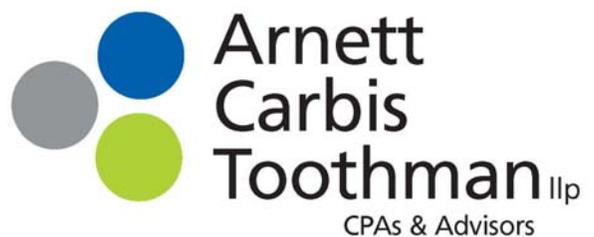


THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

**Consolidated Financial Report
September 30, 2019**



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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Directors
Thomas Health System, Inc.
and Subsidiaries
South Charleston, West Virginia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thomas Health System, Inc. and its subsidiaries as of September 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the System will continue as a going concern. As discussed in Note 20 to the consolidated financial statements, the System has suffered recurring losses from operations, has defaulted on debt covenants, has deficit net assets as of September 30, 2019, and has filed for Chapter 11 bankruptcy subsequent to September 30, 2019. These issues raise substantial doubt about the System's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 20. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Arnett Carbis Toothman LLP

Charleston, West Virginia
February 21, 2020

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,362,024	\$ 8,391,921
Investments (Note 3)	32,136,530	37,744,307
Assets limited as to use (Note 3)	8,996,546	14,010,184
Patient accounts receivable	26,130,207	24,160,151
Other receivables	1,902,887	1,555,765
Supplies inventories	7,840,964	8,312,903
Prepaid and other current assets	2,758,878	2,225,795
Estimated third-party payor settlements (Note 17)	3,803,993	5,447,296
Total current assets	92,932,029	101,848,322
ASSETS LIMITED AS TO USE, net of current portion (Note 3)	6,501,913	8,921,593
PROPERTY AND EQUIPMENT, net (Note 5)	139,338,038	138,997,177
OTHER ASSETS		
Other investments (Note 3)	2,501,824	1,844,604
Other	1,620,849	1,083,877
Total other assets	4,122,673	2,928,481
Total assets	\$ 242,894,653	\$ 252,695,573
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt (Note 6)	\$ 136,788,900	\$ 2,437,808
Accounts payable	25,732,190	31,389,033
Accrued salaries and benefits	8,044,549	5,631,240
Accrued expenses	6,846,254	6,930,322
Accrued self-insurance liability (Note 8)	2,582,000	3,216,234
Total current liabilities	179,993,893	49,604,637
ACCRUED PENSION AND POSTRETIREMENT BENEFITS (Note 12)	44,977,556	21,143,356
ACCRUED SELF-INSURANCE LIABILITY (Note 8)	11,353,000	12,882,766
LONG-TERM DEBT, net of current portion (Note 6)	10,128,295	141,141,530
Total liabilities	246,452,744	224,772,289
Net assets:		
Net assets without donor restrictions	(5,306,055)	26,356,694
Net assets with donor restrictions (Note 18)	1,747,964	1,566,590
Total net assets	(3,558,091)	27,923,284
Total liabilities and net assets	\$ 242,894,653	\$ 252,695,573

See Notes to Consolidated Financial Statements

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended September 30, 2019 and 2018

	2019	2018
UNRESTRICTED REVENUE, GAINS AND OTHER SUPPORT		
Net patient service revenue (Note 1)	\$ 245,693,851	\$ 246,049,071
Investment income (Note 3)	1,384,276	3,280,574
Rental income (Note 14)	2,276,545	2,544,791
Other revenue	18,987,608	13,228,110
Public support - donations	354,824	437,825
	268,697,104	265,540,371
EXPENSES		
Salaries and wages	102,017,075	99,656,243
Employee benefits	20,293,855	20,386,137
Supplies	61,534,513	59,210,309
Purchased services	31,793,037	34,610,779
Depreciation and amortization	11,542,790	11,746,658
Taxes	6,730,074	9,602,810
Interest and amortization	9,649,270	9,618,361
Insurance	773,385	2,586,399
Other	30,769,696	25,283,975
	275,103,695	272,701,671
DEFICIENCY OF REVENUES OVER EXPENSES	(6,406,591)	(7,161,300)
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net unrealized gains (losses) on investments (Note 3)	(528,351)	73,322
Net assets released from restriction	-	5,000
Defined benefit pension plan adjustment (Note 12)	(24,728,085)	6,079,629
Change in fair value of derivatives	278	2,182
	278	2,182
Decrease in net assets without donor restrictions	\$ (31,662,749)	\$ (1,001,167)

See Notes to Consolidated Financial Statements

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended September 30, 2019 and 2018

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Deficiency of revenues over expenses	\$ (6,406,591)	\$ (7,161,300)
Net unrealized gain (loss) on investments (Note 3)	(528,351)	73,322
Net assets released from restriction	-	5,000
Defined benefit pension plan adjustment (Note 12)	(24,728,085)	6,079,629
Change in fair value of derivatives	278	2,182
	<u>(31,662,749)</u>	<u>(1,001,167)</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Public support - donations	422,275	123,137
Investment income	50,973	76,769
Net assets released from restriction	(291,874)	(137,105)
	<u>181,374</u>	<u>62,801</u>
	<u>(31,481,375)</u>	<u>(938,366)</u>
Net assets:		
Beginning of year	<u>27,923,284</u>	28,861,650
End of year	<u>\$ (3,558,091)</u>	<u>\$ 27,923,284</u>

See Notes to Consolidated Financial Statements

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (31,481,375)	\$ (938,366)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bond discount and deferred financing amortization	179,962	140,504
Depreciation and amortization	11,542,790	11,746,658
Net realized and unrealized (gains) losses on investments	345,805	(2,095,761)
Restricted contributions	(422,275)	(123,137)
Defined benefit pension plan adjustment	24,728,085	(6,079,629)
Change in working capital components:		
(Increase) decrease in:		
Patient accounts receivable	(1,970,056)	3,774,560
Supplies inventories	471,939	(420,554)
Other assets	(1,505,516)	(1,019,244)
Increase (decrease) in:		
Accounts payable and accrued expenses	(5,740,911)	(1,721,889)
Accrued salaries and benefits	2,413,309	(588,703)
Estimated third-party payor settlements	1,643,303	(671,388)
Other liabilities	(3,057,885)	188,465
Net cash provided by (used in) operating activities	(2,852,825)	2,191,516
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(6,418,351)	(2,031,626)
Purchases of assets limited as to use and investments	(21,714,420)	(10,313,348)
Sales of assets limited as to use and investments	34,409,710	9,099,609
Net cash provided by (used in) investing activities	6,276,939	(3,245,365)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(2,876,286)	(2,790,993)
Restricted contributions	422,275	123,137
Net cash used in financing activities	(2,454,011)	(2,667,856)
Net increase (decrease) in cash and cash equivalents	970,103	(3,721,705)
Cash and cash equivalents:		
Beginning	8,391,921	12,113,626
Ending	\$ 9,362,024	\$ 8,391,921
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 9,515,108	\$ 9,515,219
Capital lease obligations	\$ 4,892,003	\$ 486,687

See Notes to Consolidated Financial Statements

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations: Thomas Health System, Inc. (System) is a not-for-profit corporation organized and existing under the laws of the State of West Virginia. The System was incorporated on December 4, 2006, in connection with a reorganization of Herbert J. Thomas Memorial Hospital Association and the acquisition of Charleston Hospital, Inc. (d/b/a Saint Francis Hospital). The System is the sole corporate member of both entities. Subsidiaries of the System are as follows:

- Herbert J. Thomas Memorial Hospital Association (Thomas Memorial) – A not-for-profit corporation organized and existing under the laws of the State of West Virginia. Thomas Memorial operates a 241-bed acute care hospital under the name Thomas Memorial Hospital in South Charleston, West Virginia. The subsidiary of Thomas Memorial is as follows:
 - TMH Services, Inc. (TMH Services) – A wholly owned, for-profit corporation that provides services including the sales and rental of communications equipment and related services, vending sales, and various other services.
- Foundation for the Thomas Memorial and Saint Francis Hospitals, Inc. (Foundation) – A Foundation established to solicit, raise, hold and invest contributions, gifts, bequests and devises for the purpose of providing support to Thomas Memorial and Saint Francis.
- Charleston Hospital, Inc. (d/b/a Saint Francis Hospital) (Saint Francis) – A not-for-profit corporation organized and existing under the laws of the State of West Virginia. Saint Francis operates a 123-bed acute care hospital under the name Saint Francis Hospital in Charleston, West Virginia.
- THS Physician Partners, Inc. (THS Physician Partners) – A not-for-profit corporation organized and existing under the laws of the State of West Virginia, formed to employ physicians working for the System.
- The System, Thomas Memorial, the Foundation, and Saint Francis are collectively the “Obligated Group” under certain bond indentures.

A summary of significant accounting policies is as follows:

Basis of consolidation: The accompanying consolidated financial statements include the accounts of the System and its subsidiaries and are collectively referred to in these statements as the “System”. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in determining the allowance for doubtful accounts, estimated third-party payor settlements, accrued pension, accrued medical malpractice cost and accrued health insurance cost. It is at least reasonably possible that the significant estimates used will change within the next year.

Basis of presentation: Net assets and revenues, gains and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the System and changes therein are classified and reported as follows:

Net assets without donor restrictions – Resources over which the Board of Directors has discretionary control. The retained earnings of Thomas Memorial’s for-profit subsidiary, TMH Services, are also included in this classification of net assets.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net assets with donor restrictions – Resources subject to donor imposed restrictions, which will be satisfied by actions of the System or passage of time. These net assets primarily consist of Foundation investments restricted for scholarships and Thomas Memorial capital projects. These net assets also consist of resources subject to donor imposed restrictions that they be maintained permanently by the System or for which perpetual trusts have been established. The donors of these resources permit the System to use all or part of the income earned on related investments, excluding capital appreciation, for scholarships, capital projects and other unrestricted purposes.

Cash and cash equivalents: Cash and cash equivalents include all highly liquid debt instruments with an original maturity of three months or less. The System routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations.

Patient accounts receivable: Patient accounts receivable are carried at net realizable value based on certain assumptions determined by each payor. In evaluating accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the net realizable value. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System determines implicit price concessions based on its past historical collection experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. Management reviews troubled, aged accounts to determine collection potential. Accounts are written off when all reasonable internal and external collection efforts have been exhausted. Estimated implicit price concessions of \$39,726,506 and \$34,736,009 for the years ended September 30, 2019 and 2018 have been recorded as reductions to patient accounts receivable.

Pledges receivable: The Foundation has pledges receivable approximating \$57,000 and \$76,000 as of September 30, 2019 and 2018, respectively. As of September 30, 2019 and 2018, payments of approximately \$57,000 and \$76,000, respectively, are expected to be received within one year and are included in prepaid and other current assets.

Supplies inventories: Supplies inventories are stated at latest invoice cost, which approximates lower of cost (first-in, first-out method) or net realizable value. Net realizable value is the estimated selling price used in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

Assets limited as to use: Assets limited as to use primarily include assets held by trustees under indenture agreements and internally designated amounts by the Board for the System's self-insurance program and future capital improvements. Amounts required to meet the current liabilities of the System are reclassified as current in the accompanying consolidated balance sheets.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the deficiency of revenues over expenses unless the income or loss is restricted by donor or law, in which case the income or loss is reported as a change in net assets with donor restrictions in the consolidated statement of changes in net assets. Realized net gains and losses are computed based on the original cost of the investment sold and are included in the deficiency of revenues over expenses. Unrealized gains and losses on investments are excluded from the deficiency of revenues over expenses.

Property and equipment: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Expenditures for repairs and maintenance are charged to expense as incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Gifts of land, buildings, and equipment are reported at fair value and are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the System reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Deferred financing costs: Costs incurred to secure financing are amortized based on the effective interest method over the life of the debt. Amortization expense related to the deferred financing costs was \$92,478 and \$88,775 for 2019 and 2018, respectively. Amortization expense is included in the interest and amortization on the Consolidated Statements of Operations. Deferred financing costs have been netted against long-term debt in accordance with authoritative guidance.

Advertising expense: The System recognizes the costs for advertising as they are incurred. Advertising costs included in expenses for 2019 and 2018 were approximately \$472,000 and \$568,000, respectively.

Deficiency of revenue over expenses: The consolidated statement of operations includes *deficiency of revenues over expenses*. Changes in net assets without donor restrictions which are excluded from *deficiency of revenues over expenses*, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and amounts necessary to recognize defined benefit pension plan adjustments.

Net patient service revenue: On October 1, 2018, the System adopted the new revenue recognition accounting standard issued by the Financial Accounting Standards Board (FASB) using the full retrospective method. The adoption of the new standard did not have an impact on the recognition of new revenue for any periods prior to adoption. Provision for bad debts is no longer presented as a separate line item in the Consolidated Statements of Operations but included in net patient service revenue as an estimated implicit price concession deduction. Additionally, the estimated allowance for doubtful accounts was reclassified as a component of patient accounts receivable and eliminated on the Consolidated Balance Sheets. Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(A) and, therefore, is not required to disclose the aggregate amount of the transaction prices allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period. The System has applied the practical expedient and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the System otherwise would have recognized is one year or less in duration.

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

Performance obligations are determined based on the nature of the services provided by the System. Generally, performance obligations associated with inpatient services are satisfied over time and are recognized based on actual charges incurred in relation to total expected (or actual) charges. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for performance obligations satisfied at a point in time is recognized when goods or services are provided and the System does not believe it is required to provide additional goods or services to the patient. Generally, performance obligations associated with outpatient services are satisfied at a point in time.

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

The System has agreements with third-party payers that provide for reimbursement to the System at amounts different from its established rates. Explicit price concessions under third party reimbursement programs represent the difference between the System's billings at established rates for services and amounts reimbursed by third-party payers.

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

- **Medicare**

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are paid primarily based on prospectively determined payment classifications.

For cost reimbursement items, the System is reimbursed at a tentative rate, with a final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare administrative contractor. The System's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

- **Medicaid**

Payments for inpatient acute care services rendered to Medicaid program beneficiaries are based primarily upon a prospectively determined rate per discharge based on primary diagnosis. Outpatient services are reimbursed based on a predetermined fee schedule. Payment for inpatient behavioral health services are reimbursed at an interim rate, which is currently forty percent of charges, and are subject to year-end cost based settlement. Reimbursement for inpatient and outpatient services, included behavior health services, provided to Medicaid beneficiaries covered under managed care programs are reimbursed at negotiated rates.

- **Commercial Insurance Carriers**

The System also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the System under these agreements includes various discounts from established charges.

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

Settlements with third-party payors for retroactive adjustments due to audits, review or investigations are considered variable consideration and are included in the determination of estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. In 2019 and 2018, net patient service revenue increased/(decreased) approximately \$550,091 and (\$383,840), respectively, due to changes in previously recorded estimates.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended September 30, 2019 and 2018 were considered immaterial. Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

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

The System has determined that nature, amount, timing, and uncertainty of revenue and cash flows are primarily affected by the payor, geography, and service lines. The following tables provide details of these factors.

Supplemental Medicaid Funding:

The State of West Virginia's disproportionate share program reimburses hospitals in the state that provide services to Medicaid and indigent patients that meet certain eligibility criteria. The System received approximately \$1,800 in 2019 and \$735,000 in 2018 in disproportionate share reimbursement, which is included in Net Patient Service Revenue in the Consolidated Statement of Operations and Changes in Net Assets.

The State of West Virginia also provides additional reimbursement to qualified hospitals for inpatient and outpatient services provided to Medicaid eligible recipients under an approved Upper Payment Limit (UPL) program. Supplemental payments are based upon the difference between existing Medicaid payment rates and the maximum payment allowed under UPL regulations. The UPL program was expanded effective January 1, 2014 for the expanded portion of the Medicaid population resulting from the State of West Virginia's adoption of new eligibility criteria afforded states as a part of the Affordable Care Act (ACA) that covers the gap in coverage for the poorest Americans. The ACA created a minimum Medicaid income eligibility level that resulted in a substantial increase in Medicaid eligible recipients in West Virginia. The State of West Virginia implemented the Direct Payment Program (DPP) to continue supplemental payments upon transition to managed care. As of September 30, 2019, the State of West Virginia had outstanding payments under the DPP for the partial state fiscal year 2019 (July 1, 2018 through June 30, 2019).

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The System recorded supplemental revenue of \$6,221,028 and \$5,599,686 in 2019 and 2018, respectively, which is included in Net Patient Service Revenue in the Consolidated Statements of Operations and Changes in Net Assets. Amounts recorded as net receivable for the supplemental payment programs at September 30, 2019 and 2018 was \$2,340,271 and \$3,720,844 and were recorded in Estimated Third-Party Payor Settlements.

These supplemental payment programs are subject to audit and retroactive adjustment by CMS and those audits could result in amounts that are materially different than those recorded. Management believes the amounts recorded are reasonable and are based upon an accurate interpretation of current regulations.

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

The System's net patient service revenue by major payer groups during the years ended September 30, 2019 and 2018 are as follows:

	2019		2018	
Medicare	\$ 65,791,583	27%	\$ 69,946,445	28%
Managed Medicare	37,945,823	15%	33,674,296	14%
Medicaid	13,043,438	5%	9,283,800	4%
Managed Medicaid	16,416,406	7%	17,296,719	7%
Blue Cross Blue Shield	59,003,646	24%	67,591,264	27%
Commercial Insurers	44,192,178	18%	40,673,618	17%
Uninsured	9,300,777	4%	7,582,929	3%
	\$ 245,693,851	100%	\$ 246,049,071	100%

The composition of net patient service revenue based on the System's lines of business for the years ended September 30, 2019 and 2018 are as follows:

	2019		2018	
Hospital - Inpatient	\$ 62,779,445	25.5%	\$ 68,783,917	28.0%
Hospital - Outpatient	161,873,086	65.9%	156,171,301	63.4%
Skilled Nursing Services	871,619	0.4%	387,910	0.2%
Psychiatric Nursing Services	2,893,355	1.2%	2,197,209	0.9%
Physician Services	17,276,346	7.0%	18,508,734	7.5%
	\$ 245,693,851	100%	\$ 246,049,071	100%

Charity care: The System maintains a written charity care plan for which the purpose is the provision of health services to individuals who have demonstrated the inability to pay for all or part of the services. Records are maintained to identify and monitor the level of charity care provided by the System. These records include the amount of regular charges foregone for services and supplies furnished under the charity care plan and the estimated cost of those services and supplies. The System's policy is not to pursue collection of amounts determined to qualify as charity care if the patient has an annual income equal to or below 200% of the Federal Poverty Income levels. Accordingly, the System does not report these amounts in net revenues or in the allowance for doubtful accounts. Charity care services, as measured by gross charges foregone were \$884,356 and \$1,246,608 for the years ended September 30, 2019 and 2018, respectively. Of the System's total expenses reported for the years ended September 30, 2019 and 2018, an estimated cost of \$259,000 and \$373,000, respectively, arose from providing services to qualified charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the System's total expenses, divided by gross patient service revenue.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Functional allocation of expenses: The costs of program and supporting services activities have been summarized on a functional basis in Note 9. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimated malpractice costs: The provision for estimated medical malpractice claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income taxes: The System, Thomas Memorial, the Foundation, Saint Francis and THS Physician Partners are recognized as exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes relating to not-for-profit organizations. Under applicable provisions of the Internal Revenue Code and state statutes, TMH Services, which is a for-profit entity and subject to Federal and state income taxes, elected to be treated as a C-corporation for income tax purposes.

Accounting principles generally accepted in the United States of America requires the System to evaluate tax positions taken by the System and recognized a tax liability or asset if the System has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). The System has concluded that as of September 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements.

The System is subject to routine audits by taxing jurisdictions. Management of the System believes it is no longer subject to income tax examinations for years prior to the fiscal year ended September 30, 2016.

Derivative instruments and hedging activities: The System utilizes derivative financial instruments to reduce interest rate risk. The System does not hold or issue derivative financial instruments for trading purposes. The System recognizes all derivatives as either assets or liabilities and measures those instruments at fair value. The changes in the fair value of the System derivative instruments are recorded as changes in net assets as they qualify for hedge accounting.

Reclassifications: Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation. The reclassifications have no impact on previously reported change in net assets.

Subsequent events: The System has evaluated subsequent events through February 21, 2020, the date on which the financial statements were available to be issued.

New or recent accounting pronouncements

Revenue recognition: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. This ASU attempts to remove inconsistencies and weaknesses in the current revenue recognition requirements, provides a more robust framework for addressing issues, improves comparability across entities and industries, provides more useful information to the users of the financial statements, and simplifies the preparation of financial statements by consolidating the number of requirements required to be referenced. Early adoption is not permitted.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The guidance permits the use of either a retrospective or modified retrospective (cumulative effect) transition method. The System adopted this guidance during the year ended September 30, 2019. Adoption of this guidance did not have a material impact on the System's consolidated financial statements.

Leases: 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.

In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*. The amendments in this ASU provide entities with an additional (and optional) transition method to adopt the new leases standard. The amendments also provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606) and certain criteria are met. The amendments in this Update related to separating components of a contract affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. For entities that have not adopted Topic 842 before the issuance of this Update, the effective date and transition requirements for the amendments in this Update related to separating components of a contract are the same as the effective date and transition requirements in Update 2016-02. The practical expedient may be elected either in the first reporting period following the issuance of this Update or at the original effective date of Topic 842 for that entity. The practical expedient may be applied either retrospectively or prospectively.

In December 2018, the FASB issued ASU 2018-20, *Leases* (Topic 842): *Narrow-Scope Improvements for Lessors*. The amendments in this ASU clarify certain issues experienced by lessor stakeholders including: 1) Sales taxes and other similar taxes collected from lessees; 2) Certain lessor costs; and 3) Recognition of variable payments for contracts with lease and non-lease components. The amendments in this Update affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. The effective date and transition requirements for the amendments in this Update for entities that have not adopted Topic 842 before the issuance of this Update are the same as the effective date and transition requirements in Update 2016-02. All entities, including early adopters, must apply the amendments in this Update to all new and existing leases. The System is currently evaluating the impact that adoption will have on its September 30, 2020 consolidated financial statements.

Not-for-profit entities: On August 2016, the FASB issued Accounting Standards Update No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments of this ASU change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The amendments include qualitative and quantitative requirements in the financial statement presentation and disclosures regarding net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows. The System adopted this guidance during the year ended September 30, 2019. Adoption of this guidance did not have a material impact on the System's consolidated financial statements

Financial instruments: On January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU requires certain equity securities to be reported at fair value with changes in fair value recognized within the net income, establishes a qualitative factor in evaluating impairment on equity investments without readily determinable fair values, and eliminates the requirement to disclose the fair value on financial instruments measured at amortized cost. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018. The System is currently evaluating the impact that adoption will have on its September 30, 2020 consolidated financial statements.

Statement of cash flow: On November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. These amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents and should be applied using a retrospective transition method to each period presented. These amendments are effective fiscal years beginning after December 15, 2018. The System is currently evaluating the impact, if any, that adoption will have on its September 30, 2020 consolidated financial statements.

Net periodic pension and postretirement benefit cost: In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost*. This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost on the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. Early adoption is permitted. The System is currently evaluating the impact, if any, that adoption will have on its September 30, 2020 consolidated financial statements.

Not-for-profit entities: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations (NFPs) and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. The new ASU does not apply to transfers of assets from governments to businesses. The System is currently evaluating the impact, if any, that adoption will have on its September 30, 2020 consolidated financial statements.

Fair value measurement: In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this Update modify the disclosure requirements on fair value measurements in *Topic 820, Fair Value Measurement*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. In addition, the amendments eliminate *at a minimum* from the phrase *an entity shall disclose at a minimum* to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level III fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The System is currently evaluating the impact, if any, that adoption will have on its September 30, 2021 consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Compensation - retirement benefits - defined benefit plans - general: In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General* (Subtopic 715-20): *Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. These amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in this Update remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the Board's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement. An entity should apply the amendments in this Update on a retrospective basis to all periods presented. Early adoption is permitted. The System is currently evaluating the impact, if any, that adoption will have on its September 30, 2023 consolidated financial statements.

Note 2. Cash Concentrations

The System maintains cash in demand deposit accounts with Federally insured banks. At times the balance in these accounts may be in excess of Federally insured limits. In management's opinion, the amounts in excess of FDIC limits do not pose a significant risk.

Note 3. Investments

Assets Limited as to Use

The composition of assets limited as to use at September 30, 2019 and 2018, respectively is set forth in the following table. Investments are stated at fair value.

	2019	2018
UNDER SELF-INSURANCE PROGRAM		
Cash and cash equivalents	\$ 303,391	\$ 451,539
Mutual funds	7,624,162	7,812,305
Total	7,927,553	8,263,844
HELD BY TRUSTEE UNDER INDENTURE AGREEMENT		
Cash and cash equivalents	5,822,942	6,479,594
Certificate of Deposits	-	1,738,010
United States government obligations	-	3,914,767
Total	5,822,942	12,132,371
BY BOARD OF DIRECTORS FOR FUTURE CAPITAL EXPENDITURES AND DEFERRED COMPENSATION		
Mutual funds	-	537,446
Total	-	537,446

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2019	2018
FOUNDATION INVESTMENTS RESTRICTED BY BOARD OF DIRECTORS AND DONORS FOR FUTURE SUPPORT OF THE SYSTEM		
Cash and cash equivalents	70,874	30,103
Corporate bonds	604,667	658,721
Mutual funds	79,670	599,101
Equity securities	992,753	710,191
Total	1,747,964	1,998,116
Total assets limited as to use	15,498,459	22,931,777
Less assets limited as to use that are required for current liabilities	8,996,546	14,010,184
Noncurrent assets limited as to use	\$ 6,501,913	\$ 8,921,593

Investments

Investments included in current investments, stated at fair value at September 30, 2019 and 2018, is set forth in the following table:

	2019	2018
Cash and cash equivalents	\$ 8,240,296	\$ 2,245,529
Corporate bonds	1,720,255	1,455,723
Equity securities	4,331,889	3,955,887
United States government obligations	-	11,386,317
Mutual funds	17,844,090	18,700,851
	\$ 32,136,530	\$ 37,744,307

Other Investments

Other investments at September 30, 2019 and 2018 include:

	2019	2018
Partnership investments - Stonerise HomeHealth	\$ 1,356,735	\$ 1,158,211
Partnership investments - Premier LP	1,106,881	641,409
Partnership investments - Donnally Street Partners (Note 16)	38,208	44,984
	\$ 2,501,824	\$ 1,844,604

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment income and gains for assets limited as to use, cash equivalents and other investments are comprised of the following for the year ended September 30, 2019 and 2018:

	2019	2018
INVESTMENT INCOME INCLUDED IN REVENUES		
Interest and dividend income	\$ 1,201,730	\$ 1,258,135
Realized gains	182,546	2,022,439
	<u>\$ 1,384,276</u>	<u>\$ 3,280,574</u>
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Unrealized gains (losses) on investments	\$ (528,351)	\$ 73,322

The System has various investments in equity securities and other investment securities. These investment securities are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that the changes in risks in the near-term could materially affect the amounts reported in the balance sheets and the statements of operations and changes in net assets.

The System continually reviews non-trading investments for impairment conditions that indicate that an other-than-temporary decline in market value has occurred. In conducting this review, numerous factors are considered which, individually or in combination, indicate that a decline is other-than-temporary and that a reduction of the carrying value is required. These factors include specific information pertaining to an individual company or a particular industry and general market conditions that reflect prospects for the economy as a whole. Based on this review, the System did not recognize an other-than-temporary loss during the years ended September 30, 2019 and 2018.

The System does not require collateral to secure its investments.

Note 4. Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the FASB Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The Topic defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

- Level 1:** Quoted prices for identical assets or liabilities traded in active exchange markets.
- Level 2:** Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- Level 3:** Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments and assets limited as to use: Investment securities and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating. Level 1 securities include those traded on an active exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, mortgage-backed securities and municipal bonds.

Financial Instruments Measured at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis at September 30, 2019 and 2018.

	Total at September 30, 2019	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
ASSETS				
INVESTMENTS AND ASSETS LIMITED AS TO USE				
Cash and cash equivalents	\$ 14,437,504	\$ 14,437,504	\$ -	\$ -
Corporate stocks	3,426,748	3,426,748	-	-
Corporate bonds	2,324,922	-	2,324,922	-
Mutual funds:				
Fixed income funds	6,548,763	6,548,763	-	-
Equity funds	20,897,052	20,897,052	-	-
	27,445,815	27,445,815	-	-
Total	\$ 47,634,989	\$ 45,310,067	\$ 2,324,922	\$ -
LIABILITIES				
Derivative financial instruments	\$ -	\$ -	\$ -	\$ -

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Total at September 30, 2018	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
ASSETS				
INVESTMENTS AND ASSETS LIMITED AS TO USE				
Cash and cash equivalents	\$ 9,206,764	\$ 9,206,764	\$ -	\$ -
Certificate of deposits	1,738,010	1,738,010	-	-
Corporate stocks	4,309,490	4,309,490	-	-
Corporate bonds	2,279,658	-	2,279,658	-
Government obligations:				
FHLB	4,849,252	-	4,849,252	-
FFCB	3,794,037	-	3,794,037	-
FNMA	4,041,734	-	4,041,734	-
FHLMC	885,717	-	885,717	-
U.S. Treasury obligation	1,730,343	-	1,730,343	-
	15,301,083	-	15,301,083	-
Mutual funds:				
Fixed income funds	6,120,443	6,120,443	-	-
Equity funds	21,720,636	21,720,636	-	-
	27,841,079	27,841,079	-	-
Total	\$ 60,676,084	\$ 43,095,343	\$ 17,580,741	\$ -
LIABILITIES				
Derivative financial instruments	\$ (278)	\$ -	\$ (278)	\$ -

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The System has no assets or liabilities that are recorded on a nonrecurring basis.

Fair Value of Financial Instruments

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Patient accounts receivable: The carrying amount reported in the balance sheet for patient accounts receivable approximates its fair value.

Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements: The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

Long-term debt: Fair values of the System's revenue notes are based on current traded value. The fair value of the System's remaining long-term debt is estimated using discounted cash flow analyses, based on the System's current incremental borrowing rates for similar types of borrowing arrangements. Carrying amount approximates fair value at year end.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

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The carrying amount and fair values of the System's financial instruments at September 30, 2019 and 2018 are as follows:

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 9,362,024	\$ 9,362,024	\$ 8,391,921	\$ 8,391,921
Patient accounts receivable	\$ 26,130,207	\$ 26,130,207	\$ 24,160,151	\$ 24,160,151
Estimated third-party settlements	\$ 3,803,993	\$ 3,803,993	\$ 5,447,296	\$ 5,447,296
Accounts payable and accrued expenses	\$ 32,578,444	\$ 32,578,444	\$ 38,319,355	\$ 38,319,355
Long-term debt	\$ 146,917,195	\$ 91,184,314	\$ 143,579,338	\$ 92,638,113

Note 5. Property and Equipment

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

	2019	2018
Land	\$ 22,270,554	\$ 22,270,554
Land improvements	3,964,593	3,915,948
Buildings and improvements	190,762,956	191,170,056
Equipment	163,898,519	154,558,532
Construction in progress	1,051,960	543,865
	381,948,582	372,458,955
Less accumulated depreciation	(242,610,544)	(233,461,778)
	\$ 139,338,038	\$ 138,997,177

Capital lease assets at September 30, 2019 and 2018, included in property and equipment are as follows:

	2019	2018
Equipment	\$ 13,906,204	\$ 6,715,763
Less accumulated amortization	(6,204,464)	(5,723,423)
	\$ 7,701,740	\$ 992,340

Thomas Memorial leases certain land, buildings and improvements, and equipment from the City of South Charleston for \$100 per annum. The present lease agreement expires in 2048.

The System is a lessor of office space under various operating lease arrangements, principally to physicians and medical groups. The total cost of the approximately 200,000 square feet being leased has not been determined and is included in buildings and improvements.

Estimated costs to complete construction projects that have been in progress are approximately \$4,112,000 as of September 30, 2019.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Long-Term Debt and Subsequent Event

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

	2019	2018
Note payable, bank, refinanced in January 2013, due in monthly installments of \$50,953 including interest through February 2019. Note bears interest at a variable rate of LIBOR plus 2.20%, adjusted for interest rate swap arrangement to obtain a fixed rate of 4.00%. Note is secured under Master Indenture of the Series 2008 bond issue. Note was paid off in February 2019.	\$ -	\$ 249,218
Note payable, bank, due in monthly installments of \$25,928 including interest at 4.95% through March 2016, adjusted every 60 months to the 5 year FHLB + 2.38% rate, through December 2034, secured by building and an assignment of all leases and rents.	3,423,587	3,527,927
Note payable, bank, due in monthly installments of \$2,023 including interest at 5.25% through June 2023, adjusted in July 2023 at a rate of 5 YR constant maturity T-Bill plus 2.5%, through June 2043.	325,976	333,231
Note payable, bank, due in monthly installments of \$9,851 including interest at 3.99% through October 2020, adjusted every 60 months to the 5 year FHLB + 2.5% rate, through January 2041, secured by building and assignment of all leases and rents.	1,681,130	1,730,239
Hospital Revenue Bonds, Series 2008, terms below	137,910,000	139,565,000
Capital lease obligations, monthly payments ranging from \$1,256 to \$50,882, including interest ranging from 3.50% to 7.00% through February 2026, secured by related equipment.	6,339,033	1,116,216
	149,679,726	146,521,831
Less bond discount	1,197,485	1,256,739
Less deferred financing costs	1,565,046	1,685,754
Less current portion	136,788,900	2,437,808
Total long-term debt	\$ 10,128,295	\$ 141,141,530

Hospital Revenue Bonds (Thomas Health System, Inc.) Series 2008 Bonds

The West Virginia Hospital Finance Authority (WVHFA) issued \$148,920,000 in Hospital Revenue Bonds on June 30, 2008. Pursuant to the loan agreement, the WVHFA loaned the Obligated Group the net proceeds of the Bonds. The Bond proceeds were for the payment of the \$45,000,000 Bridge Loan, used to purchase assets of Saint Francis, to construct a Hospital Pavilion at Thomas Memorial and acquire equipment and other capital expenditures related to such campus, provide for capital expenditures for 2009, fund a debt service reserve fund for Bonds, fund capitalized interest on a portion of the Bonds and to pay the costs of issuance of the Bonds. The Obligated Group is repaying the loan in installment payments, which provides for the payment of principal and interest on the Series 2008 Bonds in accordance with the stated maturity and redemption dates. Under the Master Indenture, the 2008 Notes

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

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are secured by the funds created with the Bond proceeds, all gross receipts of the Obligated Group, and any and all other interests in real or personal property.

The Hospital Revenue Bonds, Series 2008, mature in various amounts through 2043. The stated fixed interest rates range from 5.0% to 6.75%.

The loan agreement and trust indenture of the Hospital Revenue Bonds, Series 2008 contain certain financial covenants, which include a debt service coverage ratio, days cash on hand, and certain indebtedness restrictions in any fiscal year. The Obligated Group was not in compliance with the debt service coverage ratio requirement of 1.25 as of September 30, 2018; however, the debt service coverage ratio was above 1.00, which requires the Obligated Group to engage a qualified consultant to provide recommendations to improve operating results to remedy the violation. The Obligated Group hired a nationally recognized consulting firm in August 2017 through November 2018. In fiscal year 2018 and by end of the first quarter of fiscal year 2019, management had implemented all the recommendations to improve operating results. The Obligated Group was not in compliance with the debt service coverage ratio requirements of 1.25 as of September 30, 2019.

In October 2018, the Trustee withdrew the semi-annual payment due October 1 from the debt service reserve fund, and the Obligated Group has not made the required monthly installments to the debt service reserve fund. In October 2019, the Obligated Group did not make the semi-annual payment due October 1. As of the report date, the Obligated Group is considered in default of their loan agreement.

The Obligated Group is currently in negotiations with bondholders and their Trustee to advance strategic alternatives, including restructuring options to address its long-term debt. On January 10, 2020 Thomas Health System, Thomas Memorial, Saint Francis and THS Physician Partners filed for Chapter 11 protection, which the Board and management believe will provide the opportunity to not only lessen its debt burden but also strengthen the system's ability to meet the new health care payment realities and ensure its future.

Scheduled principal payments on long-term debt obligations and payments on capital lease obligations are as follows:

Years Ending September 30:	Long-Term Obligations	Capital Lease Obligations	Total
2020	\$ 138,088,034	\$ 1,583,230	\$ 139,671,264
2021	185,367	1,489,082	1,674,449
2022	193,003	1,220,907	1,413,910
2023	200,956	1,210,629	1,411,585
2024	209,237	711,188	920,425
Thereafter	4,464,096	864,996	5,329,092
	<u>\$ 143,340,693</u>	7,080,032	150,420,725
Less amount representing interest under capital lease obligations		<u>(740,999)</u>	<u>(740,999)</u>
		<u>\$ 6,339,033</u>	<u>\$ 149,679,726</u>

Note 7. Deferred Compensation Arrangements

The System has an employee deferred compensation plan (Plan) for key employees created in accordance with Internal Revenue Code Section 457(f) and 457(b). The System has established a trust for the funds, and makes periodic elective contributions to the plan. Contributions are charged to salaries and wages expense. In May 2019, the System terminated the Plan. The amount held in trust at September 30, 2019 and 2018 was \$0 and \$537,446, respectively, and is recorded in assets limited as to use with an equal amount recorded in accrued salaries and benefits.

Note 8. Commitments and Contingencies

Professional and General Liability Coverage

Through March 31, 2017, the System was self-insured for medical malpractice and general liability claims up to \$10,000,000 per claim and \$10,000,000 in the aggregate annually. Losses in excess of these limits are insured with a claims-made excess policy with a commercial insurance carrier with limits up to \$10,000,000. The ultimate costs of malpractice claims, which include costs associated with litigating or settling claims, are accrued when the incidents that give rise to the claims occur. Estimated losses from asserted and unasserted claims are accrued based on the best estimates of the ultimate costs of the claims and the relationship of past reported incidents to eventual claims payments. All relevant information, including industry experience, actuarial calculations, historical experience, existing asserted claims, and reported incidents, is used in estimating the expected amount of claims to be paid. Accrued malpractice costs, which are recorded in the current and noncurrent portions of accrued self-insurance liability, under the self-insured plan were \$1,163,000 and \$4,666,000 at September 30, 2019 and 2018, respectively. Accrued malpractice losses have not been discounted and in management's opinion provide an adequate reserve for loss contingencies.

The System established an irrevocable trust for the purpose of setting aside assets based on actuarial funding recommendations for the self-insured plan. Under the trust agreement, the trust assets can only be used for payment of malpractice and general liability losses, related expenses, and the cost of administering the trust. The trust fund is included in assets limited as to use. At September 30, 2019 and 2018, the fund had a balance of \$7,927,553 and \$8,263,844, respectively.

Effective April 1, 2017, the System purchased a claims-made basis insurance coverage for professional liability up to \$1,000,000 for individual claims and aggregate coverage per year of \$5,000,000. Incidents occurring through September 30, 2019 may result in the assertion of a claim or other claims may be asserted arising from past services provided. The self-insurance trust fund was frozen and will be used only to pay claims reported prior to April 1, 2017. The System has estimated the ultimate costs for asserted, unasserted and incurred but not reported claims. Accrued malpractice costs outside of amounts covered by insurance as of September 30, 2019 and 2018 were \$12,772,000 and \$11,433,000, respectively, and are included in the current and noncurrent portions of accrued self-insurance liability. A receivable in the amount of \$774,000 and \$1,053,000 as of September 30, 2019 and 2018, respectively, from insurance was recorded as an asset in other assets on the consolidated balance sheet. Accrued malpractice losses have not been discounted and in management's opinion provide an adequate reserve for loss contingencies.

The ultimate amount of claims incurred and resulting payments is dependent on future developments. Accordingly, there is a reasonable possibility that a change in estimate will occur in the near term. Adjustments, if any, to estimates recorded are reflected in operations in the periods such changes are known.

Litigation

The System is a defendant in various lawsuits wherein various amounts are claimed. In the opinion of management, the likelihood of an unfavorable outcome in excess of insurance coverage or self-insured malpractice reserves is remote and the judgments, if unfavorable, would not have a material adverse effect on the System's financial statements.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses related to providing these services by functional category are as follows:

	Healthcare Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 98,098,310	\$ 3,918,238	\$ 527	\$ 102,017,075
Supplies	59,171,103	2,363,410	-	61,534,513
Purchased services	30,479,223	1,217,400	96,414	31,793,037
Other	29,177,593	1,165,410	426,693	30,769,696
Employee benefits	19,514,411	779,444	-	20,293,855
Depreciation and amortization	11,099,456	443,334	-	11,542,790
Interest and amortization	9,278,662	370,608	-	9,649,270
Taxes	6,471,586	258,488	-	6,730,074
Insurance	743,681	29,704	-	773,385
	<u>\$ 264,034,026</u>	<u>\$ 10,546,035</u>	<u>\$ 523,634</u>	<u>\$ 275,103,695</u>

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

In 2018, approximately \$264,198,000 of expenses related to healthcare services, \$7,883,000 related to general and administrative, and \$620,000 of expenses related to fundraising.

Note 10. Concentrations of Credit Risk

Thomas Memorial is located in South Charleston, West Virginia, and Saint Francis is located in Charleston, West Virginia. Together, they grant credit without collateral to their patients, many of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from the third-party payors and patients are as follows:

	2019	2018
Medicare	55 %	38 %
Medicaid	1	4
Private pay	2	2
Other payors	42	56
	<u>100 %</u>	<u>100 %</u>

Note 11. Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. If the System is found in violation of these laws, the System could be subject to substantial monetary fines, civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs. Management believes that the System is in compliance with fraud and abuse as well as all other applicable government laws and regulations.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Pension Plans and Other Postretirement Benefit Plans

Thomas Memorial Defined Benefit Pension Plan (the Plan):

Effective January 1, 2012, the Plan was amended such that there were no new participants in the Plan after December 31, 2011. The Plan covers substantially all full-time employees hired prior to January 1, 2012. In 2015, the Plan was amended to freeze future benefit accruals. All employees hired after December 31, 2011, are eligible to participate in the Thomas Health System Defined Contribution Plan described below. Thomas Memorial's funding policy is to contribute such amounts as are necessary on an actuarial basis to provide plan assets sufficient to meet the benefits to be paid to retirees or their beneficiaries.

The following tables set forth the changes in benefit obligations, changes in plan assets and components of net periodic benefit cost as of September 30:

Amounts recognized on balance sheet consist of:

	2019	2018
Change in projected benefit obligation:		
Benefit obligation at the beginning of year	\$ 121,854,441	\$ 127,780,566
Interest cost	5,185,975	5,013,981
Actuarial (gain)/loss	19,509,676	(5,952,373)
Benefits paid	(5,391,516)	(4,987,733)
Benefit obligation at the end of year	\$ 141,158,576	\$ 121,854,441
Change in plan assets:		
Fair value of plan assets at the beginning of year	\$ 100,711,085	\$ 99,765,046
Actual return on plan assets	861,451	5,933,772
Benefits paid	(5,391,516)	(4,987,733)
Fair value of plan assets at the end of year	96,181,020	100,711,085
Funded status at end of year	\$ (44,977,556)	\$ (21,143,356)

Amounts recognized on balance sheet consist of:

	2019	2018
Noncurrent liabilities	\$ (44,977,556)	\$ (21,143,356)

Accumulated amounts recognized in other changes in unrestricted net assets:

	2019	2018
Net actuarial loss	\$ (56,076,714)	\$ (31,348,630)

The accumulated benefit obligation was \$141,158,576 and \$121,854,441 at September 30, 2019 and 2018, respectively.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net periodic benefit cost and other amounts recognized in other changes in net assets:

	2019	2018
Net periodic benefit cost	\$ (893,884)	\$ (792,535)
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net (gain)/loss for period	25,402,638	(5,229,312)
Amortization of net (loss)/gain	(674,553)	(850,317)
Total amount recognized in other changes in net assets	24,728,085	(6,079,629)
Total recognized in net periodic benefit cost and other changes in net assets	\$ 23,834,201	\$ (6,872,164)

The actuarially computed net periodic pension costs included the following components:

	2019	2018
Interest cost	\$ 5,185,975	\$ 5,013,981
Expected return on plan assets	(6,754,412)	(6,656,833)
Recognized actuarial (gain)/loss	674,553	850,317
	\$ (893,884)	\$ (792,535)

Additional Information

Assumptions

Weighted average assumptions used to determine net periodic benefit cost for the years ended September 30, 2019 and 2018:

	2019	2018
Discount rate	3.35%	4.35%
Expected return on plan assets	6.12%	7.00%
Rate of compensation income	N/A	N/A

The overall rate of expected return on assets assumption was based on historical returns, with adjustments made to reflect expectations of future returns. The extent to which the future expectations were recognized considered the target rates of return for the future, which have historically not changed.

The SOA Pri-2012 Mortality Tables using Scale MP-2019 were utilized to determine the financial disclosure information for the year ended September 30, 2019. The long-term rate of return on plan assets of 6.12% is based upon management's estimate of future long-term rates of return on similar assets and is consistent with historical returns on such assets.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Plan Assets

The composition of plan assets at September 30, 2019 and 2018 is as follows:

	2019	2018
Equity securities	68%	68%
Debt securities	26%	28%
Other	6%	4%
	100%	100%

The tables below present the recorded amount of Plan assets measured at a fair value on a recurring basis at September 30, 2019 and 2018 under the fair value framework as described in Note 4.

Plan Assets	Total at September 30, 2019	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 6,320,637	\$ 6,320,637	\$ -	\$ -
Mutual funds:				
Fixed income funds	20,052,178	20,052,178	-	-
Equity funds	64,955,354	64,955,354	-	-
Alternative funds	4,852,851	-	4,852,851	-
	89,860,383	85,007,532	4,852,851	-
	\$ 96,181,020	\$ 91,328,169	\$ 4,852,851	\$ -

Plan Assets	Total at September 30, 2018	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 1,003,236	\$ 1,003,236	\$ -	\$ -
Mutual funds:				
Fixed income funds	21,675,018	21,675,018	-	-
Equity funds	70,530,383	70,530,383	-	-
Alternative funds	7,502,448	-	7,502,448	-
	99,707,849	92,205,401	7,502,448	-
	\$ 100,711,085	\$ 93,208,637	\$ 7,502,448	\$ -

Thomas Memorial's Board of Directors determines the investment policy for the Plan. A strategic allocation within each asset class is employed based on the Plan's time horizon, risk tolerances, performance expectations, and asset class preferences. Investment managers have discretion to invest in any equity or fixed-income asset class, subject to the securities guidelines of the Plan's Investment Policy Statement.

Cash Flow Information

Thomas Memorial contributed \$0 in both years ending September 30, 2019 and 2018, respectively, and expects to contribute approximately \$3,700,000 to its pension plan in 2020. The Board of Directors and management have determined that no payments will be required based on the minimum ERISA funding calculation performed by their actuary.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Estimated Fixed Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year	Benefits
2020	\$ 5,784,320
2021	5,975,840
2022	6,230,889
2023	6,455,464
2024	6,586,810
2025 - 2029	34,913,138
Total	\$ 65,946,461

Thomas Memorial employees were eligible to participate in a defined contribution plan under Section 401(k) of the Internal Revenue Code (IRC) (the Savings Plan). Thomas Memorial sponsors the plan for full-time employees who were hired prior to January 1, 2012 (TMH Plan). Effective with the freeze of the Defined Benefit Pension Plan in September 2015, the employees participating in the TMH Plan were eligible for the same Employer Match as employees in the THS Plan (described within this paragraph). Thomas Memorial Hospital employees hired on January 1, 2012, and after, are eligible to participate in the Thomas Health System Plan (THS Plan). The System matches contributions at 100% for the first 4% that the employee contributes and matches 50% for the next two percentages up to a total match of 5% on a 6% employee contribution for those employees participating in the THS Plan. Participants are fully vested immediately. All employee elective deferrals and employer contributions made on behalf of each participant are invested in a tax deferred annuity contract or custodial account and vest immediately.

Effective January 1 2016, the THS Plan was restated to merge the TMH Plan into the THS Plan. The TMH Plan terminated effective with the close of business on December 31, 2015. The System's expense relating to the Plans approximated \$3.2 million and \$3.3 million in 2019 and 2018, respectively, which is included in employee benefits in the accompanying consolidated statements of operations.

Note 13. Lease Commitments

The System leases various equipment under operating leases with various expiration dates through December 2021. Total rental expense in 2019 and 2018 for equipment operating leases was \$1,940,153 and \$914,323, respectively, and is included in supplies and other in the accompanying statement of operations.

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

Years Ending September 30,	Amount
2020	\$ 745,885
2021	409,115
2022	7,517
	\$ 1,162,517

Note 14. Lessor Leasing Activities

The System leases space under operating leases with terms of one to ten years. Rental income recognized from these leases was \$2,276,545 and \$2,544,791 for 2019 and 2018, respectively.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a schedule by year of future minimum rental income as of September 30, 2019 and 2018:

Years Ending September 30,	Amount
2020	\$ 1,679,246
2021	1,078,716
2022	309,494
2023	64,219
2024	15,000
Thereafter	15,000
	<u>\$ 3,161,675</u>

Note 15. Investments in Subsidiaries and Guarantee

TMH Services is a 50% owner in a partnership which is currently accounted for under the equity method of accounting. Under the equity method, TMH Services recognizes its share of partnership income or loss as income or loss in its statement of operations and such amounts are added to, or subtracted from, its investment in subsidiaries. Dividends or other distributions received, if any, are treated as a reduction of the investment account.

Combined and condensed financial information as of September 30, 2019 and 2018 for TMH Services' unconsolidated subsidiary follows:

	2019	2018
Assets	\$ 1,741,626	\$ 1,826,193
Liabilities	\$ 1,665,211	\$ 1,736,225
Equity	\$ 76,415	\$ 89,968
Net Income	\$ (13,543)	\$ (53,804)

Total liabilities for the unconsolidated subsidiary at September 30, 2019 and 2018 include various mortgages, notes, and construction loans payable that total \$1,653,971 and \$1,703,200, respectively. TMH Services is a guarantor of these debt instruments. The debts are substantially collateralized by real estate and other assets to which they relate. TMH Services' partners are jointly and severally liable for the debt.

Thomas Memorial acquired a 30% ownership interest in Stonerise Home Health Services, LLC, a home health provider, in exchange for certain assets previously used by the Thomas Memorial's home health department. The net book value of the assets transferred was immaterial. Thomas Memorial will record its investment in Stonerise Home Health Services, LLC using the equity basis of accounting. The equity investment of approximately \$1,357,000 and \$1,158,000, which equals 30% of Stonerise Home Health Services, LLC's, total equity, was recorded in other investments at September 30, 2019 and 2018, respectively.

Note 16. Related Party Transactions

The System leases medical office space, primarily to physicians on staff, under noncancelable operating leases with terms generally ranging from one to ten years. Rental income under these operating leases was approximately \$712,000 and \$781,000 in 2019 and 2018, respectively, and is included in rental income in the accompanying consolidated statement of operations.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Estimated Third-Party Settlements

Estimated third-party settlements consist of amounts receivable (payable) to Medicare and Medicaid programs for settlement of current and prior year cost reports and other supplemental payment programs. These estimated settlements by program are as follows:

	2019	2018
Medicare	\$ 1,451,259	\$ 1,713,989
Medicaid	12,463	12,463
Supplemental payment programs	2,340,271	3,720,844
	<u>\$ 3,803,993</u>	<u>\$ 5,447,296</u>

Note 18. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods ending September 31:

	2019	2018
Subject to expenditure for specified purposes:		
Capital purchases	\$ 61,176	\$ 41,626
Health outreach & education	266,380	219,607
Various healthcare related activities	197,377	86,715
Other	31,198	27,009
Total subject to expenditure for specified purposes	<u>556,131</u>	<u>374,957</u>
Endowment funds - income expendable to support various healthcare services, scholarships, and purchase equipment	<u>1,191,833</u>	<u>1,191,633</u>
Total net assets with donor restrictions	<u>\$ 1,747,964</u>	<u>\$ 1,566,590</u>

Note 19. Liquidity and Availability

As of September 30, 2019, the System has working capital of approximately \$41.5 million, and approximately 56.3 days cash on hand.

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following at September 30, 2019:

Cash and cash equivalents	\$ 9,362,024
Investments	32,136,530
Patient accounts receivable, net	26,130,207
Other receivables	1,902,887
Estimated third-party payor settlements	<u>3,803,993</u>
	<u>\$ 73,335,641</u>

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The System estimates that approximately 100% of the investments are available for general expenditure within one year in the normal course of operations. The System has other assets whose use is limited for debt service, for donor-restricted purposes, and self-insurance. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above.

As part of the System's liquidity management plan, the System maintains a policy to structure financial assets to be available as the System's general expenditures, liabilities, and other obligations come due.

Note 20. Subsequent Event – Chapter 11 Filing and Management's Plans, Discussion and Analysis

On January 10, 2020 the System sought voluntary relief under chapter 11 of title 11 of the United States Code. Below are some of the facts and circumstances that led to this decision.

The overall, deficiency of revenues over expenses slightly improved during the current fiscal year. The System has had significant operating losses over the past several years. The operating losses plus negative adjustments to net assets from pension plan adjustments have resulted in a deficit in net assets. The negative macroeconomic factors throughout Southern West Virginia are leading to the decline in the System's surgical procedures, pain procedures, and laboratory services, which caused a decrease in net patient service revenue. Expenses for the System increased in fiscal year 2019 compared to fiscal year 2018, a majority of which can be attributable to the increase in restructuring costs and salaries and benefits.

Management has been making significant operational changes over the years to address the reoccurring losses and changes to the healthcare environment. In April 2018, the System moved its 28-day substance use disorder inpatient unit from Thomas Memorial Hospital to Saint Francis Hospital to increase capacity of the unit from 18 beds to 36. As a result, Saint Francis Hospital qualified for the 340b pharmacy program as of September 30, 2018, and the System has started to receive revenue and pharmacy cost reductions at Saint Francis Hospital as of April 2019. The impact of Saint Francis Hospital qualifying for the 340b program was not material in fiscal 2019 but will continue to grow as the program is ramped up.

The System's other revenue increased in fiscal year 2019 compared to fiscal year 2018, due primarily to three programs at Thomas Memorial Hospital: 340b pharmacy program, outpatient family pharmacy and outpatient reference lab partnership with LabCorp. The outpatient family pharmacy revenue has grown as members of the communities we serve become aware of the convenience and location of the pharmacy on the Thomas Memorial Hospital campus. In September 2018, the System signed an agreement with Lab Corp to provide lab services to allow for more rapid turnaround time for people in Southern West Virginia.

The System engaged an outside consultant that provided numerous recommendations to reduce expenses and increase revenues. The consultant concluded its project in December 2018 and since then management has been working diligently to implement their recommendations, which are anticipated to have a significant impact on the operations of the System. Together with operational improvements identified by management the System expects to see improved operating results and financial condition.

The System is committed to focusing on its community by improving the health and well-being of the patients in the areas it serves, with the help and support of its physicians, providers, nurses and staff. The System has begun the process of developing a long-range financial plan, which includes in part investment in capital equipment at a level that is above normal on-going capital requirements.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Despite these operational improvements, the System still faces financial challenges that are largely beyond its control and that have resulted in the System failing to meet one or more of its financial covenants under the Indenture. The System's financial performance, in particular our ability to generate revenue, continues to be negatively impacted by, among other things, the declining economic environment in the State of West Virginia, reduced reimbursement for healthcare services from both government and commercial payers, reductions in the population within the region in which the System operates, and the decline in utilization of services due to the shift in costs to the individual patient. In an effort to reduce the possibility of a liquidity event or similar event that could prove to be disruptive to continuing services, the System continues to explore restructuring options, which include, without limitation, a potential strategic transaction, refinancing, and/or the possible restructuring of its existing bond indebtedness.

After exploring strategic options on an out-of-court basis, the System's Board of Directors voted in January 2020 to seek protection under Chapter 11 to advance its strategic alternatives, including, but not limited to, potential restructuring options to address its long-term debt. Chapter 11 provides the System with the opportunity to not only reduce its debt burden but also strengthen the System's ability to meet the new health care payment realities and ensure its future.

The System is not closing its doors and there are no planned changes to employment, services, or how the System delivers care to our patients at this time. The Chapter 11 process should not affect enrollment of patients or employers in healthcare plans in 2020. This strategic step affords the System with the opportunity to potentially align its operations with the current healthcare industry and meet the ongoing health care needs of the communities it serves.



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Audit Committee of the Board of Directors
Thomas Health System, Inc. and Subsidiaries
South Charleston, West Virginia

We have audited the financial statements of Thomas Health System, Inc. and its subsidiaries as of and for the years then ended September 30, 2019 and 2018, and have issued our report thereon which contains an unmodified opinion on those financial statements as a whole. See pages 1 - 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Arnett Carbis Toothman LLP

Charleston, West Virginia
February 21, 2020

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEET
September 30, 2019

	Obligated Group (Combined)	THS Physician Partner's, Inc.	TMH Services, Inc.	Eliminations	Thomas Health System Consolidated Balance
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 9,308,793	\$ 45,704	\$ 7,527	\$ -	\$ 9,362,024
Investments	32,136,530	-	-	-	32,136,530
Assets limited as to use	8,996,546	-	-	-	8,996,546
Patient accounts receivable, net	24,536,579	1,593,628	-	-	26,130,207
Other receivables	1,711,699	69,539	121,649	-	1,902,887
Supplies inventories	7,840,964	-	-	-	7,840,964
Prepaid and other current assets	2,652,862	114,481	3,174	(11,639)	2,758,878
Due from related party	-	-	299,996	(299,996)	-
Estimated third-party payor settlements	3,803,993	-	-	-	3,803,993
Total current assets	90,987,966	1,823,352	432,346	(311,635)	92,932,029
ASSETS LIMITED AS TO USE, net	6,501,913	-	-	-	6,501,913
PROPERTY AND EQUIPMENT, net	133,279,208	-	6,058,830	-	139,338,038
OTHER ASSETS					
Other investments	2,704,514	-	38,208	(240,898)	2,501,824
Other	1,615,249	5,600	-	-	1,620,849
Total other assets	4,319,763	5,600	38,208	(240,898)	4,122,673
Total assets	\$ 235,088,850	\$ 1,828,952	\$ 6,529,384	\$ (552,533)	\$ 242,894,653
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current portion of long-term debt	\$ 136,610,867	\$ -	\$ 178,033	\$ -	\$ 136,788,900
Accounts payable	25,373,279	370,550	-	(11,639)	25,732,190
Accrued salaries and benefits	7,300,967	743,582	-	-	8,044,549
Accrued expenses	6,782,113	2,756	61,385	-	6,846,254
Due from related party	299,996	-	-	(299,996)	-
Accrued self-insurance liability	2,582,000	-	-	-	2,582,000
Total current liabilities	178,949,222	1,116,888	239,418	(311,635)	179,993,893
ACCRUED PENSION AND POST-RETIREMENT BENEFITS	44,977,556	-	-	-	44,977,556
ACCRUED SELF-INSURANCE LIABILITY	11,353,000	-	-	-	11,353,000
LONG-TERM DEBT, net of current portion	4,875,635	-	5,252,660	-	10,128,295
Total liabilities	240,155,413	1,116,888	5,492,078	(311,635)	246,452,744
Net assets:					
Net assets without donor restrictions	(6,814,527)	712,064	1,037,306	(240,898)	(5,306,055)
Net assets with donor restrictions	1,747,964	-	-	-	1,747,964
Total net assets	(5,066,563)	712,064	1,037,306	(240,898)	(3,558,091)
Total liabilities and net assets	\$ 235,088,850	\$ 1,828,952	\$ 6,529,384	\$ (552,533)	\$ 242,894,653

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEET
September 30, 2018

	Obligated Group (Combined)	THS Physician Partners, Inc.	TMH Services, Inc.	Eliminations	Thomas Health System Consolidated Balance
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 8,064,857	\$ 127,057	\$ 200,007	\$ -	\$ 8,391,921
Investments	37,744,307	-	-	-	37,744,307
Assets limited as to use	14,010,184	-	-	-	14,010,184
Patient accounts receivable, net	22,988,021	1,172,130	-	-	24,160,151
Other receivables	1,555,765	-	-	-	1,555,765
Supplies inventories	8,312,903	-	-	-	8,312,903
Prepaid and other current assets	1,912,426	215,525	126,159	(28,315)	2,225,795
Estimated third-party payor settlements	5,447,296	-	-	-	5,447,296
Total current assets	100,035,759	1,514,712	326,166	(28,315)	101,848,322
ASSETS LIMITED AS TO USE, net	8,921,593	-	-	-	8,921,593
PROPERTY AND EQUIPMENT, net	132,574,521	136,049	6,286,607	-	138,997,177
OTHER ASSETS					
Other investments	2,040,518	-	44,984	(240,898)	1,844,604
Other	1,083,877	-	-	-	1,083,877
Total other assets	3,124,395	-	44,984	(240,898)	2,928,481
Total assets	\$ 244,656,268	\$ 1,650,761	\$ 6,657,757	\$ (269,213)	\$ 252,695,573
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current portion of long-term debt	\$ 2,271,278	\$ -	\$ 166,530	\$ -	\$ 2,437,808
Accounts payable	31,216,882	107,154	93,312	(28,315)	31,389,033
Accrued salaries and benefits	5,539,544	91,696	-	-	5,631,240
Accrued expenses	6,930,322	-	-	-	6,930,322
Accrued self-insurance liability	3,216,234	-	-	-	3,216,234
Total current liabilities	49,174,260	198,850	259,842	(28,315)	49,604,637
ACCRUED PENSION AND POST-RETIREMENT BENEFITS	21,143,356	-	-	-	21,143,356
ACCRUED SELF-INSURANCE LIABILITY	12,882,766	-	-	-	12,882,766
LONG-TERM DEBT, net of current portion	135,716,663	-	5,424,867	-	141,141,530
Total liabilities	218,917,045	198,850	5,684,709	(28,315)	224,772,289
Net assets:					
Net assets without donor restrictions	24,172,633	1,451,911	973,048	(240,898)	26,356,694
Net assets with donor restrictions	1,566,590	-	-	-	1,566,590
Total net assets	25,739,223	1,451,911	973,048	(240,898)	27,923,284
Total liabilities and net assets	\$ 244,656,268	\$ 1,650,761	\$ 6,657,757	\$ (269,213)	\$ 252,695,573

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended September 30, 2019

	Obligated Group (Combined)	THS Physician Partners, Inc.	TMH Services, Inc.	Eliminations	Thomas Health System Consolidated Balance
REVENUE, GAINS, AND OTHER SUPPORT					
Net patient service revenue	\$ 228,417,505	\$ 17,276,346	\$ -	\$ -	\$ 245,693,851
Investment income (loss)	1,391,052	-	(6,776)	-	1,384,276
Rental income	1,665,195	-	1,142,196	(530,846)	2,276,545
Other revenue	18,338,612	616,443	32,553	-	18,987,608
Public support - donations	354,824	-	-	-	354,824
Total revenue, gains and other support	250,167,188	17,892,789	1,167,973	(530,846)	268,697,104
EXPENSES					
Salaries and wages	82,331,894	19,654,299	30,882	-	102,017,075
Employee benefits	18,094,573	2,199,282	-	-	20,293,855
Supplies	61,568,427	485,098	11,834	(530,846)	61,534,513
Purchased services	29,488,377	2,104,141	200,519	-	31,793,037
Depreciation and amortization	11,284,298	32,401	226,091	-	11,542,790
Taxes	6,730,074	-	-	-	6,730,074
Interest and amortization	9,409,569	-	239,701	-	9,649,270
Insurance	161,211	587,325	24,849	-	773,385
Other	29,444,721	955,136	369,839	-	30,769,696
Total expenses	248,513,144	26,017,682	1,103,715	(530,846)	275,103,695
Excess (deficiency) of revenue over expenses	1,654,044	(8,124,893)	64,258	-	(6,406,591)
OTHER CHANGES IN NET ASSETS					
Net unrealized gain on investments	(528,351)	-	-	-	(528,351)
Defined benefit pension plan adjustment	(24,728,085)	-	-	-	(24,728,085)
Change in fair value of derivatives	278	-	-	-	278
Equity transfer	(7,385,046)	7,385,046	-	-	-
Increase (decrease) in net assets without donor restrictions	\$ (30,987,160)	\$ (739,847)	\$ 64,258	\$ -	\$ (31,662,749)

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended September 30, 2018

	Obligated Group (Combined)	THS Physician Partners, Inc.	TMH Services, Inc.	Eliminations	Thomas Health System Consolidated Balance
REVENUE, GAINS, AND OTHER SUPPORT					
Net patient service revenue	\$ 227,540,337	\$ 18,508,734	\$ -	\$ -	\$ 246,049,071
Investment income	3,302,154	-	(21,580)	-	3,280,574
Rental income	1,730,235	-	1,126,727	(312,171)	2,544,791
Other revenue	12,596,836	609,165	39,369	(17,260)	13,228,110
Public support - donations	437,825	-	-	-	437,825
Total revenue, gains and other support	245,607,387	19,117,899	1,144,516	(329,431)	265,540,371
EXPENSES					
Salaries and wages	81,154,103	18,413,672	82,554	5,914	99,656,243
Employee benefits	18,345,272	2,040,865	-	-	20,386,137
Supplies	58,084,517	961,361	476,236	(311,805)	59,210,309
Purchased services	31,725,405	2,846,069	62,845	(23,540)	34,610,779
Depreciation and amortization	11,450,564	88,788	207,306	-	11,746,658
Taxes	9,602,810	-	-	-	9,602,810
Interest and amortization	9,380,736	-	237,625	-	9,618,361
Insurance	1,680,423	880,186	25,790	-	2,586,399
Other	23,767,283	1,516,692	-	-	25,283,975
Total expenses	245,191,113	26,747,633	1,092,356	(329,431)	272,701,671
Excess (deficiency) of revenues over expenses	416,274	(7,629,734)	52,160	-	(7,161,300)
OTHER CHANGES IN NET ASSETS					
Net unrealized (loss) on investments	73,322	-	-	-	73,322
Net assets released from restriction	5,000	-	-	-	5,000
Defined benefit pension plan adjustment	6,079,629	-	-	-	6,079,629
Change in fair value of derivatives	2,182	-	-	-	2,182
Equity transfer	(9,341,433)	9,341,433	-	-	-
(Decrease) in net assets without donor restrictions	\$ (2,765,026)	\$ 1,711,699	\$ 52,160	\$ -	\$ (1,001,167)

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
Year Ended September 30, 2019

	Obligated Group (Combined)	THS Physician Partners, Inc	TMH Services, Inc.	Eliminations	Thomas Health System Consolidated Balance
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Excess (deficiency) of revenue over expenses	\$ 1,654,044	\$ (8,124,893)	\$ 64,258	\$ -	\$ (6,406,591)
Net unrealized gain on investments	(528,351)	-	-	-	(528,351)
Defined benefit pension plan adjustment	(24,728,085)	-	-	-	(24,728,085)
Change in fair value of derivatives	278	-	-	-	278
Equity transfer	(7,385,046)	7,385,046	-	-	-
Increase (decrease) in net assets without donor restrictions	(30,987,160)	(739,847)	64,258	-	(31,662,749)
NET ASSETS WITH DONOR RESTRICTIONS					
Public support - donations	422,275	-	-	-	422,275
Investment income	50,973	-	-	-	50,973
Net assets released from restriction	(291,874)	-	-	-	(291,874)
Increase in net assets with donor restrictions	181,374	-	-	-	181,374
Increase (decrease) in net assets	(30,805,786)	(739,847)	64,258	-	(31,481,375)
Net assets:					
Beginning of year	25,739,223	1,451,911	973,048	(240,898)	27,923,284
End of year	\$ (5,066,563)	\$ 712,064	\$ 1,037,306	\$ (240,898)	\$ (3,558,091)

**THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION**

**CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
Year Ended September 30, 2018**

	Obligated Group (Combined)	THS Physician Partners, Inc.	TMH Services, Inc.	Eliminations	Thomas Health System Consolidated Balance
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Excess (deficiency) of revenue over expenses	\$ 416,274	\$ (7,629,734)	\$ 52,160	\$ -	\$ (7,161,300)
Net unrealized (loss) on investments	73,322	-	-	-	73,322
Net assets released from restriction	5,000	-	-	-	5,000
Defined benefit pension plan adjustment	6,079,629	-	-	-	6,079,629
Change in fair value of derivatives	2,182	-	-	-	2,182
Equity transfer	(9,341,433)	9,341,433	-	-	-
(Decrease) in net assets without donor restrictions	(2,765,026)	1,711,699	52,160	-	(1,001,167)
NET ASSETS WITH DONOR RESTRICTIONS					
Public support - donations	123,137	-	-	-	123,137
Investment income	76,769	-	-	-	76,769
Net assets released from restriction	(137,105)	-	-	-	(137,105)
(Decrease) in net assets with donor restrictions	62,801	-	-	-	62,801
(Decrease) in net assets	(2,702,225)	1,711,699	52,160	-	(938,366)
Net assets:					
Beginning of year	28,441,448	(259,788)	920,888	(240,898)	28,861,650
End of year	\$ 25,739,223	\$ 1,451,911	\$ 973,048	\$ (240,898)	\$ 27,923,284

**THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION**

**COMBINING BALANCE SHEET
September 30, 2019**

	Thomas Health System	Thomas Memorial Hospital	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	Eliminations	Obligated Group (Combined)
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 1,002,129	\$ 6,502,457	\$ 1,444,374	\$ 359,833	\$ -	\$ 9,308,793
Investments	25,656,094	1,507,542	-	4,972,894	-	32,136,530
Assets limited as to use	8,996,546	-	-	-	-	8,996,546
Patient accounts receivable, net	655	16,297,066	8,238,858	-	-	24,536,579
Other receivables	-	1,590,992	120,707	-	-	1,711,699
Supplies inventories	383,169	5,121,983	2,335,812	-	-	7,840,964
Due from related party	114,124,576	-	-	-	(114,124,576)	-
Prepaid and other current assets	760,642	1,502,940	332,449	56,831	-	2,652,862
Estimated third-party payor settlements	-	2,052,170	1,751,823	-	-	3,803,993
Total current assets	150,923,811	34,575,150	14,224,023	5,389,558	(114,124,576)	90,987,966
ASSETS LIMITED AS TO USE, net	4,753,949	-	-	1,747,964	-	6,501,913
PROPERTY AND EQUIPMENT, net	917,748	106,636,712	25,724,748	-	-	133,279,208
OTHER ASSETS						
Other investments	-	2,704,514	-	-	-	2,704,514
Pledges receivable, net of current portion	-	-	-	-	-	-
Other	774,000	817,138	24,101	10	-	1,615,249
Total other assets	774,000	3,521,652	24,101	10	-	4,319,763
Total assets	\$ 157,369,508	\$ 144,733,514	\$ 39,972,872	\$ 7,137,532	\$ (114,124,576)	\$ 235,088,850
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Current portion of long-term debt	\$ 135,366,735	\$ 1,193,392	\$ 50,740	\$ -	\$ -	\$ 136,610,867
Accounts payable	5,586,538	15,052,940	4,733,801	-	-	25,373,279
Accrued salaries and benefits	4,324,707	2,221,352	754,908	-	-	7,300,967
Accrued expenses	5,586,026	801,494	394,593	-	-	6,782,113
Accrued self-insurance liability	2,582,000	-	-	-	-	2,582,000
Due to related party	-	77,515,137	36,909,435	-	(114,124,576)	299,996
Estimated third-party payor settlements	-	-	-	-	-	-
Total current liabilities	153,446,006	96,784,315	42,843,477	-	(114,124,576)	178,949,222
ACCRUED PENSION AND POST-RETIREMENT BENEFITS	-	44,977,556	-	-	-	44,977,556
ACCRUED SELF-INSURANCE LIABILITY	11,353,000	-	-	-	-	11,353,000
LONG-TERM DEBT, net of current portion	-	4,637,327	238,308	-	-	4,875,635
Total liabilities	164,799,006	146,399,198	43,081,785	-	(114,124,576)	240,155,413
Net assets						
Net assets without donor restrictions	(7,429,498)	(1,665,684)	(3,108,913)	5,389,568	-	(6,814,527)
Net assets with donor restrictions	-	-	-	1,747,964	-	1,747,964
Total net assets	(7,429,498)	(1,665,684)	(3,108,913)	7,137,532	-	(5,066,563)
Total liabilities and net assets	\$ 157,369,508	\$ 144,733,514	\$ 39,972,872	\$ 7,137,532	\$ (114,124,576)	\$ 235,088,850

**THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION**

**COMBINING BALANCE SHEET
September 30, 2018**

	Thomas Health Systems	Thomas Memorial Hospital	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	Eliminations	Obligated Group (Combined)
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 349,862	\$ 6,054,106	\$ 1,279,172	\$ 381,717	\$ -	\$ 8,064,857
Investments	-	26,413,355	6,915,266	4,415,686	-	37,744,307
Assets limited as to use	-	14,010,184	-	-	-	14,010,184
Patient accounts receivable, net	-	16,758,788	6,229,233	-	-	22,988,021
Other receivables	-	1,432,868	122,897	-	-	1,555,765
Supplies inventories	-	5,248,434	3,064,469	-	-	8,312,903
Due from related party	4,476,822	-	2,057,553	-	(6,534,375)	-
Prepaid and other current assets	114,122	1,259,210	495,982	75,735	(32,623)	1,912,426
Estimated third-party payor settlements	-	3,802,416	1,644,880	-	-	5,447,296
Total current assets	4,940,806	74,979,361	21,809,452	4,873,138	(6,566,998)	100,035,759
ASSETS LIMITED AS TO USE, net	-	6,486,956	436,521	1,998,116	-	8,921,593
PROPERTY AND EQUIPMENT, net	-	105,398,460	27,176,061	-	-	132,574,521
OTHER ASSETS						
Other investments	-	2,040,518	-	-	-	2,040,518
Pledges receivable, net of current portion	-	-	-	-	-	-
Other	-	1,053,000	30,877	-	-	1,083,877
Total other assets	-	3,093,518	30,877	-	-	3,124,395
Total assets	\$ 4,940,806	\$ 189,958,295	\$ 49,452,911	\$ 6,871,254	\$ (6,566,998)	\$ 244,656,268
LIABILITIES AND NET ASSETS						
Current portion of long-term debt	\$ -	\$ 1,409,710	\$ 861,568	\$ -	\$ -	\$ 2,271,278
Accounts payable	1,439,513	21,959,298	7,818,022	32,672	(32,623)	31,216,882
Accrued salaries and benefits	2,415,393	1,956,054	1,168,097	-	-	5,539,544
Accrued expenses	1,135,821	5,456,273	338,228	-	-	6,930,322
Accrued self-insurance liability	-	3,216,234	-	-	-	3,216,234
Due to related party	-	6,534,375	-	-	(6,534,375)	-
Total current liabilities	4,990,727	40,531,944	10,185,915	32,672	(6,566,998)	49,174,260
ACCRUED PENSION AND POST- RETIREMENT BENEFITS	-	21,143,356	-	-	-	21,143,356
ACCRUED SELF-INSURANCE LIABILITY	-	12,882,766	-	-	-	12,882,766
LONG-TERM DEBT, net of current portion	-	93,282,704	42,433,959	-	-	135,716,663
Total liabilities	4,990,727	167,840,770	52,619,874	32,672	(6,566,998)	218,917,045
Net assets:						
Net assets without donor restrictions	(49,921)	22,117,525	(3,166,963)	5,271,992	-	24,172,633
Net assets with donor restrictions	-	-	-	1,566,590	-	1,566,590
Total net assets	(49,921)	22,117,525	(3,166,963)	6,838,582	-	25,739,223
Total liabilities and net assets	\$ 4,940,806	\$ 189,958,295	\$ 49,452,911	\$ 6,871,254	\$ (6,566,998)	\$ 244,656,268

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

COMBINING STATEMENT OF OPERATIONS
Year Ended September 30, 2019

	Thomas Health System	Thomas Memorial Hospital	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	Eliminations	Obligated Group (Combined)
REVENUE, GAINS AND OTHER SUPPORT						
Net patient service revenue	\$ -	\$ 165,837,885	\$ 62,579,620	\$ -	\$ -	\$ 228,417,505
Investment income	-	933,261	167,993	289,798	-	1,391,052
Rental income	-	1,059,353	605,842	-	-	1,665,195
Other revenue	133,919	17,374,017	1,130,458	-	(299,782)	18,338,612
Grant income	-	-	-	-	-	-
Public support - donations	-	-	-	354,824	-	354,824
Total revenue, gains and other support	133,919	185,204,516	64,483,913	644,622	(299,782)	250,167,188
EXPENSES						
Salaries and wages	390	62,927,770	19,403,207	527	-	82,331,894
Employee benefits	-	13,690,495	4,404,078	-	-	18,094,573
Supplies	630,118	45,408,189	15,826,490	3,412	(299,782)	61,568,427
Purchased services	2,449,831	20,267,876	6,674,256	96,414	-	29,488,377
Depreciation and amortization	14,119	7,885,918	3,384,261	-	-	11,284,298
Taxes	-	4,553,099	2,176,975	-	-	6,730,074
Interest and amortization	7,516	5,991,874	3,410,179	-	-	9,409,569
Insurance	-	108,231	52,980	-	-	161,211
Other	5,726,571	16,834,722	6,456,735	426,693	-	29,444,721
Total expenses	8,828,545	177,668,174	61,789,161	527,046	(299,782)	248,513,144
Excess (deficiency) of revenues over expenses	(8,694,626)	7,536,342	2,694,752	117,576	-	1,654,044
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS						
Net unrealized loss on investments	(528,351)	-	-	-	-	(528,351)
Net assets released from restriction	-	-	-	-	-	-
Defined benefit pension adjustment	-	(24,728,085)	-	-	-	(24,728,085)
Change in the fair value of derivatives	-	-	278	-	-	278
Equity transfer	1,843,400	(6,591,466)	(2,636,980)	-	-	(7,385,046)
Increase (decrease) in net assets without donor donor restrictions	\$ (7,379,577)	\$ (23,783,209)	\$ 58,050	\$ 117,576	\$ -	\$ (30,987,160)

**THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION**

**COMBINING STATEMENT OF OPERATIONS
Year Ended September 30, 2018**

	Thomas Health System	Thomas Memorial Hospital	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	Eliminations	Obligated Group (Combined)
REVENUE, GAINS AND OTHER SUPPORT						
Net patient service revenue	\$ -	\$ 165,473,382	\$ 62,066,955	\$ -	\$ -	\$ 227,540,337
Investment income	-	2,607,709	243,794	450,651	-	3,302,154
Rental income	-	1,116,893	613,342	-	-	1,730,235
Other revenue	-	11,928,196	684,098	-	(15,458)	12,596,836
Grant income	-	-	-	-	-	-
Public support - donations	-	-	-	437,825	-	437,825
Total revenue, gains and other support	-	181,126,180	63,608,189	888,476	(15,458)	245,607,387
EXPENSES						
Salaries and wages	-	60,902,238	19,961,541	290,324	-	81,154,103
Employee benefits	-	13,067,916	5,277,356	-	-	18,345,272
Supplies	-	41,311,632	16,785,252	3,091	(15,458)	58,084,517
Purchased services	13,793	23,103,739	8,544,005	63,868	-	31,725,405
Depreciation and amortization	-	7,819,579	3,630,985	-	-	11,450,564
Taxes	-	7,377,782	2,225,028	-	-	9,602,810
Interest and amortization	-	5,914,926	3,465,810	-	-	9,380,736
Insurance	-	585,199	1,095,224	-	-	1,680,423
Other	36,128	16,406,232	7,062,072	262,851	-	23,767,283
Total expenses	49,921	176,489,243	68,047,273	620,134	(15,458)	245,191,113
Excess (deficiency) of revenues over expenses	(49,921)	4,636,937	(4,439,084)	268,342	-	416,274
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS						
Net unrealized loss on investments	-	(161,806)	235,128	-	-	73,322
Net assets released from restriction	-	-	-	5,000	-	5,000
Defined benefit pension adjustment	-	6,079,629	-	-	-	6,079,629
Change in the fair value of derivatives	-	-	2,182	-	-	2,182
Equity transfer	-	(6,941,850)	(2,399,583)	-	-	(9,341,433)
Increase (decrease) in net assets without donor restrictions	\$ (49,921)	\$ 3,612,910	\$ (6,601,357)	\$ 273,342	\$ -	\$ (2,765,026)

**THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION**

**COMBINING STATEMENT OF CHANGES IN NET ASSETS
Year Ended September 30, 2019**

	Thomas Health System	Thomas Memorial Hospital	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	Eliminations	Obligated Group (Combined)
NET ASSETS WITHOUT DONOR RESTRICTIONS						
Excess (deficiency) revenues over expenses	\$ (8,694,626)	\$ 7,536,342	\$ 2,694,752	\$ 117,576	\$ -	\$ 1,654,044
Net unrealized gain (loss) on investments	(528,351)	-	-	-	-	(528,351)
Net assets released from restriction	-	-	-	-	-	-
Defined benefit pension plan adjustment	-	(24,728,085)	-	-	-	(24,728,085)
Change in fair value of derivatives	-	-	278	-	-	278
Equity transfer	1,843,400	(6,591,466)	(2,636,980)	-	-	(7,385,046)
Increase (decrease) in net assets without donor restrictions	(7,379,577)	(23,783,209)	58,050	117,576	-	(30,987,160)
NET ASSETS WITH DONOR RESTRICTIONS						
Public support - donations	-	-	-	422,275	-	422,275
Investment income	-	-	-	50,973	-	50,973
Net assets released from restriction	-	-	-	(291,874)	-	(291,874)
Increase in net assets with donor restrictions	-	-	-	181,374	-	181,374
Increase (decrease) in net assets	(7,379,577)	(23,783,209)	58,050	298,950	-	(30,805,786)
Net assets:						
Beginning of year	(49,921)	22,117,525	(3,166,963)	6,838,582	-	25,739,223
End of year	\$ (7,429,498)	\$ (1,665,684)	\$ (3,108,913)	\$ 7,137,532	\$ -	\$ (5,066,563)

**THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION**

**COMBINING STATEMENT OF CHANGES IN NET ASSETS
Year Ended September 30, 2018**

	Thomas Health System	Thomas Memorial Hospital	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	Eliminations	Obligated Group (Combined)
NET ASSETS WITHOUT DONOR RESTRICTIONS						
Excess (deficiency) revenues over expenses	\$ (49,921)	\$ 4,636,937	\$ (4,439,084)	\$ 268,342	\$ -	\$ 416,274
Net unrealized gain (loss) on investments	-	(161,806)	235,128	-	-	73,322
Net assets released from restriction	-	-	-	5,000	-	5,000
Defined benefit pension plan adjustment	-	6,079,629	-	-	-	6,079,629
Change in fair value of derivatives	-	-	2,182	-	-	2,182
Equity transfer	-	(6,941,850)	(2,399,583)	-	-	(9,341,433)
Increase (decrease) in net assets without donor restrictions	(49,921)	3,612,910	(6,601,357)	273,342	-	(2,765,026)
NET ASSETS WITH DONOR RESTRICTIONS						
Public support - donations	-	-	-	123,137	-	123,137
Investment income	-	-	-	76,769	-	76,769
Net assets released from restriction	-	-	-	(137,105)	-	(137,105)
Increase in net assets with donor restrictions	-	-	-	62,801	-	62,801
Increase (decrease) in net assets	(49,921)	3,612,910	(6,601,357)	336,143	-	(2,702,225)
Net assets:						
Beginning of year	-	18,504,615	3,434,394	6,502,439	-	28,441,448
End of year	\$ (49,921)	\$ 22,117,525	\$ (3,166,963)	\$ 6,838,582	\$ -	\$ 25,739,223