Catawba Valley Medical Center and Affiliate (Component Unit of Catawba County)

Combined Financial Statements and Supplementary Information

Years Ended June 30, 2019 and 2018

DIXON HUGHES GOODMAN LLP

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Independent Auditors' Report

Board of Trustees
Catawba Valley Medical Center and Affiliate
Hickory, North Carolina

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Catawba Valley Medical Center and Affiliate (the "Medical Center"), a component unit of Catawba County, which comprise the combined balance sheets as of June 30, 2019 and 2018, and the related combined statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Medical Center's preparation and fair presentation of the combined 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 Medical Center'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Catawba Valley Medical Center and Affiliate as of June 30, 2019 and 2018, and the results of their combined operations and their combined cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplemental Information
Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 6, the Condensed Schedule of Revenues and Expenses Information – Budget to Actual, Changes in Net Pension Liability and Related Ratios, and the Schedule of Contributions on pages 30 through 32 be presented to supplement the combined basic financial statements. Such information, although not a part of the combined basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the combined basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined basic financial statements, and other knowledge we obtained during our audits of the combined basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters- Supplemental Schedule Information
Our audit was conducted for the purpose of forming opinions on the combined financial statements that collectively comprise the Medical Center's basic combined financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
October 28, 2019

This discussion and analysis of Catawba Valley Medical Center and Affiliate's (the "Medical Center") financial performance provides an overview of the Medical Center's financial position and financial activities for the fiscal years ended June 30, 2019, 2018, and 2017. This narrative should be read in conjunction with the combined financial statements and the accompanying notes to those combined financial statements.

The combined balance sheets present all of the Medical Center's assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in the Medical Center's net position may serve as a useful indicator of whether the financial position of the Medical Center is improving or deteriorating. The combined statements of revenues, expenses and changes in net position presents information showing how the Medical Center's net position changed during the most recent fiscal year. It includes operating revenues, operating expenses, nonoperating income, and capital grants and contributions to arrive at the increase in net position.

Catawba Valley Medical Center and Affiliate
Combined Balance Sheets

	June 30, 2019	June 30, 2018	June 30, 2017
ASSETS			
Current assets	$177,449,281	$148,278,515	$141,448,782
Restricted investments	3,740,541	4,119,282	4,599,503
Capital assets, net	106,909,467	112,149,104	118,256,833
Other assets	20,091,513	18,360,958	16,106,013
Total assets	308,190,802	282,907,859	280,411,131
Deferred outflows	25,675,000	20,110,992	21,304,627
Total assets and deferred outflows	$333,865,802	$303,018,851	$301,715,758
LIABILITIES			
Current liabilities	$ 49,480,018	$ 46,833,490	$ 46,513,439
Long-term liabilities	77,426,233	74,568,640	79,162,549
Total liabilities	126,906,251	121,402,130	125,675,988
Deferred inflows	723,000	1,129,000	1,535,000
NET POSITION			
Net investment in capital assets	69,058,077	71,424,841	73,791,694
Restricted:			
Capital projects	3,740,541	4,119,282	4,599,503
Other specific purposes	521,217	80,018	372,780
Unrestricted	132,916,716	104,863,580	95,740,793
Total net position	206,236,551	180,487,721	174,504,770
Total liabilities and deferred inflows and net position	$333,865,802	$303,018,851	$301,715,758

Catawba Valley Medical Center and Affiliate
Combined Statements of Revenues, Expenses and Changes in Net Position

	June 30, 2019	June 30, 2018	June 30, 2017
Operating revenues			
Patient service revenues	$1,128,241,731	$1,011,138,204	$931,259,449
Contractual allowances, adjustments, provision for bad debts, and charity care	818,758,285	727,626,980	659,621,418
Net patient service revenues	309,483,446	283,511,224	271,638,031
Other operating revenues	6,357,528	5,459,031	5,365,200
Total operating revenues	315,840,974	288,970,255	277,003,231
Operating expenses			
Wages, salaries and benefits	168,479,363	170,542,459	159,114,976
Materials and supplies	57,819,329	51,284,408	52,559,518
Purchased services	27,686,795	25,094,628	22,184,537
Other	19,998,589	19,619,619	20,309,402
Contractual services and professional fees	640,613	555,846	464,454
Insurance	2,244,699	1,646,235	1,600,259
Depreciation	16,414,845	16,782,857	16,935,871
Amortization	19,381	24,112	21,237
Total operating expenses	293,303,614	285,550,164	273,190,254
Income from operations	22,537,360	3,420,091	3,812,977
Nonoperating income, net	2,885,970	2,734,449	1,586,801
Intergovernmental transfer	(500,000)	(500,000)	(500,000)
Capital grants and contributions	825,500	328,411	566,853
Increase in net position	$ 25,748,830	$ 5,982,951	$ 5,466,631

Management Discussion of Financial Performance

Patient Services Revenues

Gross patient revenues increased 11.5% during fiscal year 2019, from approximately $1,011 million in fiscal year 2018 to approximately $1,128 million in fiscal year 2019. Outpatient revenues as a percent of gross patient service revenues increased from 61% during fiscal year 2018 to 62% during fiscal year 2019. During fiscal year 2019, the Medical Center experienced increases in the percentages of Medicare as demonstrated in the chart below.

Financial Class	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Self-Pay	6.0%	6.2%	6.2%
Blue Cross	13.6%	14.5%	15.6%
Workers Compensation	.7%	.7%	.7%
Managed Care	11.4%	11.1%	11.4%
Commercial	1.5%	1.4%	1.7%
Medicare	45.5%	44.1%	42.1%
Medicaid	11.9%	12.2%	13.2%
Other	9.4%	9.8%	9.1%

Adjustments to Gross Revenues

Adjustments to gross patient service revenues, which include Medicare and Medicaid contractual adjustments and other adjustments and allowances, amounted to 72.6% and 72.0% of patient service revenues for the fiscal years 2019 and 2018, respectively. In fiscal year 2019, the percentage of self-pay and charity care adjustments as a percentage of gross patient service revenues was 7% as compared to 6.8% in 2018. There was a 15.2% increase in bad debt and charity care adjustments from $68.9 million in fiscal year 2018 to $79.4 million in fiscal year 2019.

Expenses

Operating expenses increased 2.7% during fiscal year 2019. Growth in the Medical Center's physician clinics along with general inflation accounted for the majority of this increase. Depreciation expense decreased by approximately $368 thousand or 2.2%. Overall, expenses decreased slightly as a percentage of gross patient service revenues from 28.2% in fiscal year 2018 to 26% in fiscal year 2019.

Management continues to be committed to expense control through management of the employee workforce and overtime, management of supply utilization, elimination of nonessential expenses and utilization of Premier group purchasing agreements.

Increase in Net Position

The increase in net position increased from approximately $6.0 million in fiscal year 2018 to $25.7 million in fiscal year 2019. The increase in net position represented approximately 2.1% and 8.3% of net patient service revenues in fiscal year 2018 and fiscal year 2019, respectively.

Assets and Deferred Outflows

Total assets and deferred outflows of the Medical Center have increased from $303.0 million in fiscal year 2018 to $333.9 million in fiscal year 2019 (10.2% increase). Cash, cash equivalents, and investments, designated by the Board of Trustees have increased from $94.1 million in fiscal year 2018 to $124.4 million in fiscal year 2019.

Net patient accounts receivable as measured in net days outstanding (net patient accounts receivable multiplied by the number of days in the period divided by net patient service revenue generated) as of June 30, 2019 and 2018 equaled 37 days and 44 days, respectively, and reflects management's commitment to an aggressive receivables management program and conservative allowance methodology.

Net capital assets equaled $112.1 million in fiscal year 2018 and $106.9 million in fiscal year 2019. The Medical Center recorded approximately $11.5 million in capital equipment and facility additions during fiscal year 2019.

Liabilities, Deferred Inflows and Net Position

The Medical Center's long-term debt decreased from fiscal year 2018 to fiscal year 2019. As a percentage of net position, long-term debt, excluding current installments, has decreased from 20.8% in fiscal year 2018 to 17% in fiscal year 2019.

Deferred inflows relate to pension deferrals, which reflect recognized future decreases to pension expense arising from changes in actuarial experience or assumption changes.

Net position has grown from $180.5 million in fiscal year 2018 to $206.2 million in fiscal year 2019 (14.3% increase) largely due to the profitable performance of the Medical Center over the past year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Catawba Valley Medical Center's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to: Finance Department, Catawba Valley Medical Center, 810 Fairgrove Church Road SE, Hickory, North Carolina 28602.

Catawba Valley Medical Center and Affiliate
Combined Balance Sheets
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 78,941,246	49,126,417
Certificates of deposit	43,699,975	43,666,304
Receivables:		
Patients (net of allowance for uncollectible accounts of approximately $59,797,000 in 2019 and $48,189,000 in 2018)	31,557,963	34,023,214
Other receivables	10,430,626	7,929,066
Refundable sales taxes	1,322,651	2,725,824
Accrued interest	763,440	166,588
Inventories	6,241,709	6,689,680
Other current assets	3,970,454	3,871,404
Restricted assets:		
Cash and cash equivalents	521,217	80,018
Total current assets	177,449,281	148,278,515
Restricted investments:		
Held by County for capital projects	3,740,541	4,119,282
Total restricted investments	3,740,541	4,119,282
Assets limited as to use:		
Designated as funded depreciation	7,780,564	7,780,564
Capital assets, at cost:		
Land and construction in progress	9,094,248	7,925,237
Other capital assets, net of depreciation	97,815,219	104,223,867
Capital assets, net	106,909,467	112,149,104
Other assets:		
Investments, designated by Board of Trustees	1,223,694	1,218,280
Other investments	9,966,575	8,442,716
Cash value of life insurance	968,655	769,592
Intangible assets, net	152,025	149,806
Total other assets	12,310,949	10,580,394
Total assets	308,190,802	282,907,859
DEFERRED OUTFLOWS		
Pension deferrals	25,675,000	20,110,992
Total assets and deferred outflows	$ 333,865,802	$ 303,018,851

	2019	2018
LIABILITIES		
Current liabilities:		
Current installments of long-term debt	**$ 2,533,365**	$ 2,394,332
Current installments of obligations under capital leases	**110,792**	725,291
Accounts and contracts payable	**4,702,369**	4,845,133
Accrued salaries	**5,746,222**	5,580,962
Accrued compensated absences	**5,901,665**	5,954,966
Accrued interest	**105,938**	77,700
Third-party payor settlements payable	**22,089,431**	22,871,658
Other current liabilities	**8,290,236**	4,383,448
Total current liabilities	**49,480,018**	46,833,490
Long-term liabilities:		
Net pension liability	**42,219,000**	36,964,000
Long-term debt, excluding current installments	**35,022,647**	37,572,008
Non-current installments of obligations under capital leases	**184,586**	32,632
Total long-term liabilities	**77,426,233**	74,568,640
Total liabilities	**126,906,251**	121,402,130
DEFERRED INFLOWS		
Pension deferrals	**723,000**	1,129,000
Total deferred inflows	**723,000**	1,129,000
Total liabilities and deferred inflows	**127,629,251**	122,531,130
NET POSITION		
Net investment in capital assets	**69,058,077**	71,424,841
Restricted:		
Capital projects	**3,740,541**	4,119,282
Other specific purposes	**521,217**	80,018
Unrestricted	**132,916,716**	104,863,580
Total net position	**206,236,551**	180,487,721
Total liabilities, deferred inflows and net position	**$ 333,865,802**	$ 303,018,851

Catawba Valley Medical Center and Affiliate
Combined Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Operating revenues:		
Net patient service revenues (net of provision for bad debts of approximately $68,465,000 in 2019 and approximately $56,896,000 in 2018)	**$ 309,483,446**	$ 283,511,224
Other operating revenues	**6,357,528**	5,459,031
Total operating revenues	**315,840,974**	288,970,255
Operating expenses:		
Nursing services	**67,762,418**	64,012,510
Other professional services	**77,942,601**	73,190,385
Catawba Valley Medical Group	**35,734,603**	33,917,156
General services	**16,645,694**	16,573,097
Administrative services	**78,784,072**	81,050,047
Depreciation	**16,414,845**	16,782,857
Amortization	**19,381**	24,112
Total operating expenses	**293,303,614**	285,550,164
Income from operations	**22,537,360**	3,420,091
Nonoperating income (expense)		
Interest expense	**(1,095,067)**	(712,239)
Investment income	**922,492**	380,395
Income from investees	**2,432,351**	2,316,377
Noncapital grants and contributions	**577,204**	849,665
Gain (loss) on disposal of capital assets	**48,990**	(99,749)
Nonoperating income, net	**2,885,970**	2,734,449
Excess of revenues over expenses	**25,423,330**	6,154,540
Intergovernmental transfer	**(500,000)**	(500,000)
Capital grants and contributions	**825,500**	328,411
Increase in net position	**25,748,830**	5,982,951
Net position, beginning	**180,487,721**	174,504,770
Net position, ending	**$ 206,236,551**	$ 180,487,721

Catawba Valley Medical Center and Affiliate
Combined Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from patients and third-party payors	**$ 310,915,352**	$ 290,064,395
Cash paid to employees	**(168,367,404)**	(168,943,239)
Cash paid to suppliers	**(105,028,014)**	(101,177,906)
Other receipts from operations	**5,259,141**	2,275,190
Net cash provided by operating activities	**42,779,075**	22,218,440
Cash flows from noncapital financing activities:		
Intergovernmental transfer	**(500,000)**	(500,000)
Proceeds from noncapital grants and contributions	**577,204**	849,665
Net cash provided by noncapital financing activities	**77,204**	349,665
Cash flows from capital and related financing activities:		
Capital grants and contributions	**825,500**	328,411
Capital expenditures	**(11,146,060)**	(12,683,625)
Principal payment on revenue bonds	**(2,410,328)**	(2,796,913)
Interest paid	**(1,066,829)**	(844,225)
Payments of capital lease obligations	**(758,675)**	(974,590)
Proceeds from disposal of capital assets	**403,953**	301,971
Net cash used by capital and related financing activities	**(14,152,439)**	(16,668,971)
Cash flows from investing activities:		
Interest received	**325,640**	424,372
Sale of investments, net	**373,327**	478,583
Purchase of certificates of deposit, net	**(33,671)**	(346,987)
Other	**(21,600)**	-
Receipts (payments) received from investees	**908,492**	(1,925,562)
Net cash provided (used) by investing activities	**1,552,188**	(1,369,594)
Net increase in cash and cash equivalents	**30,256,028**	4,529,540
Cash and cash equivalents, beginning of year	**49,206,435**	44,676,895
Cash and cash equivalents, end of year	**$ 79,462,463**	$ 49,206,435
Classified as:		
Unrestricted	**$ 78,941,246**	$ 49,126,417
Restricted	**521,217**	80,018
	$ 79,462,463	$ 49,206,435

SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

The Medical Center and Affiliate incurred accounts payable to purchase fixed assets having a total cost of $402,013 and $314,032 as of June 30, 2019 and 2018, respectively. There were $296,130 in fixed assets acquired under capital lease during the year ended June 30, 2019. There were no fixed assets acquired under capital lease during the year ended June 30, 2018.

	2019	2018
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	**$ 22,537,360**	$ 3,420,091
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	**16,414,845**	16,782,857
Amortization of intangible assets	**19,381**	24,112
Amortization of deferred loss on defeased debt	**-**	30,627
Change in cash value of life insurance	**(199,063)**	1,964,520
Provision for bad debts	**68,464,659**	56,895,584
Net change in assets and liabilities:		
Patient receivables	**(65,999,408)**	(54,168,110)
Other receivables	**(2,501,560)**	(3,193,170)
Refundable sales taxes	**1,403,173**	9,329
Inventories	**447,971**	(466,529)
Other current assets	**(99,050)**	(1,074,287)
Accounts and contracts payable	**(230,745)**	469,148
Accrued salaries	**165,260**	945,226
Accrued compensated absences	**(53,301)**	139,318
Third-party payor settlements payable	**(782,227)**	2,254,465
Other current liabilities	**3,906,788**	(1,036,749)
Net pension liability	**5,255,000**	(1,535,000)
Change deferred outflow- pension	**(5,564,008)**	1,163,008
Change deferred inflow- pension	**(406,000)**	(406,000)
Net cash provided by operating activities	**$ 42,779,075**	$ 22,218,440

Notes to Combined Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization and Reporting Entity

Catawba Valley Medical Center (the "Medical Center") was organized in 1962 by resolution of the Commissioners of Catawba County, North Carolina (the "County"). The governing body of the Medical Center is the Board of Trustees, which is appointed by the Commissioners of Catawba County. At least one member must also be a member of the County Board of Commissioners. The Medical Center is an instrumentality of the County and, as such, is not subject to income tax. The Medical Center is included as a discretely presented component unit in the financial statements of the County.

On October 1, 2011, Catawba Valley Medical Center established a separate 501(c) (3) entity for its medical group called Catawba Valley Medical Group, Inc. ("Medical Group"). The Medical Group was established to conduct health care and related services. Its operations consist of physician practices to provide physician services to the community. The Medical Center's Board of Trustees recommends directors for appointment to the Medical Group's Board of Trustees. All significant intercompany balances and transactions have been eliminated in combination. The combined entities are hereinafter referred to as the "Medical Center."

Use of Estimates

The preparation of combined 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 the disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The accompanying combined financial statements are prepared and presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis.

Charity Care

The Medical Center has a charity care policy whereby care to patients meeting certain established criteria is without charge or at amounts less than established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenues.

Cash and Cash Equivalents

The Medical Center considers cash on hand and highly liquid investments with an original maturity of 90 days or less when purchased to be cash and cash equivalents.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market (net realizable value).

Receivables from Patients

Patient accounts receivable are recorded at estimated net realizable value. Allowance for uncollectible accounts are computed based on statistical information from current and prior years' experience. The Medical Center grants credit, without collateral, to patients, substantially all of whom are from the surrounding area. In evaluating the collectability of patient accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For patient receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for contractual adjustments. For patient 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 Medical Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard charges and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Restricted Assets

Restricted assets include assets that are subject to donor-imposed stipulations and assets held by the County or other trustees under indenture agreements.

Assets Limited as to Use

Assets limited as to use include designated cash set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Capital Assets

Capital assets are stated at cost, including interest costs incurred during construction. Depreciation is computed using the straight-line method over estimated useful lives of the assets, which range from 18 to 40 years for buildings and land improvements and 3 to 15 years for equipment and leasehold improvements.

Investments

Investments in debt instruments are stated at fair value. The stated amounts for investments approximate their fair values. Gains and losses, both realized and unrealized, are included in nonoperating income (expense).

Other investments and other assets are stated at cost except for the Medical Center's investment in a healthcare alliance and group purchasing organization, 25.5% ownership in a surgery center, 50% ownership in an imaging management company and a 50% ownership in a heart services management company, which are accounted for on the equity method of accounting.

Intangible Assets

Intangible assets consist of the cost of purchasing a medical practice in excess of the value of the assets acquired. Intangible assets are being amortized over the term of the agreements.

Impairment Losses

Impairment losses are recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The Medical Center has evaluated the carrying values of its long-lived assets and has determined that no write-downs for impairment were necessary for fiscal years 2019 or 2018.

Net Position

Net position is classified as net investment in capital assets, restricted and unrestricted. Restricted components of net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of governments, or imposed through state statute. Unrestricted components of net position are remaining net position that do not meet the definition of net investment in capital assets or restricted.

Accrued Compensated Absences

The vacation policy of the Medical Center provides for the accumulation of up to 40 days earned vacation leave with such leave being fully vested when earned.

Net Patient Service Revenues

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is recorded at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as settlements are determined. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of discounted rates. On the basis of historical experience, a significant portion of the Medical Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Medical Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Intergovernmental transfers

The Medical Center and the County may transfer funds as necessary between the two entities. Amounts transferred are reported after nonoperating income (expense) as an increase (decrease) to net position.

Grants and Contributions

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenues. Amounts restricted for capital acquisitions are reported after nonoperating income (expense).

Operating Revenues and Expenses

The Medical Center's combined statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Medical Center's principal activity. Nonexchange revenues, including taxes, legal settlements, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, except for interest, which is a nonoperating expense.

Restricted Resources

Resources restricted by donor-imposed stipulations are used before unrestricted resources. Resources restricted by the County or other trustees are not used unless unrestricted resources are insufficient or unavailable.

Deferred Compensation Plan

The Medical Center offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all Medical Center employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan assets, as required, are placed in trust for the exclusive benefit of the participants and their beneficiaries and are excluded from the Medical Center's combined financial statements.

Subsequent Events

Subsequent events have been evaluated through October 28, 2019, which is the date these combined financial statements were available to be issued.

Reclassification

Certain 2018 combined financial statement amounts have been reclassified to conform to the 2019 combined financial statement presentation.

2. Deposits

All deposits of the Medical Center are made in board-designated official depositories and are secured as required by North Carolina General Statute ("G.S.") 159-31. The Medical Center may designate, as an official depository, any bank or savings and loan whose principal office is located in North Carolina. Also, the Medical Center may establish time deposit accounts such as NOW (negotiable order of withdrawal) and Super NOW accounts, money market accounts and certificates of deposit.

All of the Medical Center's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage are collateralized with securities held by the Medical Center's agent in the Medical Center's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Medical Center, these deposits are considered to be held by the Medical Center's agent in the Medical Center's name. The amount of the pledged collateral is based on an approved averaging method for noninterest-bearing deposits and the actual current balance for interest-bearing deposits.

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Medical Center or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Medical Center under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2019, the Medical Center's deposits including certificates of deposit and investments had a carrying amount of $132,166,696 and a bank balance of $135,379,715. At June 30, 2018, the Medical Center's deposits including certificates of deposit and investments had a carrying amount of $101,791,565 and a bank balance of $104,070,218. Of the bank balance, $250,000 was covered by federal depository insurance and $135,125,004 and $103,820,218 was covered by collateral held under the Pooling Method at June 30, 2019 and 2018, respectively.

3. Investments

Investments - Held by the Medical Center

G.S. 159-30(c) authorizes the Medical Center to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public hospital; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust, an SEC-registered mutual fund.

Investments - Held by the County

The Medical Center also has investments, which are held by the County, and for which the County exercises depository and investment control as discussed in Note 5.

These investments are held by the County in a cash and investment pool that is used by substantially all funds of the County. The County's cash and investment pool is invested in demand deposits, certificates of deposit, money market funds, the North Carolina Capital Management Trust and certain U.S. government agencies. At June 30, 2019 and 2018, approximately 1.8% of the pooled cash and investment balances of the County were Medical Center funds.

The Fair Value Measurements and Application Standard addresses accounting and financial reporting issues related to fair value measurements. The standard describes fair value as an exit price. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets or liabilities, inputs that are observable for the asset or liability, and market-corroborated inputs. Level 3 inputs are unobservable inputs and take into account all information about market participant assumptions that are reasonably available. The Medical Center categorizes all investments below as level 1 investments.

At June 30, the Medical Center had the following investments and maturities:

	2019			2018		
	Fair Value	**Less Than One Year**	**One to Five Years**	**Fair Value**	**Less than One Year**	**One to Five Years**
Held by the Medical Center:						
Certificates of deposit	**$ 1,223,694**	**$ 1,223,694**	**$ -**	$ 1,218,280	$ 1,218,280	$ -
Held by the County pooled investments	**3,740,541**	**3,740,541**	**-**	4,119,282	4,119,282	-
Total investments	**$ 4,964,235**	**$ 4,964,235**	**$ -**	$ 5,337,562	$ 5,337,562	$ -

Investments – Joint Ventures

The Medical Center has investments in a healthcare alliance and group purchasing organization, a surgery center, an imaging management company and a heart services management company. The Medical Center's investments in joint ventures, which are included in other investments total $9,966,575 and $8,442,716 at June 30, 2019 and 2018, respectively.

Interest Rate Risk

The Medical Center has an investment policy designed to limit its exposure to losses from rising interest rates. Generally, the average time to maturity of Medical Center investments shall not exceed one year and the maximum term of a specific investment shall not exceed two years. However, if extending average maturities permits trading and portfolio advantages, then maturities can exceed these limits.

Investment Return

The Medical Center had $922,492 and $380,395 in interest income for the years ended June 30, 2019 and 2018, respectively.

4. Capital Assets

Capital asset additions, retirements, and balances for the years ended June 30, 2019 and 2018, were as follows:

	Balance June 30, 2018	Additions	Retirements	Transfers	Balance June 30, 2019
Non-depreciable assets:					
Land	$ 5,602,902	$ 1,225,052	$ (56,250)	$ 54,750	$ 6,826,454
Construction-in-progress	2,322,335	2,304,462	-	(2,359,003)	2,267,794
Depreciable assets:					
Land improvements	6,347,828	95,730	-	-	6,443,558
Buildings and fixed equipment	176,185,654	811,626	-	1,122,635	178,119,915
Movable equipment	133,300,844	6,881,291	(6,445,181)	1,181,618	134,918,572
Leasehold improvements	3,469,116	133,910	-	-	3,603,026
Total at historical cost	327,228,679	11,452,071	(6,501,431)	-	332,179,319
Less accumulated depreciation for:					
Land improvements	2,714,672	365,988	-	-	3,080,660
Buildings and fixed equipment	106,084,692	5,743,233	-	-	111,827,925
Movable equipment	103,925,388	10,157,140	(6,224,568)	-	107,857,960
Leasehold improvements	2,354,823	148,484	-	-	2,503,307
Total accumulated depreciation	215,079,575	16,414,845	(6,224,568)	-	225,269,852
Capital assets, net	$112,149,104	$ (4,962,774)	$ (276,863)	$ -	$106,909,467

	Balance June 30, 2017	Additions	Retirements	Transfers	Balance June 30, 2018
Nondepreciable assets:					
Land	$ 5,055,163	$ 543,039	$ -	$ 4,700	$ 5,602,902
Construction-in-progress	1,933,523	4,068,902	(134,136)	(3,545,954)	2,322,335
Depreciable assets:					
Land improvements	5,906,984	138,744	-	302,100	6,347,828
Buildings and fixed equipment	172,663,111	872,759	-	2,649,784	176,185,654
Movable equipment	132,379,970	5,310,175	(4,978,671)	589,370	133,300,844
Leasehold improvements	3,401,931	67,185	-	-	3,469,116
Total at historical cost	321,340,682	11,000,804	(5,112,807)	-	327,228,679
Less accumulated depreciation for:					
Land improvements	2,367,498	347,174	-	-	2,714,672
Buildings and fixed equipment	100,117,818	5,966,874	-	-	106,084,692
Movable equipment	98,405,980	10,306,539	(4,787,131)	-	103,925,388
Leasehold improvements	2,192,553	162,270	-	-	2,354,823
Total accumulated depreciation	203,083,849	16,782,857	(4,787,131)	-	215,079,575
Capital assets, net	$118,256,833	$ (5,782,053)	$ (325,676)	$ -	$112,149,104

The Medical Center incurred accounts payable to purchase fixed assets having a total cost of $402,013 and $314,032 as of June 30, 2019 and 2018, respectively.

5. Restricted Assets and Restricted Investments

Assets are held in the Medical Center Construction and Operations Fund under an agreement with the County and are utilized only for capital outlay projects with the approval of the County Commissioners. Substantially all of the assets of the fund are invested by the County in interest-bearing cash investments and categorized as level 1. Total restricted assets amounted to $3,740,541 and $4,119,282 at June 30, 2019 and 2018, respectively.

Restricted assets include cash and cash equivalents that are subject to donor-imposed stipulations amounting to $521,217 and $80,018 at June 30, 2019 and 2018, respectively.

6. Agreements with Third-Party Payors

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services are paid based on a cost reimbursement methodology. The Medicare program pays a specific Ambulatory Payment Classification ("APC") amount for each Current Procedural Terminology ("CPT")/Health Care Payment Classification System ("HCPCS") code. Payment is made for specific line items. Under this system, as with inpatient services, rates vary according to a patient classification system that is based upon clinical, diagnostic, and other factors. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare program.

Medicaid - Inpatient acute care services and nonacute services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid program.

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

Gross revenue from the Medicare and Medicaid programs accounted for approximately 57% and 56% of the Medical Center's gross patient service revenue for the years ended June 30, 2019 and 2018, respectively.

During 2019 and 2018, the Medical Center received monies under the Medicaid Disproportionate Share Pool Program (the "Program"). Under the Program, the Medical Center received payments totaling approximately $16,342,000 and $15,096,000 in 2019 and 2018, respectively. These amounts are reflected as a component of net patient service revenue. The revenue received under the Program is determined by state Medicaid guidelines, which are subject to change, thereby causing volatility in the revenue received under the Program. Payments of disproportionate share funds in the future may be impacted by Medicaid reform initiatives. The Program contains a provision requiring the repayment of disproportionate funds received if the participating hospital is determined to be ineligible.

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. Changes in estimated retroactive settlement adjustments and the recording of current year estimates increased net patient service revenue by approximately $4,558,000 in 2019 and $2,394,000 in 2018.

The Medical Center's Medicare cost report has been audited by the fiscal intermediary through June 30, 2016. The Medical Center's Medicaid cost report has been audited by the fiscal intermediary through June 30, 2015, and the June 30, 2016, cost report was under audit at year end.

The Hospital receives payments for serving a high volume of Medicaid patients. These payments require regulatory approval prior to disbursement. The payments under the plan each year are subject to cost settlement. These payments were recorded as a liability pending final settlement by Medicaid. During the current year, $4,712,000 that was classified as a liability in fiscal year ended June 30, 2018, was reclassified into net patient service revenue. Of the total funds of $85,171,000 received for 2014 through 2019, approximately $17,592,000 has been reserved and is included in the estimated third-party payor settlements payable on the combined balance sheet at June 30, 2019. Of the total funds of $68,739,000 received for 2014 through 2018, approximately $18,849,000 has been reserved and is included in the estimated third-party payor settlements payable on the combined balance sheet at June 30, 2018.

In April 2012, the Centers for Medicare and Medicaid Services ("CMS") approved a North Carolina Medicaid Assessment Plan ("MAP") to reduce the gap between Medicaid/uninsured costs and payments retroactive to January 1, 2011. Hospitals that participate in the program pay an assessment fee and in turn receive a payment from the MAP. The Medical Center paid approximately $2,960,000 and $3,063,000 and recognized approximately $4,616,000 and $5,199,000 for the years ended June 30, 2019 and 2018, respectively, for the MAP program. For the years ended June 30, 2019 and 2018, respectively, the net impact of approximately $1,656,000 and $2,136,000 is included in income from operations on the combined statement of revenues, expenses and changes in net position.

7. Accounts Receivable and Payable

Patient Accounts Receivable

The Medical Center provides services primarily to the residents of Catawba and surrounding counties without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to the large number of patients served and the formalized agreements with third-party payors. The Medical Center has significant accounts receivable whose collectability is dependent upon the performance of certain governmental programs, primarily Medicare and Medicaid. Management does not believe there are significant credit risks associated with these governmental programs. An allowance for uncollectible accounts is provided in an amount equal to the estimated losses to be incurred in collection of patient receivables. The allowance is based on historical collection experience and a review of the current status of the existing receivables. The mix of receivables from patients and third-party payors at June 30 is as follows:

	2019	2018
Medicare	**34%**	29%
Medicaid	**10%**	8%
Blue Cross	**10%**	14%
Other third-party payors	**21%**	15%
Patients	**25%**	34%
	100%	100%

Accounts and Contracts Payable

Accounts and contracts payable (including accrued expenses) reported as current liabilities by the Medical Center at June 30 are as follows:

	2019	2018
Payable to employees (including payroll taxes)	**$ 11,647,887**	$ 11,535,928
Payable to suppliers	**4,702,369**	4,845,133
Total accounts payable and accrued expenses	**$ 16,350,256**	$ 16,381,061

During the years ended June 30, 2019 and 2018, one supplier accounted for approximately 16% and 13% of purchases, respectively.

8. Long-Term Debt

A summary of long-term debt at June 30 is as follows:

	2019	2018
Series 2016A Taxable Fixed Rate Hospital Revenue Bonds, due in varying annual installments starting November 1, 2017 through October 1, 2039, from the general revenues of the Medical Center.	**$ 23,894,008**	$ 24,573,336

	2019	2018
Series 2016B Taxable Fixed Rate Hospital Revenue Bonds, due in varying annual installments starting October 1, 2016 through September 1, 2026 from the general revenues of the Medical Center.	**13,662,004**	15,393,004
Total long-term debt	**37,556,012**	39,966,340
Less current installments of long-term debt	**(2,533,365)**	(2,394,332)
Long-term debt, excluding current installments	**$ 35,022,647**	$ 37,572,008

The following is a summary of changes in the Medical Center's long-term debt for the years ended June 30 is as follows:

	Balance June 30, 2018	Additions	Retirements	Balance June 30, 2019	Amounts due within one year
Series 2016 A Hospital Revenue Bonds	**$ 24,573,336**	**$ -**	**$ 679,328**	**$ 23,894,008**	**$ 767,112**
Series 2016 B Hospital Revenue Bonds	**15,393,004**	**-**	**1,731,000**	**13,662,004**	**1,766,253**
	$ 39,966,340	**$ -**	**$ 2,410,328**	**$ 37,556,012**	**$ 2,533,365**

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Amounts due within one year
Series 2016 A Hospital Revenue Bonds	$ 25,000,000	$ -	$ 426,664	$ 24,573,336	$ 663,332
Series 2016 B Hospital Revenue Bonds	17,088,253	-	1,695,249	15,393,004	1,731,000
Series 2011 Hospital Revenue Bonds	675,000	-	675,000	-	-
	$ 42,763,253	$ -	$ 2,796,913	$ 39,966,340	$ 2,394,332

On August 1, 2016, the County issued County of Catawba, North Carolina Refunding Revenue Bonds (Catawba Memorial Hospital Project) Series 2016 A (the "Series 2016A Bonds") through a commercial lender totaling $25,000,000 for the purpose of refunding the Series 2009 Bonds. Additionally, the County issued County of Catawba, North Carolina Hospital Refunding Revenue Bonds (Catawba Valley Medical Center) Series 2016B (the "Series 2016B Bonds") through a commercial lender totaling $18,340,000 for the purpose of refunding the Series 2010 Bonds.

On January 1, 2019, the Hospital converted the Series 2016 A Bonds from a variable interest rate to a fixed interest rate of 4.12%. Prior to the conversion to January 1, 2019, the Series 2016 A Bonds had an interest rate equal to LIBOR, which was 2.55% at June 30, 2018.

The following table summarizes the annual requirements to amortize the bonds payable at prevailing interest rates:

Year Ending June 30:	Principal	Interest
2020	2,533,365	1,236,062
2021	2,602,071	1,166,945
2022	2,673,387	1,095,706
2023	2,746,350	1,022,272
2024	2,821,542	946,577
2025-2029	9,580,633	3,669,600
2030-2034	6,293,772	2,391,185
2035-2039	7,730,760	953,992
2040	574,132	4,928
	$ 37,556,012	$ 12,487,267

Interest expense was approximately $1,086,000 and $694,000 in 2019 and 2018, respectively. There were no letter of credit fees in 2019 and 2018.

Interest cost incurred on borrowed funds during the period of construction of capital assets of $28,103 and $28,774 was capitalized during the years ended June 30, 2019 and 2018, respectively.

The 2016 bond series have various financial covenants, the most restrictive of which require the Medical Center to maintain a Long-Term Debt Service Coverage Ratio (as defined) of 1.20 or higher, a Debt to Capitalization ratio of no greater than 65% and the Days Cash on Hand must not be less than 80 days. The Medical Center was in compliance with all applicable covenants as of and for the years ended June 30, 2019 and 2018.

9. Capital Lease Obligations

The Medical Center leases certain medical equipment that requires monthly payments. Title passes to the Medical Center at the end of the lease terms. The assets held under these capital leasing arrangements and accumulated amortization are included in equipment within the total capital assets and accumulated depreciation reported by the Medical Center. At June 30, 2019, assets under capital leases had a cost of $380,618 and accumulated amortization of $59,609. At June 30, 2018, assets under capital leases had a cost of $4,900,412 and accumulated amortization of $3,422,958. During 2019 and 2018, amortization expense related to capital leases was approximately $585,000 and $843,000, respectively, and is included in depreciation expense on the combined statement of revenues, expenses, and changes in net assets.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of June 30, 2019, are as follows:

Year Ending June 30:	Amount
2020	134,279
2021	94,016
2022	82,518
Less: amount representing interest	(15,435)
Present value of minimum lease payments	295,378
Less: current installments of obligations under capital lease	(110,792)
Long-term capital lease obligations	$ 184,586

10. Operating Leases

The Medical Center is party to certain building and equipment leases that are classified as noncancelable operating leases, which require annual rentals of approximately $1,718,000 in 2020, $1,357,000 in 2021, $1,023,000 in 2022, $691,000 in 2023, $677,000 in 2024, and $492,000 thereafter. Total rent expense in connection with such leases was $1,825,115 and $1,601,319 for the years ended June 30, 2019 and 2018, respectively.

11. Pension Plan

Pension Plan Description

Catawba Valley Medical Center Employees' Pension Plan (the "Plan") is a single-employer noncontributory defined benefit plan which provides retirement, disability, termination and death benefits to plan members. The Medical Center is required to contribute based on an actuarially determined amount. The Plan issues a stand-alone financial report that may be obtained from the Medical Center.

Pension Benefits

Participants with five or more years of service, as defined by the Plan, are entitled to pension benefits upon retirement. If employees terminate before rendering five years of continuous service, they forfeit the right to receive pension benefits upon retirement. Pension benefits are provided to participants under several types of retirement options based upon years of service and age. Retirement benefits are paid to pensioners or beneficiaries in various forms of joint and survivor annuities, including a lump-sum payment option.

Effective January 1, 2019, the Plan implemented a soft freeze to close participation in the Plan to employees hired on or after the effective date.

Death and Disability Benefits

In the event of a vested employee's death, his or her designated beneficiary will be entitled to receive a survivor benefit equal to the participant's accrued benefit, according to Plan provisions. The survivor benefit commences on the earliest date that the deceased participant could have elected to receive retirement benefits. If a participant becomes disabled, he or she may elect disability retirement. Disabled participants are eligible for early retirement when the benefits under the Medical Center's long-term disability insurance expire.

Employees Covered by Benefit Terms

At the July 1, 2018 and 2017, measurement dates, the following employees were covered by the benefit terms:

	2019	**2018**
Active employees	**1,592**	1,572
Inactive employees or beneficiaries current receiving benefits	**487**	454
Inactive employees entitled to but not yet receiving benefits	**453**	430
	2,532	2,456

Contributions

Contributions to provide benefits under the Plan are made solely by the Medical Center. The entire cost of the Plan is borne by the Medical Center. Plan members are not required to contribute to the Plan. The Medical Center contributes at an actuarially determined rate. The Medical Center contributed approximately $10,768,000 and $9,386,000 to the Plan for the Medical Center's fiscal years ended June 30, 2019 and 2018, respectively.

Although it has not expressed any intent to do so, the Medical Center has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth under the Employee Retirement Income Security Act of 1974 (“ERISA”).

Annual funding contributions are actuarially determined contributions under the Plan sponsor’s funding policy for the plan year. The annual contribution for any plan year is at least the minimum amount required under Internal Revenue Code Section 430.

Net Pension Liability

The most recent annual actuarial valuation report is as of July 1, 2018. The net pension liability of the defined benefit pension plan was therefore determined based on the July 1, 2018, actuarial valuation, using membership data as of July 1, 2018, projected forward to the end of the fiscal year, and financial information of the pension funds as of July 1, 2018, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by the Medical Center’s consulting actuary, McGriff Insurance Services, Inc. (formerly Stanley, Hunt, DuPree & Rhine).

At June 30, 2019 and 2018, the Medical Center reported a net pension liability of approximately $42,219,000 and $36,964,000, respectively. The net pension liability at June 30, 2019 and 2018, was measured as of July 1, 2018 and 2017, respectively.

For the years ended June 30, 2019 and 2018, the Medical Center recognized pension expense of approximately $10,053,000 and $8,608,000, respectively.

The following represents the changes in the net pension liability as of July 1, 2018 and 2017:

	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balances at July 1, 2017	$149,186,000	$112,222,000	$ 36,964,000
Changes for the year:			
Interest	11,319,000	-	11,319,000
Contributions – employer	-	9,386,000	(9,386,000)
Net investment income	-	7,979,000	(7,979,000)
Benefits paid	(4,530,000)	(4,530,000)	-
Service cost	3,956,000	-	3,956,000
Other changes	7,345,000	-	7,345,000
Net changes	18,090,000	12,835,000	5,255,000
Balances at July 1, 2018	$167,276,000	$125,057,000	$ 42,219,000

Sensitivity Analysis

The following represents the sensitivity of the total pension liability and the net pension liability to changes in the interest rate based on values as of July 1, 2018:

	1% Decrease 6.16%	**Current Rate 7.16%**	**1% Increase 8.16%**
Total pension liability	$193,094,000	$167,276,000	$146,118,000
Net fiduciary position	125,057,000	125,057,000	125,057,000
Total net pension liability	$ 68,037,000	$ 42,219,000	$ 21,061,000
Funded %	64.76%	74.76%	85.59%

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The total pension liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	7.5%, adjusted to 7.16% as of July 1, 2018
Inflation	3.0%
Expected return on plan assets	7.5%, adjusted to 7.16% as of July 1, 2018
Mortality	RP-2014 Fully Generational Mortality Table with Base Year 2006 with Improvement Scale MP-2017

The discount rate adopted by the Medical Center for valuing plan liabilities was determined by the methods prescribed under GASB 68 which requires the use of a long term rate of return on plan assets, unless a projection of the net fiduciary position will not be sufficient to provide for projected benefit payments of the covered current and former employees.

The projected return on plan assets and inflation assumptions are developed through review of current and historical capital markets data and historical performance of investment strategies. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2019, are summarized in the following table:

Asset Class	Target Asset Allocations	Expected Geometric Real Rate of Return
Cash and equivalents	2.6%	2.2%
Debt securities	27.9%	3.3%
Equity securities	69.5%	8.1%
	100.0%	

Deferred Outflows and Inflows Related to Pensions

At June 30, 2019, the Medical Center reported deferred outflows and inflows related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	$ 2,887,000	$ (723,000)
Changes in assumptions	9,699,000	-
Net difference between projected and actual earnings on pension plan investments	2,321,000	-
Employer contributions after measurement date	10,768,000	-
	$ 25,675,000	$ (723,000)

The $10,768,000 reported as deferred outflows of resources related to pensions resulting from the Medical Center's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2020	4,534,000
2021	3,464,000
2022	1,748,000
2023	2,144,000
Thereafter	2,294,000
Net balance of deferred outflows	$ 14,184,000

12. Deferred Compensation Plan

The Medical Center offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by an unrelated insurance company under the direction of the Medical Center. The plan, available to all Medical Center employees, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, disability, retirement, death, or financial hardship. The plan provides for Medical Center matching contributions, ranging from 15% to 25% for the years ended June 30, 2019 and 2018, of employee contributions based upon length of employment. Contributions are invested in participant-directed investment fund options, which include growth, income and stable funds. The Medical Center's contributions to this plan were $1,100,522 and $1,049,796 for the years ended June 30, 2019 and 2018, respectively.

Effective January 1, 2019, the plan will provide a non-elective employer contribution of 3% and a matching contribution of 50% up to 6% of compensation for all employees hired on or after the effective date.

13. Commitments and Contingencies

The Medical Center has numerous other contracts for physician and other professional services for terms of one year or more. As of June 30, 2019, the Medical Center had outstanding commitments of approximately $3,558,000 for completion of construction in progress and capital improvements.

14. Risk Management

The Medical Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; injuries to employees; natural disasters; employee health, dental and accident benefits; and medical malpractice. The Medical Center carries commercial insurance for these risks of loss.

The Medical Center's employee health insurance program is self-insured with stop-loss coverage provided by a commercial insurance company. At June 30, 2019 and 2018, the Medical Center has a liability of $3,442,978 and $1,937,733, respectively, for unpaid health insurance claims and health insurance claims incurred, but not reported. The following is a summary of changes in the claims liability for the year ended June 30:

	2019	**2018**
Claims liability at beginning of fiscal year	**$ 1,937,733**	$ 1,282,428
Incurred claims and IBNR expenses	**25,523,668**	29,788,361
Payments	**(24,018,423)**	(29,133,056)
Claims liability at end of fiscal year	**$ 3,442,978**	$ 1,937,733

The Medical Center is aware of potential or threatened claims alleging malpractice liability of the Medical Center with respect to certain incidents arising in the normal course of operations. The Medical Center purchases malpractice insurance coverage on claims from a commercial insurance company. The limit for claims paid applicable to the Medical Center's coverage is $1,000,000 for any one claim subject to a $250,000 self-insured retention. The annual aggregate limit for claims paid applicable to the Medical Center's coverage is $3,000,000. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Medical Center has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. In management's opinion, the accrued malpractice losses of approximately $4,695,000 and $3,998,000 at June 30, 2019 and 2018, respectively, provide an adequate reserve for loss contingencies. The Medical Center also purchases an Umbrella Policy on a claims-made basis that provides additional coverage over the Healthcare Professional Liability, Commercial General Liability, Automobile Liability and Workers' Compensation/ Employers Liability Insurance.

The Medical Center maintains an employee dishonesty bond that covers all employees with a range in amounts from $25,000 to $1,000,000, depending on the type of dishonesty.

15. Related Parties

Catawba Medical Foundation, Inc. (the "Foundation") was established for charitable, scientific and educational purposes primarily for the benefit of the citizens of Catawba County, North Carolina and the vicinity thereof. These objectives are to be achieved by (1) supporting, supplementing, enhancing and enriching the facilities, programs and services provided by Catawba Valley Medical Center; (2) promoting and assisting in the establishment, expansion, maintenance and operation of facilities to provide medical research, training, education and services; and (3) making distributions, grants or donations to exempt organizations. The Foundation is supported primarily from public contributions. The Foundation made contributions of $1,496,918 and $1,018,548 to the Medical Center during the years ended June 30, 2019 and 2018, respectively.

A summary of assets and net position of Catawba Medical Foundation, Inc. as of June 30, 2019 and 2018, and of revenues and other support, and changes in net position for the years ended June 30, 2019 and 2018, follows:

	2019	2018
Total assets	**$ 1,204,498**	$ 1,210,035
Net position	**$ 1,204,498**	$ 1,210,035
Revenues and other support	**$ 1,971,021**	$ 1,552,336
(Decrease) increase in net position	**$ (5,537)**	$ 58,213

The above information is summarized from the audited financial statements of the Foundation for the years ended June 30, 2019 and 2018.

16. Charity Care

The Medical Center maintains records to identify and monitor the level of charity care it provides. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, estimated costs have been incurred, but associated charges have not been reflected in net patient service revenues. The Medical Center created the estimate of costs incurred by multiplying the cost to charge ratio by the charges forgone by the Medical Center. The following information relates to the level of charity care provided during the years ended June 30, 2019 and 2018:

	2019	2018
Estimated costs incurred for charity care patients	**$ 2,848,000**	$ 3,395,000
Equivalent percentage of charity care patients to all patients served	**4.9%**	5.6%

17. Adjustments to Gross Revenues

Patient service revenue, net of contractual adjustments and discounts, but before the provision for bad debts is $377,948,446 and $340,406,808 for the years ended June 30, 2019 and 2018, respectively.

Contractual adjustments related to Medicare and Medicaid programs and other deductions as well as the provision for bad debts were deducted from gross patient service charges to arrive at net patient service revenue as follows:

	2019	2018
Gross patient service charges	**$1,128,241,731**	$1,011,138,204
Deductions from gross patient service charges:		
Contractual adjustments	**641,516,635**	562,967,558
Charity care	**10,954,263**	12,023,251
Provision for bad debts	**68,464,659**	56,895,584
Other deductions	**97,822,728**	95,740,587
Net patient service revenue	**$ 309,483,446**	$ 283,511,224

18. Fair Value of Financial Instruments

The following methods and assumptions were used by the Medical Center in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

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

Certificates of Deposit

The carrying amount reported in the combined balance sheet for certificates of deposit approximates fair value.

Investments

These assets consist primarily of cash equivalents, certificates of deposit, money rate savings accounts and interest receivable. The carrying amounts approximate their fair values.

Accounts Receivable

Accounts receivable are recorded on the combined balance sheet at net realizable value and approximate fair value.

Accounts and Contracts Payable

The carrying amount reported in the combined balance sheet for accounts and contracts payable approximates fair value.

Third-Party Settlements

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

Long-Term Debt

Fair values of the Medical Center's bonds are based on the current traded value. The fair value of the Medical Center's remaining long-term debt is estimated using discounted cash flow analyses, based on the Medical Center's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts of the Medical Center's financial instruments approximate their fair values at June 30, 2019 and 2018.

19. Assets Limited as to Use

The Medical Center has total investments designated by the Board of Trustees as a depreciation fund for the future replacement and expansion of capital assets in the amount of $9,004,258 and $8,998,844 at June 30, 2019 and 2018, respectively.

Required Supplementary Information

Catawba Valley Medical Center
Condensed Schedule of Revenues and Expenses Information - Budget to Actual
Year Ended June 30, 2019

	Budget	Actual	Variance Favorable (Unfavorable)
Total operating revenues	$ 310,931,512	$ 315,840,974	$ 4,909,462
Total operating expenses	313,170,143	293,303,614	19,866,529
Income (loss) from operations	(2,238,631)	22,537,360	24,775,991
Nonoperating income, net, intergovernmental transfer, capital grants and contributions	2,238,631	3,211,470	972,839
Increase in net position	$ -	$ 25,748,830	$ 25,748,830

	2019	2018	2017	2016	2015	2014
Total pension liability:						
Interest	**$ 11,319,000**	$ 10,242,000	$ 9,351,000	$ 8,399,000	$ 8,038,000	$ 7,382,000
Service cost	**3,956,000**	3,579,000	3,259,000	2,890,000	2,883,000	2,267,000
Differences between expected and actual experience	**1,554,000**	1,391,000	-	1,517,000	(2,753,000)	-
Changes in assumptions	**5,791,000**	3,049,000	2,776,000	2,879,000	-	-
Benefits paid	**(4,530,000)**	(4,034,000)	(3,622,000)	(3,379,000)	(3,081,000)	(2,563,000)
Net change in total pension liability	**18,090,000**	14,227,000	11,764,000	12,306,000	5,087,000	7,086,000
Total pension liability - beginning	**149,186,000**	134,959,000	123,195,000	110,889,000	105,802,000	98,716,000
Total pension liability - ending (a)	**167,276,000**	149,186,000	134,959,000	123,195,000	110,889,000	105,802,000
Plan fiduciary net position:						
Contributions - employer	**9,386,000**	7,728,000	4,476,000	5,246,000	5,016,000	4,776,000
Net investment income	**7,979,000**	12,068,000	(1,420,000)	1,292,000	11,872,000	6,522,000
Benefits paid	**(4,530,000)**	(4,034,000)	(3,622,000)	(3,379,000)	(3,081,000)	(2,563,000)
Net change in plan fiduciary net position	**12,835,000**	15,762,000	(566,000)	3,159,000	13,807,000	8,735,000
Total plan fiduciary net position - beginning	**112,222,000**	96,460,000	97,026,000	93,867,000	80,060,000	71,325,000
Total plan fiduciary net position - ending (b)	**125,057,000**	112,222,000	96,460,000	97,026,000	93,867,000	80,060,000
Net pension liability - ending (a) - (b)	**$ 42,219,000**	$ 36,964,000	$ 38,499,000	$ 26,169,000	$ 17,022,000	$ 25,742,000
Plan fiduciary net position as a percentage of the total pension liability	75%	75%	71%	79%	85%	76%
Covered-employee payroll	116,925,167	105,481,836	93,837,813	84,586,262	78,884,621	N/A
Net pension liability as a percentage of covered-employee payroll	36%	35%	41%	31%	22%	N/A

Catawba Valley Medical Center and Affiliate
Schedule of Contributions
June 30, 2019

	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	**$ 8,318,000**	$ 6,734,000	$ 6,569,000	$ 4,801,000	$ 4,523,000	$ 4,911,000
Contributions in relation to the actuarially determined contribution	**10,768,000**	9,386,000	7,728,000	4,476,000	5,246,000	5,016,000
Contribution deficiency (excess)	**$ (2,450,000)**	$ (2,652,000)	$ (1,159,000)	$ 325,000	$ (723,000)	$ (105,000)
Covered-employee payroll	116,925,167	105,481,836	93,837,813	84,586,262	78,884,621	N/A
Contributions as a percentage of covered-employee payroll	9%	9%	8%	5%	7%	N/A

Notes to Schedule:

Measurement date	July 1 prior to end of reporting period
Valuation date	July 1 prior to end of reporting period
Salary increases	Assumed to increase at 5.00% annually
Discount rate	7.5%, adjusted to 7.16% as of July 1, 2018
Expected rate of return on plan assets	7.5%, adjusted to 7.16% as of July 1, 2018
Inflation Rate	3.00%
Mortality	RP-2014 Total Mortality Table with Base Year 2006 with Improvement Scale MP-2017

Compliance Section

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Catawba Valley Medical Center and Affiliate
Hickory, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Catawba Valley Medical Center and Affiliate (the "Medical Center"), a component unit of Catawba County, which comprise the combined balance sheets as of June 30, 2019 and 2018, and the related combined statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements, and have issued our report thereon dated October 28, 2019.

Internal Control over Financial Reporting

In planning and performing our audits of the combined financial statements, we considered the Medical Center's internal control over financial reporting (internal control) of the combined financial statements as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

DIXON HUGHES GOODMAN LLP

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
October 28, 2019

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Trustees
Catawba Valley Medical Center and Affiliate
Hickory, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Catawba Valley Medical Center and Affiliate's (the "Medical Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Medical Center's major federal program for the year ended June 30, 2019. The Medical Center's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Medical Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Medical Center's compliance.

Opinion on the Major Federal Program

In our opinion, the Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019

DIXON HUGHES GOODMAN LLP

Report on Internal Control Over Compliance

Management of the Medical Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Medical Center's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
October 28, 2019

Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor Number		Total Federal Expenditures
FEDERAL AWARDS: Full accrual basis				
U.S. Department of Health and Human Services Direct Program:				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		$	616,952
Passed through North Carolina Department of Health and Human Services, Division of Public Health and Service Administration:				
HIV Care Formula Grants	93.917	56-0789196		343,308
Total U.S. Department of Health and Human Services				960,260
Total expenditures of federal awards			$	960,260

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards ("SEFA") includes the grant activity of Catawba Valley Medical Center and Affiliate (the "Medical Center") under the federal government for the year ended June 30, 2019. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance")*. Because the SEFA presents only a select portion of the operations of the Medical Center, it is not intended to and does not present the financial position, changes in net position or cash flows of the Medical Center.

Note 2 – Significant Accounting Policies

Expenditures of the Medical Center are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-Profit Organizations or cost principles contained in Title 2 US Code of Federal Regulations Part 200, Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursements.

Note 3 – Contingencies

The Medical Center's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the Medical Center's continued participation in specific programs. The amount if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Medical Center expects such amounts, if any, to be immaterial.

Note 4 – Indirect Cost Rate

The Medical Center has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Section I - Summary of Auditors' Results

Combined Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiencies identified that are not considered to be material weaknesses?	____	Yes	X	None reported
Noncompliance material to combined financial statements noted?	____	Yes	X	No

Federal Awards

Internal control over major federal programs:				
• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiencies identified that are not considered to be material weaknesses?	____	Yes	X	None reported
Noncompliance material to federal awards?	____	Yes	X	No
Type of auditor's report issued on compliance for major federal programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____	Yes	X	No

Identification of major federal programs:

CFDA #	Names of Federal Program or Cluster
93.918	Grants to Provide Outpatient Early Intervention Service with Respect to HIV Disease

Dollar threshold used to distinguish between Type A and Type B Programs:	$750,000			
Auditee qualified as low-risk auditee?	X	Yes	____	No

Section II - Combined Financial Statement Findings

Findings

No significant deficiencies or material weaknesses were noted for the year ended June 30, 2019.

Section III - Federal Award Findings and Questioned Costs

None reported