strategic asset allocation and the plan's investment policy.

The investment strategy of the TMC Authority Pension Plan is to achieve a mix of approximately 95% of investments for long-term growth and 5% for near-term benefit payments. The target allocation for plan assets is 60% equity securities, 35% corporate bonds and government agencies and 5% for all other types of investments.

The fair value of plan assets at June 30, 2019, is as follows (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 456	—	—	456
Fixed income	—	9,759	—	9,759
Equity mutual funds	—	—	—	—
Equity securities:				
Domestic	9,630	—	—	9,630
International	3,399	—	—	3,399
	<u>\$ 13,485</u>	<u>9,759</u>	<u>—</u>	<u>23,244</u>

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The fair value of plan assets at June 30, 2018, is as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,251	—	—	2,251
Exchange traded funds	9,009	—	—	9,009
Equity mutual funds	4,666	—	—	4,666
Equity securities:				
Domestic	5,077	—	—	5,077
International	2,057	—	—	2,057
	\$ 23,060	—	—	23,060

PHC expects to contribute approximately \$1,000,000 to the TMC Authority Pension Plan during fiscal year 2020.

Estimated future benefit payments are expected to be paid by the TMC Authority Pension Plan as follows for the years ending June 30 (in thousands):

2020	\$ 1,934
2021	1,942
2022	1,963
2023	1,985
2024	1,970
2025–2029	9,326

(d) Deferred Compensation Plans

PHC also offers two nonqualified deferred compensation plans, which are available to certain highly compensated PMCC and PHIP employees. These plans permit such employees to defer the receipt and taxation of all or a portion of their salary until future years. The deferred compensation is available for distribution to employees upon the election by the employee, provided the distribution election with respect to the deferred amounts has been made for a minimum of one year prior to the date of distribution.

All deferrals are held as part of PHC's general assets and are subject to the claims of PHC's general creditors. Employees' rights to the payment of benefits under these plans are equal to those of general and unsecured creditors of the PHC. PHC has no liability for losses under the deferred compensation plans.

The amounts recorded for the deferred compensation plans are approximately \$66,482,000 and \$57,183,000 at June 30, 2019 and 2018, respectively, and are recorded within other long-term liabilities and other assets in the accompanying consolidated balance sheets.

CRHS implemented a 457(b) plan for certain highly compensated senior employees and physicians. The plan is funded solely by employee contributions. The assets of the plan are the legal assets of

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CRHS until they are distributed to participants and therefore, the plan assets and corresponding liability are reported in the accompanying consolidated balance sheets. Plan assets, at fair value, at June 30, 2019 and 2018 totaled approximately \$5,447,000 and \$5,476,000, respectively, and are reflected in other long term assets with an offsetting liability in other long term liabilities on the accompanying consolidated balance sheets.

(e) 401(k) Plans

PHC offers, as the sponsor, a deferred tax annuity plan (the 401(k) Plan) pursuant to Section 401(k) of the IRC of 1986, covering substantially all employees of PHC, except employees of the Columbus Entities. PHC contributes 100% of pretax contributions up to the first 3% of eligible pay and 50% of pretax contributions up to the next 2% into the 401(k) Plan and may make an additional discretionary contribution. PHC recognized as salaries and benefits expense approximately \$57,767,000 and \$48,104,000 for the years ended June 30, 2019 and 2018, respectively, related to the 401(k) Plan. No discretionary contributions were made during the years ended June 30, 2019 or 2018.

CRHS sponsors a defined contribution plan for substantially all full-time CRHS employees. Prior to July 1, 2014, CRHS made a matching contribution to the plan equal to 25% of the amount contributed to the plan through employee deferrals, limited to 6% of compensation. CRHS made an additional tiered contribution based on years of service and compensation levels ranging from 1.5% to 5.0% of compensation. Effective July 1, 2014, the plan was amended to a discretionary contribution. Effective January 1, 2019, the plan was merged into the PHC 401(k) Plan. Contribution expenses under the terms of this plan totaled approximately \$1,080,000 and \$2,156,000 for the period July 1, 2018 through December 31, 2018 and for the period March 1, 2018 through June 30, 2018, respectively.

(12) Continuing Care Retirement Community Management Agreement

On August 4, 2004, CRHS entered into a series of agreements with respect to the TMC Authority's construction and funding of a continuing care retirement community (CCRC), which is not owned by CRHS. These agreements include a ground lease, a completion and support funding agreement, an indemnity agreement, an environmental compliance and indemnification agreement and a supplemental subordination agreement.

Under the terms of the ground lease, CRHS leases certain real estate to the TMC Authority through 2044. The TMC Authority issued tax-exempt bonds totaling \$74,660,000 to construct a CCRC on the leased land. Upon termination of the lease agreement, the land and all improvements thereon will revert, or transfer, to CRHS.

CRHS issued an environmental compliance and indemnification agreement, which indemnifies certain third parties with respect to any environmental-related losses, which may be associated with the land. CRHS has assigned all of its rights in the leased property to specified third parties with respect to the TMC Authority's bond issue.

During the CCRC's construction phase, CRHS provided funds to the TMC Authority for the CCRC's construction amounting to approximately \$3,100,000. This funding was initially recorded as a debt, subordinate to the Series 2004 Bonds. On April 1, 2007, the TMC Authority entered into an amended and restated loan agreement in conjunction with the issuance of the Series 2007 Bonds, which includes a provision whereby the TMC Authority will be released from its liability under the loan agreement upon

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termination of the ground lease. As such, at that time the funding was recognized as a capital contribution to the TMC Authority.

The TMC Authority entered into a management agreement with Columbus Regional Senior Living, a controlled affiliate of CRHS, which subsequently entered into a submanagement agreement with a third-party to manage the operations of the CCRC and to perform the duties and obligations thereof pursuant to the management agreement. The CCRC management activity is immaterial to PHC as a whole.

PHC has agreed to indemnify the TMC Authority and specified third parties with respect to certain losses of the TMC Authority, including ad valorem real estate property taxes. As discussed in note 14, the TMC Authority is involved in a property tax dispute related to the CCRC, which exposes PHC to risk of loss.

(13) Concentrations of Credit Risk

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

	June 30	
	2019	2018
Medicare	26 %	30 %
Medicaid	18	15
Other third-party payors	39	39
Patients	17	16
	<u>100 %</u>	<u>100 %</u>

PHC recognizes that revenue and receivables from government agencies and third-party payors are significant to its operations. PHC does not believe that there are significant credit risks associated with these sources of revenue.

As of June 30, 2019 and 2018, PHC had approximately \$440,156,000 and \$491,331,000, respectively, in funds deposited with various financial institutions in excess of Federal Deposit Insurance Corporation limits.

(14) Commitments and Contingencies

(a) General and Professional Liability Insurance

PHC has a self-insurance program for general and professional liability coverage through AMIC. AMIC insures PHC with professional liability risks of PHC affiliates, namely Atlanta, Mountainside, Fayette, Newnan, Henry, Newton, Athens, Rockdale, Walton, Midtown, Northside and Piedmont Medical Care Corporation on a claims-made basis for the hospital professional. The insurance policies between PHC and AMIC are \$5,000,000 per occurrence and \$20,000,000 aggregate annual limit for coverage effective May 1, 2003 through April 30, 2005, and \$5,000,000 per occurrence and \$19,000,000 aggregate annual limit for coverage effective May 1, 2005 through April 30, 2014 returning to \$5,000,000 per occurrence and \$20,000,000 aggregate annual limit for coverage effective May 1, 2014 through April 30, 2016 and \$5,000,000 per occurrence and \$21,000,000 annual aggregate as of May 1,

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2016 and \$5,000,000 per occurrence and \$25,000,000 annual aggregate as of May 1, 2017 and at \$5,000,000 with the annual aggregate at \$31,000,000 per occurrence as of May 1, 2018. Beginning May 1, 2019, the per occurrence limit moved to \$7,000,000 with an annual aggregate of \$42,000,000. AMIC provides commercial general liability coverage on an occurrence basis to Piedmont Heart Institute Physicians, Athens Regional Physician Services, Athens Regional Specialty Services, Regional First Care, Columbus Ambulatory Healthcare Services and Columbus Regional Medical Group in addition to the affiliates named above. The per occurrence general liability limit provided by AMIC was reduced from \$5,000,000 to \$2,000,000 on May 1, 2011 and remains at that level. AMIC is consolidated by PHC. PHC records the reported and estimated incurred-but-not-reported liability based on an actuarial study at June 30, 2019 and 2018, which totaled approximately \$111,451,000 and \$88,463,000, respectively, and is recorded as self-insurance reserves in the accompanying consolidated balance sheets. Commercial insurance has been obtained on a claims-made (professional liability) and on an-occurrence (general liability) basis to provide for excess coverage.

The general and professional self-insurance reserves included in the accompanying consolidated balance sheets include estimates of the ultimate costs for claims incurred but not reported through June 30, 2019 and 2018, applicable to the general and professional liability self-insurance plans for PHC. PHC has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued malpractice and general losses have been discounted at 2% at June 30, 2019 and 2018.

(b) Other Self-Insurance Programs

PHC self-insures a portion of its workers' compensation liability exposure up to \$450,000 per claim at June 30, 2019 and 2018. Reserves for the self-insurance program are established to provide for estimated claims losses and applicable legal expenses for any claims incurred, both reported and unreported, through June 30, 2019 and 2018, and are recorded in the accompanying consolidated financial statements. PHC recorded the reported and estimated incurred-but-not-reported liability for its claims at June 30, 2019 and 2018, which totaled approximately \$8,478,000 and \$8,644,000, respectively. Commercial insurance has been obtained on an-occurrence basis to provide for excess coverage.

The workers' compensation self-insurance reserves included in the accompanying consolidated balance sheets include estimates of the ultimate costs for claims incurred but not reported through June 30, 2019 and 2018. PHC has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued workers' compensation losses have been discounted at 2% at June 30, 2019 and 2018.

PHC is self-insured for employee health benefits for its subsidiaries with reinsurance for high dollar claims. At June 30, 2019 and 2018, PHC recorded \$17,292,000 and \$15,398,000, respectively, as an estimated liability for health benefit claims within the current portion of self-insurance reserves line item in the accompanying consolidated balance sheets.

The employee health benefits self-insurance reserves in the accompanying consolidated balance sheets include estimates of the ultimate costs for claims incurred but not reported through June 30, 2019 and 2018, applicable to the employee health benefits self-insurance plans. PHC has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued

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employee health benefits losses have not been discounted due to the short-term nature of the payout of these liabilities.

In the opinion of management, adequate provision has been made for losses that may occur from the asserted and unasserted claims for all self-insurance programs.

(c) Operating Leases

PHC leases various equipment and facilities under operating leases expiring at various dates through fiscal year 2099. Total rent expense in fiscal years 2019 and 2018 for all operating leases was approximately \$67,765,000 and \$53,859,000, respectively, and is included in supplies and other expenses on the accompanying consolidated statements of operations.

The following is a schedule by year of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year (in thousands):

Year ending June 30:		
2020	\$	58,128
2021		53,784
2022		47,470
2023		40,798
2024		35,241
Thereafter		<u>108,589</u>
	\$	<u>344,010</u>

(d) Litigation and Other Commitment and Contingencies

PHC is involved in litigation arising in the ordinary course of business. Liabilities for loss contingencies arising in the ordinary course of business are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on PHC's future financial position or results of operations.

On December 15, 2016, the United States Attorney's Office for the Northern District of Georgia issued a Civil Investigative Demand in connection with an investigation of PHC under the civil False Claims Act. PHC has fully cooperated in the investigation and continued a dialogue with the United States Attorney's Office. PHC believes it has meritorious defenses to all allegations and estimates that any loss exposure in excess of amounts currently accrued would not have a material adverse effect on PHC's financial position or results of operations.

In September 2015, CRHS entered into a settlement agreement with the United States and the State of Georgia to resolve certain allegations of improper coding and billing practices and physician compensation payments. The settlement agreement included a total fixed payment of \$26,000,000 as well as a contingent amount, which is capped at \$9,000,000. Management has estimated remaining settlement loss of \$7,978,000 and \$11,352,000 as June 30, 2019 and 2018, respectively, of which

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\$4,474,000 and \$3,143,000 is considered current at June 30, 2019 and 2018, respectively. The current and long-term portions are included in accounts payable and accrued expenses and other long-term liabilities, respectively.

Contemporaneously with the settlement agreement, CRHS entered into a Corporate Integrity Agreement (CIA) with the Office of Inspector General to promote compliance with the statutes, regulations and written directives of Medicare, Medicaid and all other Federal health care programs. The CIA, which commenced in September 2015, is for duration of five years and requires CRHS to provide certain information and maintain certain requirements at CRHS each year.

The TMC Authority is involved in a property tax dispute over certain real estate it owns and leases. The Columbus Consolidated Government holds that the property in question is subject to ad valorem real estate property tax and is pursuing collection of billed property taxes for the years 2005 through 2019 related to the CCRC discussed in note 12. PHC has indemnified the TMC Authority for such property taxes; therefore, PHC could have exposure to loss related to the dispute. After an initial Superior Court of Muscogee County decision in favor of the TMC Authority and following subsequent appeals, the case had been remanded to Superior Court. Counsel for the TMC Authority intend to pursue the remanded case and seek to obtain judgment of the Superior Court that the TMC Authority's interest is exempt from property tax as a public property. Court ordered mediation was conducted on April 2, 2019. However, the parties were unable to reach an agreement on key matters and it was unsuccessful. The ultimate outcome of this matter is unknown at this time; however, given the prior judgments and management's evaluation of the facts, including consultation with external counsel, there is not a probable settlement amount that can be determined at this time.

(15) Functional Expenses

PHC provides general healthcare services to residents within its geographic location. Expenses related to providing these services on a functional basis for the years ended June 30 are as follows:

	2019		2018	
	Healthcare	Admin	Healthcare	Admin
Salaries and benefits	\$ 1,690,933	241,979	1,439,408	204,700
Supplies and other expenses	1,194,378	170,843	993,273	140,919
Interest	32,185	2,852	29,608	4,790
Depreciation and amortization	115,904	17,273	96,260	12,885
	<u>\$ 3,033,400</u>	<u>432,947</u>	<u>2,558,549</u>	<u>363,294</u>

(16) Fair Value of Financial Instruments

PHC applies ASC 820, *Fair Value Measurement*, which defines fair value as 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. ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

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Certain of the PHC's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market investments, fixed income and equity instruments, and interest rate swap agreements. The three levels of the fair value hierarchy defined by ASC 820 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that PHC has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on pricing inputs that are either directly observable or that can be derived or supported from observable data as of the reporting date. Level 2 inputs may include quoted prices for similar assets or liabilities in nonactive markets or pricing models whose inputs are observable for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

PIEDMONT HEALTHCARE, INC. AND AFFILIATES

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A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value of financial assets and financial liabilities measured at fair value on a recurring basis was determined using the following inputs at June 30, 2019 (in thousands):

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 390,696	—	—	390,696
Investments and assets limited as to use:				
Cash and short-term investments	47,763	—	—	47,763
Corporate obligations	—	40	—	40
Fixed-income securities	233,190	—	—	233,190
Corporate stocks	95,098	—	—	95,098
Mutual funds	541,038	—	—	541,038
Total investments and assets limited as to use at fair value	917,089	40	—	917,129
Self-insurance investments:				
Corporate obligations	145	5,826	—	5,971
Fixed-income securities	22,050	—	—	22,050
Mortgage-backed securities	—	12,128	—	12,128
Equity securities	27,445	—	—	27,445
Total self-insurance investments	49,640	17,954	—	67,594
Beneficial interest in perpetual trust	—	—	8,082	8,082
Total assets at fair value	\$ 1,357,425	17,994	8,082	1,383,501
Investments and assets limited as to use measured at NAV as a practical expedient				218,278
				\$ 1,601,779

Liabilities

Interest rate swaps	\$ —	23,768	—	23,768
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The fair value of financial assets and financial liabilities measured at fair value on a recurring basis was determined using the following inputs at June 30, 2018 (in thousands):

Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 458,213	—	—	458,213
Investments and assets limited as to use:				
Cash and short-term investments	23,632	—	—	23,632
Corporate obligations	—	16,086	—	16,086
Asset-backed securities	—	8,590	—	8,590
Fixed-income securities	215,468	—	—	215,468
Government agencies	—	25,571	—	25,571
Corporate stocks	148,110	—	—	148,110
Mutual funds	421,846	—	—	421,846
Total investments and assets limited as to use at fair value	809,056	50,247	—	859,303
Self-insurance investments:				
Corporate obligations	403	5,879	—	6,282
Fixed-income securities	18,236	—	—	18,236
Mortgage-backed securities	—	5,626	—	5,626
Equity securities	19,139	—	—	19,139
Total self-insurance investments	37,778	11,505	—	49,283
Beneficial interest in perpetual trust	—	—	8,032	8,032
Total assets at fair value	\$ 1,305,047	61,752	8,032	1,374,831
Investments and assets limited as to use measured at NAV as a practical expedient				230,745
				\$ 1,605,576
Liabilities				
Interest rate swaps	\$ —	17,759	—	17,759

Investments and assets limited as to use at June 30, 2019 and 2018 were in domestic investments.

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The fair values of the securities included in Level 1 were determined through unadjusted quoted market prices. The fair value of Level 2 and Level 3 financial assets and liabilities were determined as follows:

Corporate obligations, treasury inflated protection securities, and mortgage-backed securities – These Level 2 investments were determined through evaluated bid prices provided by third-party pricing services where quoted market values are not available. There is no significant subjectivity in the fair value estimate due to changes in the unobservable inputs.

Beneficial interest in perpetual trust – The fair values of these related financial assets were determined from the fair value of the underlying assets contributed to the trusts. Based on the nature of the underlying assets, there is no significant subjectivity in the fair value estimate due to changes in the unobservable inputs.

Interest rate swaps – The fair values of these financial liabilities interest rate swaps were determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The analysis reflects contractual terms of the interest rate swaps and uses observable market-based inputs, such as discount rates interpolated based on relevant swap curves. In addition, credit valuation adjustments are included to reflect nonperformance risk. PHC pays fixed rates ranging from 3.17% to 4.84% and receives cash flows based on 67.00% of one month LIBOR.

The following is the reconciliation of the beginning and ending balances of Level 3 financial assets measured at fair value on a recurring basis (in thousands):

	2019	2018
Beginning balance	\$ 8,032	7,694
Change in beneficial interest in perpetual trust	50	338
Ending balance	\$ 8,082	8,032

Change in beneficial interest in perpetual trust is included within net assets with donor restrictions in the accompanying consolidated statements of changes in net assets.

The carrying values of patient accounts receivable, pledges receivable, and accounts payable and accrued expenses are reasonable estimates of their fair values due to the short-term nature of these financial instruments.

(17) Related-Party Transactions

PWHP was a health insurance company owned 50% by PHC and 50% by WellStar Health System. In September 2019, PWHP was dissolved and remaining funds in the company were distributed to PHC and WellStar Health System. Included in gain from equity investment within nonoperating income in the accompanying consolidated statement of operations for the year ended June 30, 2018 is \$1,650,000 relating to a true up of previous expenses.

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(18) Graduate Medical Education

Athens continues in its development of Accreditation Council for Graduate Medical Education (ACGME) residency programs, and has successfully recruited and employed program directors for the Internal Medicine and Transitional Year residency programs. The Internal Medicine residency program received ACGME accreditation approval on March 19, 2015 for a three-year training program. The Transitional Year residency program received ACGME accreditation approval on December 11, 2017, for a one-year training period. Athens has been approved to fill 45 internal medicine residency positions, or 15 per training year, and 10 transitional year residency positions per year. The Internal Medicine program currently has 45 internal medicine residents and will complete interviews of over 3500 residency candidates to fill its 15 positions for the 2020 match. The Transitional Year currently has 10 residents and will complete interviews of over 600 candidates for the 2020 match. For the years ended June 30, 2019 and 2018, Athens received \$2,480,000 and \$1,725,000 for the Internal Medicine and Transitional Years residency programs.

(19) Availability of Resources and Liquidity

PHC has \$895,042,000 of financial assets at June 30, 2019 available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash and cash equivalents of \$390,696,000; patient accounts receivable, net of \$504,346,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. Patient accounts receivable is expected to be collected within one year. PHC has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 45 days of normal operating expenses, which are, on average, approximately \$414,684,000. PHC has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, PHC invests cash in excess of daily requirements in various short-term investments, including certificate of deposits and short-term treasury instruments.