

**FIRSTHEALTH OF THE CAROLINAS, INC.
AND AFFILIATES**

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

**FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
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INDEPENDENT AUDITORS' REPORT

Board of Directors
FirstHealth of the Carolinas, Inc. and Affiliates
Pinehurst, North Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of FirstHealth of the Carolinas, Inc. and Affiliates ("FirstHealth") which comprise the consolidated balance sheets as of September 30, 2017 and 2016, 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 Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FirstHealth as of September 30, 2017 and 2016, 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.

Report on Supplementary Information

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



CliftonLarsonAllen LLP

Charlotte, North Carolina
January 26, 2018

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 35,445	\$ 23,196
Patient Accounts Receivable, Less Allowance for Uncollectible		
Accounts of \$42,908 and \$35,894 in 2017 and 2016, Respectively	95,217	76,806
Other Receivables	13,012	7,578
Inventories	13,040	11,782
Prepaid Expenses	5,735	7,189
Estimated Settlements Due from Third-Party Payers	7,711	9,287
Total Current Assets	170,160	135,838
ASSETS LIMITED AS TO USE		
Internally Designated by Board	466,675	485,589
Held by Trustee Under Bond Indenture Agreements	5,744	8,404
Self-Insurance Reserves	25,910	27,225
Statutory and Capital Insurance Reserves	16,428	16,909
Held by Foundations	56,178	49,700
Total Assets Limited as to Use	570,935	587,827
PROPERTY AND EQUIPMENT, NET	383,262	332,772
FIDUCIARY ASSETS	14,938	14,617
OTHER ASSETS	22,261	17,078
Total Assets	\$ 1,161,556	\$ 1,088,132
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 27,763	\$ 23,802
Accrued Expenses and Other Liabilities	64,282	61,252
Estimated Settlements Due to Third-Party Payers	6,999	12,766
Current Portion of Long-Term Debt	11,546	10,116
Total Current Liabilities	110,590	107,936
LONG-TERM LIABILITIES		
Long-Term Debt, Less Current Portion, Net of Deferred		
Financing Costs	193,107	202,373
Other Liabilities	14,908	18,702
Total Liabilities	318,605	329,011
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	801,678	720,547
Temporarily Restricted	23,946	21,297
Permanently Restricted	17,327	17,277
Total Net Assets	842,951	759,121
Total Liabilities and Net Assets	\$ 1,161,556	\$ 1,088,132

See accompanying Notes to Consolidated Financial Statements.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

	2017	2016
REVENUE, GAINS, AND OTHER SUPPORT		
Patient Service Revenue (Net of Contractual Allowances and Discounts)	\$ 675,750	\$ 610,688
Provision for Bad Debts	(96,196)	(61,478)
Net Patient Service Revenue Less Provision for Bad Debts	579,554	549,210
Other Revenue	165,909	145,050
Net Assets Released from Restrictions Used for Operations	2,612	1,329
Total Revenue, Gains, and Other Support	748,075	695,589
OPERATING EXPENSES		
Salaries	269,217	236,597
Fringe Benefits	56,030	55,241
Supplies	147,086	133,056
Purchased Services	65,410	52,681
Depreciation and Amortization	29,615	30,581
Interest	4,917	4,655
Other	159,777	161,594
Total Operating Expenses	732,052	674,405
OPERATING INCOME	16,023	21,184
NONOPERATING INCOME (EXPENSE)		
Investment Income	31,486	26,639
Loss on Bond Refunding	(332)	-
Loss on Asset Disposals, Net	(14)	(6)
Bargain Purchase Gain	8,549	-
Other	(692)	(585)
Nonoperating Income (Expense)	38,997	26,048
EXCESS OF REVENUES OVER EXPENSES BEFORE GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS	55,020	47,232
Realized and Unrealized Gain on Derivative Financial Instruments	4,284	760
EXCESS OF REVENUES OVER EXPENSES	59,304	47,992
Unrealized Gains on Investments Other Than Trading Securities, Net	21,839	11,421
Distributions to Joint Venture Members, Net of Contributions	(152)	(205)
Net Assets Released from Restrictions Used for the Purchase of Property and Equipment	140	83
INCREASE IN UNRESTRICTED NET ASSETS	\$ 81,131	\$ 59,291

See accompanying Notes to Consolidated Financial Statements.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
BALANCE AT SEPTEMBER 30, 2015	\$ 661,256	\$ 18,910	\$ 17,277	\$ 697,443
Add (Deduct):				
Contributions	-	2,013	-	2,013
Investment Income	-	750	-	750
Excess of Revenues Over Expenses	47,992	-	-	47,992
Unrealized Gains on Investments - Other than Trading Securities, Net	11,421	1,036	-	12,457
Distributions to Joint Venture Members, Net of Contributions	(205)	-	-	(205)
Net Assets Released from Restrictions Used for Operations	-	(1,329)	-	(1,329)
Net Assets Released from Restrictions Used for the Purchase of Property and Equipment	83	(83)	-	-
	<u>59,291</u>	<u>2,387</u>	<u>-</u>	<u>61,678</u>
Increase in Net Assets				
BALANCE AT SEPTEMBER 30, 2016	720,547	21,297	17,277	759,121
Add (Deduct):				
Contributions	-	3,493	50	3,543
Investment Income	-	694	-	694
Excess of Revenues Over Expenses	59,304	-	-	59,304
Unrealized Gains on Investments - Other than Trading Securities, Net	21,839	1,214	-	23,053
Distributions to Joint Venture Members, Net of Contributions	(152)	-	-	(152)
Net Assets Released from Restrictions Used for Operations	-	(2,612)	-	(2,612)
Net Assets Released from Restrictions Used for the Purchase of Property and Equipment	140	(140)	-	-
	<u>81,131</u>	<u>2,649</u>	<u>50</u>	<u>83,830</u>
Increase in Net Assets				
BALANCE AT SEPTEMBER 30, 2017	<u>\$ 801,678</u>	<u>\$ 23,946</u>	<u>\$ 17,327</u>	<u>\$ 842,951</u>

See accompanying Notes to Consolidated Financial Statements.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 83,830	\$ 61,678
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	29,615	30,581
Provision for Bad Debts	96,196	61,478
Amortization of Bond Issue Costs	148	129
Amortization of Bond Discount	35	34
Amortization of Bond Premium, Net	(8)	(12)
Loss on Sale of Assets	14	6
Bargain Purchase Gain	(8,549)	-
Loss on Refunding of Long-Term Debt	332	-
Realized and Unrealized Gain on Investments, Net	(54,842)	(39,491)
Unrealized Gain on Derivative Financial Instruments	(4,284)	(760)
Permanently Restricted Contributions	(50)	-
Changes in Operating Assets and Liabilities:		
Patient Accounts Receivable	(114,607)	(68,230)
Other Assets	(10,771)	(11,868)
Accounts Payable	2,272	1,099
Accrued Expenses and Other Liabilities	3,520	(3,069)
Estimated Settlements Due to Third-Party Payers	(4,191)	(1,906)
Net Cash Provided by Operating Activities	18,660	29,669
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(69,931)	(45,881)
Proceeds from Sale of Property and Equipment	79	385
Net Change in Assets Limited as to Use	71,734	10,313
Net Cash Provided by (Used in) Investing Activities	1,882	(35,183)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issuance of Bonds	96,310	-
Cash Paid for Issuance Costs	(383)	-
Principal Payments on Long-Term Debt	(5,470)	(5,235)
Refunding of 2009D Bonds	(40,830)	-
Refunding of 2010 Bonds	(29,535)	-
Refunding of 2012B Bonds	(28,435)	-
Permanently Restricted Contributions	50	-
Net Cash Used in Financing Activities	(8,293)	(5,235)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,249	(10,749)
Cash and Cash Equivalents - Beginning of Year	23,196	33,945
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 35,445	\$ 23,196
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 5,054	\$ 4,822
Property and Equipment Additions in Accounts Payable	\$ 3,227	\$ 1,538

See accompanying Notes to Consolidated Financial Statements.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

NOTE 1 CORPORATE ORGANIZATION

FirstHealth of the Carolinas, Inc. is a nonstock, non-profit 501(c)(3) tax-exempt North Carolina corporation formed to provide health care services to patients who reside generally in a 15-county service area in North Carolina and South Carolina. To fulfill its corporate purpose, FirstHealth acts as a parent holding company to the following controlled affiliates, collectively ("FirstHealth"):

- Moore Regional Hospital ("MRH") is composed of four locations: the main location in Pinehurst, North Carolina and three remote locations in Rockingham, North Carolina ("RMH"), Raeford, North Carolina ("HKE"), and Hamlet, North Carolina ("Hamlet"). Hamlet was acquired during the year ended September 30, 2017 (see Note 21). MRH, a division of FirstHealth, provides regional acute care hospital services. MRH also operates several other health related businesses in addition to traditional hospital services. They include health and fitness centers, dental centers, hospice services, home health, Emergency Medical Services ("EMS") and other allied health services.
- Montgomery Memorial Hospital ("MMH"), a division of FirstHealth, provides acute care hospital services primarily to residents of Montgomery County and surrounding areas.
- The Foundation of FirstHealth ("FFH"), a tax-exempt corporation that conducts and manages all philanthropic initiatives supporting the mission of FirstHealth.
- FirstHealth Physician Group, LLC ("FHPG"), a wholly-owned limited liability company, provides primary care and professional services to people in the FirstHealth service area.
- FirstHealth Professional Services, Inc. ("FHPS"), a taxable wholly-owned subsidiary for future business activities.
- FirstCarolinaCare Insurance Company, Inc. ("FCCIC"), a taxable business corporation, licensed by North Carolina as a health and accident insurer with an HMO line of business, offers fully insured health benefits and third-party administrative services for employer groups. Effective January 1, 2013, FCCIC began providing a Medicare Advantage managed care product. Under North Carolina law, FCCIC is required to maintain \$1,750 minimum statutory net worth or the amount required pursuant to risk-based capital provisions set forth in NCGS 58-12, whichever is greater. In addition, as a condition for licensure by the state of North Carolina to operate a managed care organization, FCCIC is required to maintain a minimum deposit of \$1,100 with the North Carolina Department of Insurance ("NCDI"). Management believes FCCIC was in compliance with these requirements at September 30, 2017 and 2016. The payment of dividends by FCCIC to FirstHealth is limited to, and cannot be made except from earned profits of FCCIC and, in certain circumstances, must have the prior approval of the NCDI.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

NOTE 1 CORPORATE ORGANIZATION (CONTINUED)

- StarFirst, LLC (“SF”), a taxable, non-profit wholly-owned subsidiary domiciled in South Carolina began operations in September 2003 to be a captive insurance company. SF provides malpractice and general liability coverage to FirstHealth and all wholly-owned or controlled affiliates.
- Effective July 11, 2003, FirstHealth entered into a joint venture agreement with Pinehurst Surgical Clinic, Surgical Associates and a management company and formed the limited liability company, Surgery Center of Pinehurst, LLC (“SCOP”). SCOP’s primary purpose is to provide outpatient surgery services as an ambulatory surgery center in Moore County, North Carolina. FirstHealth contributed \$400 to the joint venture for a 40% ownership interest. This joint venture is accounted for using the equity method of accounting.
- In connection with the SCOP joint venture, FirstHealth created Surgery Center of Pinehurst Properties, LLC (“SCOPP”), a development company which housed the infrastructure and furnishings of the SCOP building. In 2006, FirstHealth sold 7.45% to twenty local physicians leaving FirstHealth with a 92.55% ownership interest in SCOPP. SCOPP is controlled by FirstHealth through a Board of Managers. As such it is consolidated into FirstHealth’s consolidated financial statements. The non-controlling interest in the equity and earnings of SCOPP is eliminated in consolidation. In 2009, one of the minority physician owners sold his shares equally to six of the existing physician owners leaving 19 physician owners with a total ownership interest of 7.45% as of September 30, 2017 and 2016.
- Effective March 31, 2005, FirstHealth entered into a joint venture agreement with Sandhills Diagnostic Imaging, LLC and formed the limited liability company, First Imaging of the Carolinas, LLC (“FI”). FI’s primary purpose is to operate a PET/CT scanner in Moore County, North Carolina. FirstHealth contributed \$1,200 to the joint venture for a 50% ownership interest. Given the operations of the joint venture, the minority interest component was not significant and as such is included in other assets and other revenue.
- Effective August 1, 2011, FirstHealth entered into a joint venture with Scotland Memorial Hospital, Inc. and formed the Cardiovascular Center of Scotland County, LLC (“CCSC”). CCSC’s primary purpose is to provide community based cardiac catheterization services to residents of Scotland County, North Carolina. FirstHealth contributed approximately \$800 to the joint venture for a 50% ownership interest. CCSC is controlled by FirstHealth through a Board of Managers. As such it is consolidated into FirstHealth’s consolidated financial statements. The non-controlling interest in the equity and earnings of CCSC is eliminated in consolidation.
- Effective July 31, 2016, FirstHealth entered into a joint venture agreement with Triad Imaging, LLC and formed the limited liability company, Southern Pines Diagnostics Imaging, LLC (“SPDI”). SPDI’s primary purpose is to provide outpatient imagery services as a diagnostic testing center in Moore County, North Carolina. FirstHealth contributed \$675 to the joint venture for a 50% ownership interest. This joint venture is accounted for using the equity method of accounting.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of FirstHealth and all wholly-owned and controlled affiliates. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates associated with these programs will change by a material amount in the near term.

Cash and Cash Equivalents

FirstHealth considers short-term investments with original maturities of three months or less to be cash equivalents. Cash equivalents exclude amounts limited as to use.

Inventories

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost or market.

Investments and Investment Income

Investments in equity and debt securities with readily determinable fair values 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 excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses.

FirstHealth regularly evaluates its individual investments for unrealized losses that are deemed to be "other-than-temporary." Any such losses are characterized in the period of determination as nonoperating losses and included in the period's excess of revenues over expenses.

Investments in the common stock of limited investment companies, included in alternative investments (see Note 3) are accounted for under the equity method. FirstHealth does not consider its equity in the earnings of these investments to be material at September 30, 2017 or 2016.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(CONTINUED)

Investments and Investment Income (Continued)

FirstHealth invests in a variety of investment funds. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect FirstHealth's account balances and the amounts reported in the consolidated balance sheets.

Assets Limited as to Use

Assets limited as to use include assets consisting of cash and cash equivalents, debt and equity securities, and alternative investments over which the Board retains control. The Board may, at its discretion, use these assets for future renovation, replacement, and expansion of the facilities, or other purposes. Also included are assets limited as to use by bond indenture agreements, self-insurance funding requirements, North Carolina and South Carolina Departments of Insurance statutory requirements and assets held by FFH.

Fair Value Measurement

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. FirstHealth emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy.

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that FirstHealth has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(CONTINUED)

Fair Value Measurement (Continued)

Subsequent to initial recognition, FirstHealth may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

FirstHealth also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. FirstHealth has not elected to measure any existing financial instruments at fair value as permitted under this policy; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Derivative Financial Instruments and Hedging Activities

FirstHealth records all derivative instruments, currently consisting of interest rate swap agreements, on the consolidated balance sheets at their respective fair values and all changes in fair value in the consolidated statements of operations as unrealized gain (loss) on derivative financial instruments.

Property and Equipment

Individual assets costing more than \$1 or groups of assets costing more than \$5 in the aggregate, with a useful life of three years or more are capitalized. Property and equipment is recorded at cost and includes capitalized interest on funds used to finance the construction of major capital projects. Depreciation is computed on a straight-line basis over the estimated useful lives of the depreciable assets which range from 3 to 40 years. Gains or losses from the disposal of property and equipment are classified as nonoperating income (expense).

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value. Liabilities of a disposed group classified as held for sale would be presented separately in the appropriate liability sections of the consolidated balance sheets.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(CONTINUED)

Property and Equipment (Continued)

Contributions restricted to the purchase of property and equipment, when restrictions are met within the same year as received, are reported as increases in unrestricted net assets in the consolidated financial statements.

Deferred Financing Costs

FirstHealth has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost*. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The effect of adopting the new standard decreased the debt liability by \$1,360 as of September 30, 2016. The adoption of the standard had no effect on previously reported net assets. This ASU was effective for FirstHealth's fiscal year ended September 30, 2017 and was retroactively applied.

Net Assets

Net assets and related revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of FirstHealth and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained in perpetuity by FirstHealth. Donors of these assets stipulate that all, or part of, the income earned on related investments be used for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Uniform Prudent Management of Institutional Funds Act

Endowment funds are reported under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") standard, which is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. Under UPMIFA, all unappropriated endowment funds are considered restricted.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(CONTINUED)

Donor-Restricted Gifts

Gifts are reported as either temporarily or permanently restricted support according to donor stipulations. When a donor restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions.

Excess of Revenues Over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, include changes in unrealized gains and losses on investments (except unrealized losses deemed to be other-than-temporary), net assets released from restrictions used for the purchase of property and equipment, distributions to joint venture members and contributions of long-lived assets.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payers and others for services rendered, including estimated retroactive adjustments arising from future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audits, reviews and investigations.

Charity Care

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

Estimated Malpractice Costs

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

Medical Claims Expense

Medical claims expense for subscribers of FCCIC is recognized as services are provided, including estimated amounts for claims incurred but not yet reported. These expenses are reported net of subscriber copay and deductible amounts and net of reimbursement from coordination of benefits. Medical claims expense is included in other expenses in the consolidated statements of operations.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(CONTINUED)

Income Taxes

FirstHealth and FFH are organizations exempt from Federal income tax under Internal Revenue Code Section 501(a) as organizations described in Section 501(c)(3). Related income is generally not subject to Federal or state taxes. FirstHealth is not aware of any activities that would jeopardize the tax-exempt status of these entities.

FHPS is a for-profit taxable corporation. At September 30, 2017, FHPS has cumulative net operating loss carryforwards totaling approximately \$3,597, which will expire if unused in years from 2029 through 2036 for income tax purposes. No tax benefit has been reported in the consolidated financial statements due to the uncertainty regarding future taxable income.

FCCIC is a non-profit taxable corporation. At September 30, 2017, FCCIC has cumulative net operating loss carryforwards totaling approximately \$44,442, which will expire if unused in years from 2032 through 2036. A tax benefit of \$4,534 and \$4,905 was recognized during the years ended September 30, 2017 and 2016, respectively. The tax benefit is included in other expenses on the consolidated statements of operations. Net deferred tax assets of \$16,975 and \$12,288 are included in other assets on the consolidated balance sheets as of September 30, 2017 and 2016, respectively.

SF is a single member limited liability corporation solely owned by FirstHealth. As such, this organization is disregarded for tax purposes.

FirstHealth adopted the income tax standard regarding the recognition and measurement of uncertain tax positions, which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. This standard has had no significant impact on the consolidated financial statements.

The income tax returns of FirstHealth and its affiliates are subject to review and examination by Federal, state, and local authorities.

Subsequent Events

In preparing these consolidated financial statements, FirstHealth has evaluated events and transactions for potential recognition or disclosure through January 26, 2018, the date the consolidated financial statements were issued.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
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NOTE 3 ASSETS LIMITED AS TO USE

The composition of assets limited as to use as of September 30, 2017 and 2016 is presented below. Investments are stated at estimated fair value.

	<u>2017</u>	<u>2016</u>
Internally Designated by Board:		
Cash and Cash Equivalents	\$ 6,643	\$ 63,050
Fixed Income Investments	155,376	157,165
U.S. Government Obligations	2,052	1,999
Equity Investments	240,828	207,930
Mutual Funds	5,270	4,313
Alternative Investments	<u>56,506</u>	<u>51,132</u>
Total Internally Designated by Board	466,675	485,589
Held by Trustee Under Bond Indenture Agreements:		
Cash and Cash Equivalents - for Debt Service	5,744	5,537
Cash and Cash Equivalents - for Purchase of Property and Equipment	<u>-</u>	<u>2,867</u>
Total Held by Trustee Under Bond Indenture Agreements	5,744	8,404
Self-Insurance Reserves:		
Cash and Cash Equivalents	498	1,906
Fixed Income Investments	<u>25,412</u>	<u>25,319</u>
Total Self-Insurance Reserves	25,910	27,225
Statutory and Capital Insurance Reserves:		
Cash and Cash Equivalents	873	1,938
Fixed Income Investments	10,259	10,106
U.S. Government Obligations	1,850	1,851
Equity Investments	2,237	1,985
Mutual Funds	<u>1,209</u>	<u>1,029</u>
Total Statutory and Capital Insurance Reserves	16,428	16,909
Held by Foundations:		
Cash and Cash Equivalents	-	22
Fixed Income Investments	17,682	14,652
Equity Investments	35,527	29,165
Alternative Investments	<u>2,969</u>	<u>5,861</u>
Total Held by Foundations	56,178	49,700
Total Assets Limited as to Use	<u>\$ 570,935</u>	<u>\$ 587,827</u>

Alternative investments are investments in the common stock of limited investment companies that offer a pattern of returns different from that of the overall market and occasionally have lesser levels of liquidity. Examples of alternative investments include non-publicly traded companies, real estate and hedge funds.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
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NOTE 3 ASSETS LIMITED AS TO USE (CONTINUED)

Unrestricted investment income, net realized gains on assets limited as to use, investment fees, and unrealized losses on alternative investments accounted for under the equity method consist of the following for the years ended September 30, 2017 and 2016:

	2017	2016
Interest Income	\$ 15,061	\$ 26,733
Net Realized Gains on Sales of Securities	17,436	1,733
Investment Fees	(1,517)	(1,431)
Unrealized Gains (Losses) on Alternative Investments	506	(396)
Total Investment Income	\$ 31,486	\$ 26,639

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other than temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost. Total unrealized losses at September 30, 2017 and 2016 amounted to approximately \$6,151 and \$9,379, respectively. All unrealized losses at September 30, 2017 and 2016, respectively, are expected to be recovered in future periods, as FirstHealth has the intent and ability to hold these investments until further market recovery occurs.

The following table shows the gross unrealized losses and fair value of the investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2017:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Investments	\$ 1,760	\$ (200)	\$ 785	\$ (225)
Fixed Income Investments	58,881	(477)	82,459	(5,005)
Alternative Investments	-	-	13,201	(244)
	\$ 60,641	\$ (677)	\$ 96,445	\$ (5,474)

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NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2017 and 2016 is summarized as follows:

	2017	2016
Land and Land Improvements	\$ 27,720	\$ 25,503
Buildings and Improvements	460,902	434,818
Equipment	400,183	332,784
Subtotal	888,805	793,105
Less: Accumulated Depreciation	(527,397)	(498,466)
Subtotal	361,408	294,639
Construction-in-Process	21,854	38,133
 Property and Equipment, Net	 \$ 383,262	 \$ 332,772

Depreciation expense related to property and equipment totaled \$29,586 and \$30,552 for the years ended September 30, 2017 and 2016, respectively.

Capitalized interest was not considered material for the years ended September 30, 2017 or 2016.

Construction-in-process at September 30, 2017 consisted primarily of amounts related to EPIC infrastructure. Construction-in-process at September 30, 2016 consisted primarily of amounts related to EPIC infrastructure.

NOTE 5 FIDUCIARY ASSETS

FFH is trustee and remainder beneficiary of various fiduciary assets, composed of several charitable remainder annuity trusts and gift annuities. The trusts require FFH to make specified distributions to the designated beneficiaries over their remaining lives. Upon termination of the trusts, FFH will receive any remaining assets. Present value of liabilities under the trust agreements are calculated using a discount rate of 7.0%. Assets are invested separately from other FFH assets and reported at estimated fair market value. Fiduciary assets held and the related annuity obligations, which are included in other liabilities in the accompanying consolidated balance sheets, were as follows at September 30, 2017 and 2016:

	2017	2016
Charitable Remainder Unitrusts	\$ 9,501	\$ 9,357
Split-Interest Annuity Agreements	5,437	5,260
Fiduciary Assets	14,938	14,617
Annuity and Trust Obligations	(4,017)	(4,176)
Fiduciary Assets, Net of Annuity and Trust Obligations	\$ 10,921	\$ 10,441

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
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NOTE 5 FIDUCIARY ASSETS (CONTINUED)

The composition of charitable remainder unitrusts for which FFH serves as trustee was as follows at September 30, 2017 and 2016:

	2017	2016
Cash and Cash Equivalents	\$ 107	\$ 145
Mutual Funds	251	235
Fixed Income Investments	3,277	3,386
Equity Investments	894	837
Other	229	265
Total	\$ 4,758	\$ 4,868

Charitable remainder trusts for which FFH is not serving as a trustee were approximately \$4,743 and \$4,489 at September 30, 2017 and 2016, respectively.

The composition of split-interest annuity agreements was as follows at September 30, 2017 and 2016:

	2017	2016
Cash and Cash Equivalents	\$ -	\$ 2
Fixed Income Investments	2,368	1,816
Equity Investments	2,766	2,023
Insurance Contracts	-	1,419
Property	303	-
Total	\$ 5,437	\$ 5,260

NOTE 6 ACCRUED EXPENSES AND OTHER LIABILITIES

Included in accrued expenses and other liabilities are reserves for paid and unpaid claims relating to SF, a captive insurance company. The following table summarizes the activity in the reserve accounts for the years ended September 30, 2017 and 2016:

	2017	2016
Net Balance, Beginning of Year	\$ 7,882	\$ 7,482
Incurred in Current Year	2,796	5,654
Change in Prior Year Reserve Estimates	(3,894)	(5,254)
Net Balance, End of Year	\$ 6,784	\$ 7,882

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NOTE 6 ACCRUED EXPENSES AND OTHER LIABILITIES (CONTINUED)

SF uses actuarial techniques principally based upon historical payment patterns to estimate unpaid claims. These estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Management believes that these reserves are adequate at September 30, 2017 and 2016.

NOTE 7 LONG-TERM DEBT

Long-term debt at September 30, 2017 and 2016 consisted of the following:

	2017	2016
Revenue Refunding Bonds - Series 2008A, maturing on October 1, 2028; interest payable monthly at variable rates, 0.83% at September 30, 2017	\$ 37,230	\$ 38,415
Healthcare Revenue Refunding Bonds - Series 2009C, maturing on October 1, 2029; interest payable at a fixed rate between 2.00% and 5.05%	9,850	14,085
Healthcare Revenue Refunding Bonds - Series 2009D, maturing on October 1, 2039; interest payable monthly at 68% of one-month LIBOR plus 0.60%	-	40,830
Healthcare Revenue Refunding Bonds - Series 2010, maturing on October 1, 2028; interest payable monthly at 68% of one-month LIBOR plus 0.65%	-	29,535
Healthcare Revenue Refunding Bonds - Series 2012A, maturing on October 1, 2039; interest payable semi-annually at April 1 and October 1 at a fixed rate between 2.00% and 4.00%	45,130	45,180
Healthcare Revenue Refunding Bonds - Series 2012B, maturing on October 1, 2032; interest payable monthly at 70% of one-month LIBOR plus 0.77%	-	28,435
Healthcare Revenue Refunding Bonds - Series 2014A, maturing on October 1, 2029; interest payable monthly at 2.61%	18,160	18,160
Healthcare Revenue Refunding Bonds - Series 2017A, maturing on October 1, 2039; interest payable monthly at 68% of one-month LIBOR plus 0.60%	38,090	-
Healthcare Revenue Refunding Bonds - Series 2017B, maturing on October 1, 2028; interest payable monthly at 68% of one-month LIBOR plus 0.64%	29,630	-
Healthcare Revenue Refunding Bonds - Series 2017D, maturing on October 1, 2032; interest payable monthly at 67% of one-month LIBOR plus 0.40%	28,590	-
Total Long-Term Debt	206,680	214,640
Less:		
Unamortized Discount on Series 2009C	(29)	(21)
Unamortized Discount on Series 2012A	(735)	(770)
Deferred Financing Costs	(1,263)	(1,360)
Current Portion of Long-Term Debt	(11,546)	(10,116)
Long-Term Debt, Less Current Portion, Net of Deferred Financing Costs	\$ 193,107	\$ 202,373

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NOTE 7 LONG-TERM DEBT (CONTINUED)

Series 2008A Bonds

In December 2008, FirstHealth issued \$75,015 of Series 2008A variable rate tax-exempt revenue refunding bonds ("Series 2008A Bonds"). The proceeds were used to refund the then outstanding maturities of the Series 1998 and 2003 Bonds.

Principal and interest payments on the Series 2008A Bonds are supported by a Stand-By Bond Purchase Agreement ("SBPA") provided by a bank. As of September 30, 2017 and 2016 the SBPA supported 100% of the outstanding maturities plus accrued interest. The Series 2008A Bonds are subject to mandatory redemption beginning in fiscal year 2010 through 2024.

Series 2009C Bonds

In December 2009, FirstHealth issued \$54,500 of Series 2009C fixed rate tax-exempt revenue refunding bonds ("Series 2009C Bonds"). The proceeds were used to refund the entire outstanding balance of the then outstanding Series 2008B Bonds, \$20,185 of the then outstanding balance of the Series 2002 Bonds, and \$4,865 of the then outstanding balance of the Series 2009B Bonds. The Series 2009C Bonds are subject to mandatory redemption beginning in 2011 through 2029.

In July 2014, a portion of the outstanding balance of the Series 2009C Bonds was refunded with a portion of the proceeds of the Series 2014A Bonds (see below).

Series 2009D Bonds

In December 2009, FirstHealth issued \$40,830 of Series 2009D variable rate tax-exempt revenue refunding bonds ("Series 2009D Bonds"). The proceeds were used to refund \$40,640 of the then outstanding balance of the Series 2009B Bonds. Through March 2012, the Series 2009D Bonds bore interest at 68% of the one-month LIBOR plus 0.89% and are subject to mandatory redemption beginning in 2026 through 2039. In March 2012, the Series 2009D Bonds were amended, reducing the variable interest rate to 68% of the one-month LIBOR plus 0.60% and extending the put date to March 2017. The Series 2009D Bonds were refunded during the year ended September 30, 2017 (see below).

Series 2010 Bonds

In January 2010, FirstHealth issued \$29,535 of Series 2010 variable rate bank-qualified bonds ("Series 2010 Bonds"). The proceeds were used to refund \$29,400 of the outstanding maturities of the Series 2008A Bonds. Through February 2012, the Series 2010 Bonds bore interest at 68% of the one-month LIBOR plus 0.89% and are subject to mandatory redemption beginning in 2025 through 2028. In February 2012, the Series 2010 Bonds were amended, reducing the variable interest rate to 68% of the one-month LIBOR plus 0.65% and extending the put date to July 2017. The Series 2010 Bonds were refunded during the year ended September 30, 2017 (see below).

Series 2012A Bonds

In April 2012, FirstHealth issued \$45,610 of Series 2012A fixed rate tax-exempt revenue refunding bonds ("Series 2012A Bonds"). The proceeds were used to refund the entire balance of the then outstanding Series 2009A Bonds. The Series 2012A Bonds are subject to mandatory redemption beginning in 2013 through 2039.

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NOTE 7 LONG-TERM DEBT (CONTINUED)

Series 2012B Bonds

In October 2012, FirstHealth issued \$28,435 of Series 2012B variable rate bank-qualified bonds ("Series 2012B Bonds"). The proceeds were used to refund \$28,235 of the then outstanding maturities of the Series 2002 Bonds. The Series 2012B Bonds are subject to mandatory redemption beginning in 2030 through 2032, with a put date of July 2018. The Series 2012B Bonds bear interest at 70% of one-month LIBOR plus 0.77% to a put date of October 2018. The Series 2012B Bonds were refunded during the year ended September 30, 2017 (see below).

Series 2014A Bonds

In July 2014, FirstHealth issued \$18,160 of Series 2014A variable rate tax-exempt revenue refunding bonds ("Series 2014A Bonds"). The proceeds were used to refund \$17,530 of the outstanding maturities of the Series 2009C Bonds. The Series 2014A Bonds are subject to mandatory redemption in 2024 and 2029. The Series 2014A Bonds bear interest at a fixed rate of 2.61% to a put date of July 2024.

Series 2017A Bonds

In August 2017, FirstHealth issued \$38,090 of Series 2017A variable rate tax-exempt revenue refunding bonds ("Series 2017A Bonds"). The proceeds were used to refund \$40,830 of the then outstanding balance of the Series 2009D Bonds. The Series 2017A Bonds bear interest at 68% of the one-month LIBOR plus 0.60% to a put date of August, 2027.

Series 2017B Bonds

In August 2017, FirstHealth issued \$29,630 of Series 2017B variable rate tax-exempt revenue refunding bonds ("Series 2017B Bonds"). The proceeds were used to refund \$29,535 of the then outstanding balance of the Series 2010 Bonds. The Series 2017B Bonds bear interest at 68% of the one-month LIBOR plus 0.64% to maturity of the bond.

Series 2017D Bonds

In September 2017, FirstHealth issued \$28,590 of Series 2017D variable rate tax-exempt revenue refunding bonds ("Series 2017D Bonds"). The proceeds were used to refund \$28,435 of the then outstanding balance of the Series 2012B Bonds. The Series 2017D Bonds bear interest at 67% of the one-month LIBOR plus 0.40% to a put date of September 2022.

Series 2017C Bonds

In October 2017 (subsequent to year end), FirstHealth issued \$45,225 of Series 2017C variable rate tax-exempt revenue refunding bonds ("Series 2017C Bonds"). The proceeds were used to refund \$45,130 of the then outstanding balance of the Series 2012A Bonds. The Series 2017C Bonds bear interest at 68% of the one-month LIBOR plus 0.68% to a put date of October 2029. FirstHealth incurred a loss of approximately \$1,335 on this refunding.

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NOTE 7 LONG-TERM DEBT (CONTINUED)

The obligations of FirstHealth are evidenced by loans with the North Carolina Medical Care Commission and a Master Trust Indenture with the trustee. In accordance with the bond indenture agreements, the bonds are general, unsecured obligations of FirstHealth. FirstHealth has covenants indicating they will cause each restricted affiliate, as defined in the agreement, to pay, loan, or otherwise transfer to FirstHealth such amounts as are necessary to make bond payments due under the loan agreement. The bond indenture also requires FirstHealth to cause the restricted affiliates to comply with certain covenants, the most restrictive of which requires the maintenance of a debt service coverage ratio. Management believes FirstHealth is in compliance with these covenants at September 30, 2017 and 2016.

FirstHealth has \$5,744 and \$5,537 at September 30, 2017 and 2016, respectively, in debt service reserve funds to meet scheduled principal, interest and other payments. These amounts are included in assets limited as to use in the accompanying consolidated balance sheets.

Scheduled principal payments on long-term debt for years subsequent to September 30, 2017, are as follows:

	Series <u>2008A Bonds</u>	Series <u>2009C Bonds</u>	Series <u>2012A Bonds</u>	Series <u>2014A Bonds</u>	Series <u>2017A Bonds</u>	Series <u>2017B Bonds</u>	Series <u>2017D Bonds</u>	Total <u>Principal</u>
2018	\$ 1,230	\$ 4,410	\$ 50	\$ -	\$ -	\$ -	\$ -	\$ 5,690
2019	1,280	4,595	95	-	-	-	-	5,970
2020	5,300	845	85	-	-	-	-	6,230
2021	5,520	-	65	920	-	-	-	6,505
2022	5,755	-	55	930	-	-	-	6,740
Thereafter	18,145	-	44,780	16,310	38,090	29,630	28,590	175,545
	<u>\$ 37,230</u>	<u>\$ 9,850</u>	<u>\$ 45,130</u>	<u>\$ 18,160</u>	<u>\$ 38,090</u>	<u>\$ 29,630</u>	<u>\$ 28,590</u>	<u>\$ 206,680</u>

Variable Rate Bonds

Interest rates on the variable rate bonds are indexed to a current short-term market rate. In addition, a demand feature allows the bondholders to give seven days notice to require the bonds be remarketed at par value plus accrued interest. In the unlikely event remarketing fails, FirstHealth can draw upon its SBPAs with financial institutions to repay the bondholders.

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NOTE 7 LONG-TERM DEBT (CONTINUED)

Variable Rate Bonds (Continued)

The SBPA on the Series 2008A Bonds expires on December 9, 2021. The Series 2008A Bonds are indexed to a current short-term market rate. In addition, a demand feature allows bondholders to give seven days notice to require the bonds be remarketed at par value plus accrued interest. In the unlikely event that remarketing fails, FirstHealth can draw upon its SBPA with a financial institution to repay the bondholders. If FirstHealth draws on the SBPA, it will be obligated under the SBPA to repay each tender advance, including interest at the Bank Bond Rate, as defined (approximately 4.5% at September 30, 2017) in equal monthly principal installments, the first such installment being payable on the first day of the first calendar month which occurs at least 90 days following the purchase date and on each such date thereafter so that bonds are paid in full no later than the expiration date.

In accordance with U.S. generally accepted accounting principles, maturities of long-term debt are reported in the consolidated balance sheets at September 30, 2017 and 2016, under the terms of the SBPA, as follows:

	Series 2008A Bonds	Series 2009C Bonds	Series 2012A Bonds	Series 2014A Bonds	Series 2017A Bonds	Series 2017B Bonds	Series 2017D Bonds	Total Principal
2018	\$ 7,086	\$ 4,410	\$ 50	\$ -	\$ -	\$ -	\$ -	\$ 11,546
2019	9,447	4,595	95	-	-	-	-	14,137
2020	9,447	845	85	-	-	-	-	10,377
2021	9,447	-	65	920	-	-	-	10,432
2022	1,803	-	55	930	-	-	-	2,788
Thereafter	-	-	44,780	16,310	38,090	29,630	28,590	157,400
	<u>\$ 37,230</u>	<u>\$ 9,850</u>	<u>\$ 45,130</u>	<u>\$ 18,160</u>	<u>\$ 38,090</u>	<u>\$ 29,630</u>	<u>\$ 28,590</u>	<u>\$ 206,680</u>

NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS

In March 2002, FirstHealth entered into a 20-year variable-to-variable interest rate swap agreement to manage the interest rate risk on variable rate indebtedness issued in March 2002. Under the terms of the swap agreement, FirstHealth receives a variable rate equal to 74.25% of one-month LIBOR and pays a variable rate equal to the BMA Municipal Swap Index rate, a proxy for high-grade tax-exempt rates, on a notional amount of \$90,000. The basis swap will provide a benefit as long as the BMA/LIBOR relationship remains less than 74.25%. Settlement with the counter-party occurs on a quarterly basis. The termination date on the swap is April 1, 2034. The net settlement received on the swap agreement during the years ended September 30, 2017 and 2016 was \$290 and \$402, respectively, and is included in interest expense.

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NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

In April 2003, FirstHealth entered into a 15-year variable to fixed interest rate swap agreement to manage the interest rate risk on variable rate indebtedness issued in April 2003. Under the terms of the swap agreement, FirstHealth receives a variable rate equal to the rate paid on the Series 2003 Bonds, or 72% of one-month LIBOR and pays a fixed rate of 3.25% per annum on a notional amount of \$36,550. The swap agreement provides that the notional amount will be reduced in the same amount and at the same time the principal of the Series 2003 Bonds were originally scheduled to be paid upon redemption or at maturity.

The net settlement amount paid on the swap agreement during the years ended September 30, 2017 and 2016 was \$(182) and \$(313), respectively, and is included in interest expense. The termination date of the swap agreement is October 1, 2018.

In March 2005, FirstHealth entered into a 23-year fixed spread basis swap ("FSBS") agreement as an alternative to refunding the then outstanding Series 1998 Bonds and to reduce the expected interest expense of that series. Under the terms of the swap agreement, FirstHealth receives a variable rate equal to 62.4% of one-month LIBOR plus 0.78% and pays a variable rate based on the BMA Municipal Swap Index on a notional amount of \$74,195. The swap agreement provides the notional amount will be reduced in the same amount and at the same time as the principal of the Series 1998 Bonds were originally scheduled to be paid upon redemption or at maturity. In March 2014, FirstHealth eliminated the amortization of the notional amount and extended the termination date on the swap from October 1, 2028 to April 1, 2034. The net settlement amounts received on the swap agreement during the years ended September 30, 2017 and 2016 was \$577 and \$708, respectively, and is included in interest expense.

In July 2007, FirstHealth entered into a 20-year variable to fixed interest rate swap ("2007 Fixed Payer Swap") agreement to lock in a current fixed interest rate on bonds to be issued in the future to refund the then outstanding Series 1998 Bonds and to reduce the expected interest expense associated with those refunding bonds. The transaction became effective December 31, 2008. Under the terms of the swap agreement, FirstHealth will receive 61.8% of the one-month LIBOR plus 0.31% and will pay a fixed rate of 3.916% per annum on a notional amount of \$74,890. The swap agreement provides that the notional amount will be reduced in the same amount and at the same time the principal on the Series 1998 Bonds were originally scheduled to be paid upon redemption or at maturity. Settlement with the counterparty will occur semi-annually after the effective date. The termination date of the swap agreement is October 1, 2028.

In January 2010, the 2007 Fixed Payer Swap was amended and restated into two transactions: (1) an interest rate swap in the notional amount of \$44,600, with a termination date of October 1, 2024, on which FirstHealth will receive 61.8% of the one-month LIBOR plus 0.31% and will pay a fixed rate of 3.916% per annum, and (2) an interest rate swap in the notional amount of \$29,400, with a termination date of October 1, 2028, on which FirstHealth will receive 61.8% of the one-month LIBOR plus 1.20% and will pay a fixed rate of 4.82% per annum. During 2011, FirstHealth amended the termination dates of the swap agreements to October 2, 2024 and October 1, 2028, respectively.

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NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

During November 2010, \$23,500 of the \$44,600 notional amount of the 2007 Fixed Payer Swap was terminated for a final settlement amount paid of \$(3,545). The net settlement amount paid on the remaining \$20,170 notional swap during the years ended September 30, 2017 and 2016 was \$(520) and \$(594), respectively, and is included in interest expense in the accompanying consolidated statements of operations.

Also during November 2010, \$29,400 of the notional portion of the 2007 Fixed Payer Swap was amended so that FirstHealth will receive 61.8% of one-month LIBOR plus 1.20% and will pay a fixed rate of 3.849% per annum. The settlement amount paid for the amendment transaction was \$(3,583). The net settlement amount paid on the amended swap during the years ended September 30, 2017 and 2016 was \$(603) and \$(697), respectively, and is included in interest expense in the accompanying consolidated statements of operations.

In June, 2016, FirstHealth entered into a 23-year variable to fixed interest rate swap (“2016 Fixed Payer Swap”) agreement to lock in a current fixed interest rate on bonds to be issued in the future to refund the currently outstanding Series 2012A Bonds and to reduce the expected interest expense associated with those refunding bonds. The transaction will become effective October 1, 2017. Under the terms of the swap agreement, FirstHealth will receive 67.0% of the one-month LIBOR and will pay a fixed rate of 1.3058% per annum on a notional amount of \$45,080. The swap agreement provides that the notional amount will be reduced in the same amount and at the same time the principal on the Series 2012A Bonds were originally scheduled to be paid upon redemption or at maturity. Settlement with the counterparty will occur monthly after the effective date. The termination date of the swap agreement is October 1, 2039.

The total estimated fair value of the swaps as of September 30, 2017 and 2016 was an asset of \$3,386 and a liability of \$898, respectively. These amounts have been included in other long-term liabilities in the consolidated balance sheets. The change in fair value was a gain of \$4,284 and \$760 for the years ended September 30, 2017 and 2016, respectively, and is included in unrealized gains on derivative financial instruments in the consolidated statements of operations. FirstHealth has not designated these derivatives as hedging instruments for financial reporting purposes.

NOTE 9 OPERATING LEASES

FirstHealth leases certain facilities and equipment under operating lease agreements. Management believes future minimum rental payments at September 30, 2017 under these agreements with initial or remaining noncancelable lease terms in excess of one year are not significant. Rent expense for all operating leases amounted to approximately \$2,926 and \$2,077 for the years ended September 30, 2017 and 2016, respectively.

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NOTE 10 NET PATIENT SERVICE REVENUE

FirstHealth has agreements with third-party payers that provide for payments to FirstHealth at amounts different from established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates and amounts reimbursed by third-party payers. A summary of the payment arrangements with major third-party payers follows:

Medicare – Inpatient and outpatient services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates. These rates vary according to patient classification systems based on clinical, diagnostic, and other factors. Additionally, payments for certain other reimbursable items are made at tentative rates, with final settlements determined after submission of annual cost reports and audits by the Medicare fiscal intermediary. As a result of provisions of the Affordable Care Act passed in 2010, hospitals treating Medicare patients are subject to certain new provisions that penalize (or in some cases, reward) them based on various quality and cost parameters. These provisions include Value-Based Purchasing, Readmissions Penalties, and Hospital-Acquired Conditions Penalties (beginning 2015). The purpose of these changes is to incentivize hospitals to deliver the right care, at the right time, in the right setting. In 2017 and 2016, FirstHealth recorded an increase in net patient revenue of \$3,286 and decrease in net patient revenue of \$1,266, respectively, as a result of changes in estimates and settlements of prior year cost reports. Medicare cost reports have been audited by the fiscal intermediary for cost report years through September 30, 2011 (and also 2005 through 2011) for MRH, 2006 for RMH, and 2014 for MMH. Revenue from the Medicare program totaled approximately 50% and 49% of FirstHealth's net patient service revenue for the years ended September 30, 2017 and 2016, respectively.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid based on cost reimbursement methodologies. FirstHealth is reimbursed at tentative rates with final settlement determined after it submits its annual Medicaid cost reports. In 2017 and 2016, FirstHealth recorded increases of \$1,195 and \$141 in net patient revenue, respectively, as a result of changes in estimates and settlements of prior year cost reports. Medicaid cost reports for MRH, RMH and HKE have been audited by the fiscal intermediary for cost report years through September 30, 2013. Medicaid cost reports for MMH have been audited by the fiscal intermediary for cost report years through September 30, 2014. Revenue from the Medicaid program totaled approximately 7% of FirstHealth's net patient service revenue for the years ended September 30, 2017 and 2016.

FirstHealth receives Medicaid Reimbursement Initiative funds from Medicaid under the North Carolina Medicaid Reimbursement Initiative Program (the "Program"). FirstHealth recognized \$1,299 and \$848 of Medicaid Reimbursement Initiative funds as net patient service revenue during the years ended September 30, 2017 and 2016, respectively. As of September 30, 2017 and 2016, FirstHealth reserved Medicaid Reimbursement Initiative payments of \$431 and \$553, respectively, which are included in estimated settlements due to third-party payers in the accompanying consolidated balance sheets. Management continues to evaluate the approval and settlement process relating to the Program and records reserves in accordance with such evaluation.

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NOTE 10 NET PATIENT SERVICE REVENUE (CONTINUED)

The Program allows FirstHealth to receive additional annual Medicaid funding for its disproportionate share costs. In March 2012, the Center for Medicare and Medicaid Services (“CMS”) approved a new disproportionate share plan for North Carolina. This new plan covers all non-state government hospitals and private hospitals in North Carolina, except for the UNC Health Care System affiliated hospitals (the “GAP Plan”) and is essentially a supplemental upper payment limit plan to the existing Program.

Under the provisions of the GAP Plan, FirstHealth is assessed an amount by the North Carolina Medicaid program, to support the non Federal share of the payments. In return, Medicaid makes an upper payment limit payment to FirstHealth. When both amounts are reasonably estimable and probable of payment, FirstHealth recognizes the revenues related to the GAP Plan as net patient service revenue and the related assessment as other operating expenses.

Management continues to evaluate the approval and settlement process relating to the GAP Plan and determines if reserves are necessary.

The following table summarizes the benefit recognized by FirstHealth related to these plans for the years ended September 30:

	2017	2016
GAP Plan Payment	\$ 29,660	\$ 24,125
Assessment Expense	(15,108)	(12,422)
Net Benefit	<u>14,552</u>	<u>11,703</u>
 Total Net Benefit	 14,552	 11,703
Reserve for Future Settlements	<u>(1,455)</u>	<u>(1,170)</u>
 Total Benefit Recognized	 <u>\$ 13,097</u>	 <u>\$ 10,533</u>

At September 30, 2017 and 2016, FirstHealth reserved GAP Plan payments received of \$3,822 and \$3,256, respectively, which are included in estimated settlements due to third-party payers in the accompanying consolidated balance sheets.

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

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NOTE 10 NET PATIENT SERVICE REVENUE (CONTINUED)

FirstHealth recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, FirstHealth recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of FirstHealth's uninsured patients will be unable or unwilling to pay for the services provided. Thus, FirstHealth records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in 2017 and 2016 from these major payer sources, is as follows:

	2017		
	Third-Party Payers	Self-Pay	Total All Payers
Patient Service Revenue (Net of Contractual Allowances and Discounts)	<u>\$ 608,998</u>	<u>\$ 66,752</u>	<u>\$ 675,750</u>
	2016		
	Third-Party Payers	Self-Pay	Total All Payers
Patient Service Revenue (Net of Contractual Allowances and Discounts)	<u>\$ 577,320</u>	<u>\$ 33,368</u>	<u>\$ 610,688</u>

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, FirstHealth analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

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NOTE 10 NET PATIENT SERVICE REVENUE (CONTINUED)

For receivables associated with services provided to patients who have third-party coverage, FirstHealth analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely. 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), FirstHealth records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

FirstHealth's allowance for doubtful accounts for self-pay patients increased from 58.1% of self-pay accounts receivable at September 30, 2016, to 66.9% of self-pay accounts receivable at September 30, 2017. The increase is primarily attributable to a decrease in financial aid. In addition, FirstHealth's self-pay write-offs increased approximately \$25,939 from approximately \$38,929 for fiscal year 2016 to approximately \$64,868 for fiscal year 2017. FirstHealth has not significantly changed its charity care or uninsured discount policies during fiscal years 2017 or 2016. FirstHealth does not maintain a material allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers.

NOTE 11 CHARITY CARE

FirstHealth defines and measures its investment in and partnership with the community primarily through its financial assistance and community benefit programs. These programs are unreimbursed or not financially self-sufficient.

FirstHealth provides care to patients who meet certain criteria under its credit collections policy without charge. Key elements used to determine eligibility include a patient's demonstrated inability to pay based on family size and household income related to Federal income poverty guidelines. FirstHealth's financial assistance guidelines are 200% (with a sliding scale to 360%) of the Federal Poverty Guidelines as published. Because FirstHealth does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as revenue.

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NOTE 11 CHARITY CARE (CONTINUED)

FirstHealth has estimated its direct and indirect costs of providing care to indigent patients under its credit and collections policy. In order to estimate the cost of providing such care, management calculated a cost-to-charge ratio from internal financial data to FirstHealth's gross charge rate. The cost-to-charge ratio is applied to the charity care charges foregone to calculate the estimated direct and indirect cost of providing charity care. The total estimated cost of the aforementioned programs and services that benefit the community was \$15,149 and \$20,198 for the years ended September 30, 2017 and 2016, respectively.

NOTE 12 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes at September 30, 2017 and 2016:

	2017	2016
Purchase of Equipment	\$ 1,710	\$ 1,324
Health Education	2,479	1,824
Health Care Services	13,841	13,493
Interest Earned on Permanent Endowments	5,916	4,656
Total	\$ 23,946	\$ 21,297

During the years ended September 30, 2017 and 2016, net assets were released from donor restrictions by purchasing equipment or incurring expenses satisfying the restricted purposes totaling approximately \$2,752 and \$1,412, respectively.

Permanently Restricted

Permanently restricted net assets at September 30, 2017 and 2016, include endowment funds and permanently restricted charitable remainder trusts held by FFH as follows:

	2017	2016
Endowment Funds	\$ 12,424	\$ 12,374
Charitable Remainder Trusts	4,903	4,903
Total	\$ 17,327	\$ 17,277

Endowment Funds

FFH has several endowment funds, the income of which may be expended for specific purposes. Effective October 1, 2008, FirstHealth adopted the provisions of the financial accounting standard for endowments of not-for-profit organizations (the "UPMIFA Standard") with respect to the accounting for the corpus and income recognition on endowment funds as follows:

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NOTE 12 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Permanently Restricted (Continued)

Endowment Funds (Continued)

Corpus

Endowment funds include: (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment. FirstHealth consults with legal counsel on the interpretation of UPMIFA with regard to preserving the fair value of original gifts as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

Income

Income earned on endowment funds that is not required by the donor to be added to the corpus of the endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by FirstHealth in a manner consistent with the standard of prudence prescribed in UPMIFA. FirstHealth considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of FirstHealth and the donor restricted endowment fund
- General economic conditions
- The expected total return from income and the appreciation of investments
- Other resources of FirstHealth
- The investment policy of FirstHealth

Investment Objectives and Strategies

FirstHealth has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that FirstHealth must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve and grow capital, strive for consistent absolute returns, preserve purchasing power by striving for long-term returns which either match or exceed the set payout, fees and inflation without putting the principal value at imprudent risk, and diversify investments consistent with commonly accepted industry standard to minimize the risk of large losses.

To satisfy its long-term rate of return objectives, FirstHealth relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Management targets a diversified asset allocation that meets FirstHealth's long-term rate-of-return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

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NOTE 12 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Permanently Restricted (Continued)

Endowment Funds (Continued)

Appropriation Policy

FirstHealth's appropriation or spending policy is consistent with its objective to preserve the fair value of the original gift of the endowment assets held in perpetuity as well, as to provide additional real growth through new gifts and investment return.

Deficiencies

From time to time, the fair value of assets in endowment funds may fall below the required level stipulated by the donor. In accordance with UPMIFA Standard, deficiencies of this nature are reported in unrestricted net assets. If future investment returns do not alleviate the deficiency, FirstHealth may be required to contribute additional amounts to the fund. There were no deficiencies at September 30, 2017 and 2016.

The following table summarizes endowment fund activity, including contributions, income earned, appropriations and deficiencies, for the years ended September 30, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets, Year Ended September 30, 2015	\$ -	\$ 3,313	\$ 12,374	\$ 15,687
Contributions	-	-	-	-
Investment Income	-	1,455	-	1,455
Appropriations for Expenditures	-	(110)	-	(110)
Net Assets, Year Ended September 30, 2016	-	4,658	12,374	17,032
Contributions	-	-	50	50
Investment Income	-	1,964	-	1,964
Appropriations for Expenditures	-	(706)	-	(706)
Net Assets, Year Ended September 30, 2017	<u>\$ -</u>	<u>\$ 5,916</u>	<u>\$ 12,424</u>	<u>\$ 18,340</u>

NOTE 13 RETIREMENT AND SAVINGS PLANS

FirstHealth has a Retirement Growth Plan for eligible employees. In order to be eligible for both the annual and the discretionary contributions in any given year, an employee must: (1) have completed one full year of service, (2) have received pay for at least 1,000 hours of service during the calendar year, and (3) be actively employed on the last non-holiday weekday of the year. If an employee retires, becomes disabled or passes away before the end of the year, the contribution will still be made to their account for that year.

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NOTE 13 RETIREMENT AND SAVINGS PLANS (CONTINUED)

The Retirement Growth Plan allows eligible employees to accumulate contributions in a special account to be used for retirement. FirstHealth contributes to the employee's account an amount based on the employee's pay and FirstHealth's performance. There are two parts to the annual FirstHealth contribution: (1) the annual plan contribution and (2) the discretionary contribution. The annual plan contribution is an amount equal to 1% of the employee's annual earnings. This will be added to the employee's Retirement Growth Plan account at the end of each year. In addition, the employee may receive a discretionary contribution from FirstHealth based on FirstHealth's performance for that year.

FirstHealth maintains a Matching Savings Plan organized under the provisions of Section 403(b) of the Internal Revenue Code of 1986, as amended. The Matching Savings Plan uses tax-deferred contributions as a means for employees to accumulate additional savings for retirement. Employees are eligible to contribute to the plan as soon as they receive their first pay check. As a participant in the plan, employees may save up to 20% of their annual income (or less if IRS maximum contributions apply) on a pretax basis. When an employee contributes to the plan, FirstHealth will also match up to 4% of annual compensation at the end of each year. The matching contribution will depend on the employee's contribution amount and eligible years of service.

FirstHealth has accrued \$234 and \$538 at September 30, 2017 and 2016, respectively, for a liability associated with a defined benefit supplemental executive retirement plan. This liability is included in other liabilities in the consolidated balance sheets.

FirstHealth's expense under these plans totaled \$9,297 and \$10,818 for the years ended September 30, 2017 and 2016, respectively.

NOTE 14 CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the entities to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, and investments in debt securities. FirstHealth places its cash and cash equivalents, the balances of which may exceed the federally insured limits, with high credit quality financial institutions.

FirstHealth provides patient services 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 payers. FirstHealth has significant accounts receivable (approximately 52% and 49% at September 30, 2017 and 2016, respectively) whose collectibility or realizability 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 government programs. With respect to the self-pay portion of accounts receivable, an allowance for uncollectible accounts is provided in an amount equal to the estimated expected losses to be incurred during the collection of the receivables. The allowance is based on historical collection experience and a review of the status of the existing receivables.

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NOTE 15 FAIR VALUES OF FINANCIAL INSTRUMENTS

FirstHealth's financial instruments consist primarily of cash and cash equivalents, patient receivables, other accounts receivable, marketable securities, accounts payable, accrued expenses, derivative financial instruments and short-term and long-term debt. The carrying value of these items, excluding investments, derivative financial instruments and long-term debt, approximates fair value due to their short maturity. Investments are recorded at fair value, determined using quoted market prices. At September 30, 2017 and 2016, the estimated fair value of long-term debt, determined by broker quotes, was \$222,641 and \$221,976, respectively, compared to a carrying value of \$204,653 and \$212,489, respectively. These fair value measurements are measured using Level 3 inputs under the fair value hierarchy.

NOTE 16 FAIR VALUE MEASUREMENTS

FirstHealth uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how FirstHealth measures fair value refer to Note 2 – Summary of Significant Accounting and Reporting Policies. The following table presents the fair value hierarchy for the balances of the assets and liabilities of FirstHealth measured at fair value on a recurring basis as of September 30, 2017:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Mutual Funds	\$ 6,479	\$ -	\$ -	\$ 6,479
Fixed Income	208,729	-	-	208,729
Equity Investments	278,592	-	-	278,592
U.S. Gov. Obligations	3,902	-	-	3,902
Alternative Investments	-	-	59,475	59,475
Total Investments	497,702	-	59,475	557,177
Fiduciary Assets:				
Mutual Funds	251	-	-	251
Fixed Income	5,645	-	-	5,645
Equity Investments	3,660	-	-	3,660
Alternative Investments	-	-	229	229
Insurance Contracts	-	-	-	-
Property	-	-	303	303
Other	-	-	4,743	4,743
Total Fiduciary Assets	9,556	-	5,275	14,831
Total Assets	<u>\$ 507,258</u>	<u>\$ -</u>	<u>\$ 64,750</u>	<u>\$ 572,008</u>
Liabilities:				
Annuity and Trust Obligations	\$ -	\$ 4,017	\$ -	\$ 4,017
Derivative Financial Instruments	-	(3,386)	-	(3,386)
Total Liabilities	<u>\$ -</u>	<u>\$ 631</u>	<u>\$ -</u>	<u>\$ 631</u>

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NOTE 16 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the fair value hierarchy for the balances of the assets and liabilities of FirstHealth measured at fair value on a recurring basis as of September 30, 2016:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Mutual Funds	\$ 5,342	\$ -	\$ -	\$ 5,342
Fixed Income	207,242	-	-	207,242
Equity Investments	239,080	-	-	239,080
U.S. Gov. Obligations	3,850	-	-	3,850
Alternative Investments	-	-	56,993	56,993
Total Investments	<u>455,514</u>	<u>-</u>	<u>56,993</u>	<u>512,507</u>
Fiduciary Assets:				
Mutual Funds	235	-	-	235
Fixed Income	5,202	-	-	5,202
Equity Investments	2,860	-	-	2,860
Alternative Investments	-	-	265	265
Insurance Contracts	-	-	1,419	1,419
Other	-	-	4,489	4,489
Total Fiduciary Assets	<u>8,297</u>	<u>-</u>	<u>6,173</u>	<u>14,470</u>
Total Assets	<u>\$ 463,811</u>	<u>\$ -</u>	<u>\$ 63,166</u>	<u>\$ 526,977</u>
Liabilities:				
Annuity and Trust Obligations	\$ -	\$ 4,176	\$ -	\$ 4,176
Derivative Financial Instruments	-	898	-	898
Total Liabilities	<u>\$ -</u>	<u>\$ 5,074</u>	<u>\$ -</u>	<u>\$ 5,074</u>

The following table presents changes in alternative investments measured at fair value using Level 3 inputs on a recurring basis for the years ended September 30, 2017 and 2016:

Balance at September 30, 2015	\$ 60,814
Total Gains (Losses) Included in:	
Deficiency of Revenues over Expenses	(396)
Changes in Net Assets	2,848
Purchases, Sales, Settlements, Net	19
Transfers in (out)	(119)
Balance at September 30, 2016	<u>63,166</u>
Total Gains (Losses) Included in:	
Deficiency of Revenues over Expenses	506
Changes in Net Assets	3,894
Purchases, Sales, Settlements, Net	(2,701)
Transfers in (out)	(115)
Balance at September 30, 2017	<u>\$ 64,750</u>

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NOTE 16 FAIR VALUE MEASUREMENTS (CONTINUED)

The alternative investments seek both current income and long-term capital appreciation through investing in underlying funds that acquire, manage, and dispose of commercial real estate properties as well as hedge funds and limited liability corporations. The value of these investments has been estimated based on the underlying account balances subject to the fund manager's review. The value of the alternative investments is calculated on a month lag.

The following tables set forth additional disclosures for the fair value measurement of certain investments measured at net asset value as of September 30, 2017:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Multi-Strategy Hedge Funds	\$ 16,939	\$ -	Qrtly/Semi-Annual	65-95 days
Real Estate Funds	23,163	-	Quarterly	65 days
Structured Credit Funds	17,311	-	Quarterly	65 days

Multi-strategy hedge funds use a wide range of global strategies, including long/short equity, event driven, distressed securities, long/short credit, merger/risk arbitrage, capital structure arbitrage, convertible arbitrage, mortgage backed securities and global macro. Hedge funds generally employ leverage and short selling and can invest in a wide variety of both public and private securities including equities, fixed income, commodities, private placements, currencies, real estate, loans, derivatives and special situation investments.

Real estate funds include investments in public real estate equity investment trusts, private real estate, direct investments in properties, land mortgages, loans, public natural resource equities and commodities, as well as private and public investments in energy, oil and gas, timber, industrial and precious metals or other hard assets.

Structured credit funds invest in portfolios comprised of collateralized debt obligations (CDOs) including primarily equity and mezzanine debt securities of CDOs and other structured credit investments. In addition to CDOs, the investments may include fixed income securities, loan participations, credit-linked notes, medium term notes, registered and unregistered companies or pooled investment vehicles, and derivative investments such as credit default swaps and total return swaps.

NOTE 17 INSURANCE COVERAGE AND RESERVES

SF insures, on a claims-made basis, the professional and general liability risks of FirstHealth and all wholly-owned or controlled affiliates. Under the new structure, FirstHealth absorbs first-dollar risk up to \$1,000 per occurrence or aggregate. In excess of these amounts, SF provides an additional layer of coverage to a total of \$2,000 per occurrence or aggregate. Prior to the formation of SF, FirstHealth was self-insured in an underlying layer of \$3,000 per occurrence and \$9,000 in the aggregate.

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NOTE 17 INSURANCE COVERAGE AND RESERVES (CONTINUED)

Incurred losses under FirstHealth's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate FirstHealth's past experience, as well as other considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries. Reserves for professional liability losses, including SF, totaled \$20,259 and \$20,820 as of September 30, 2017 and 2016, respectively, and are included in accrued expenses and other liabilities in the consolidated balance sheets.

FirstHealth maintains excess professional and general liability coverage from \$3,000 to \$30,000 with commercial carriers available under the provisions of a claims-made policy which expired October 1, 2017, but was renewed effective the same day. The renewed policy will expire on October 1, 2018. To the extent that any claims-made coverage is not renewed or replaced with equivalent insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through FirstHealth's incident reporting system, that any such claims would not have a material effect on FirstHealth's operations or financial position. In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires.

Members of the medical staff are required to carry professional liability insurance with coverage limits of not less than \$1,000 per occurrence and \$3,000 in the aggregate.

FirstHealth is self-insured with respect to Workers' Compensation coverage, up to a limit of \$350 per individual claim. Reserves for Workers' Compensation losses totaling \$2,879 and \$3,997 as of September 30, 2017 and 2016, respectively, are included in other liabilities in the consolidated balance sheets. Coverage with a third-party is maintained for excess losses in excess of \$350 per claim.

FirstHealth self-insures its medical benefit plan for its employees and is reinsured through FCCIC on the commercial market for amounts over \$325 per claim through December 31, 2014. Effective January 1, 2015, the amount was increased to \$350 per claim. FCCIC supervises and administers the program and acts as FirstHealth's representative. Provisions for expected future payments are accrued based on FirstHealth's experience and include amounts for claims filed and claims incurred but not reported. FirstHealth has established a liability for claims payable totaling \$15,035 and \$12,431 as of September 30, 2017 and 2016, respectively. This liability is included in accrued expenses and other liabilities in the consolidated balance sheets, and includes both the self-funded FirstHealth liability, and the liability for other FCCIC claims under its HMO and Medicare managed care lines of business.

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NOTE 18 COMMITMENTS AND CONTINGENCIES

FirstHealth is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management accrues losses which are considered to be probable and reasonably estimable. In management’s judgment, these matters will be resolved without material adverse effect on FirstHealth’s future financial position or results from operations.

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

NOTE 19 FUNCTIONAL EXPENSES

FirstHealth provides general health care services to residents within its geographic location. Expenses relating to providing these services for the years ended September 30, 2017 and 2016 are as follows:

	2017	2016
Health Care Services	\$ 510,239	\$ 475,523
General and Administrative	221,813	198,882
Total	\$ 732,052	\$ 674,405

NOTE 20 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The EHR incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (“ARRA”) and the Health Information Technology for Economic and Clinical Health (“HITECH”) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on FirstHealth continuing to meet the escalating meaningful use criteria. The final year that FirstHealth could attest under the program was 2015. The final amounts of these payments will be determined based on information from FirstHealth’s Medicare cost reports.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016
(IN \$000s)

NOTE 21 ACQUISITION OF SANDHILLS REGIONAL MEDICAL CENTER

On October 19, 2016, FirstHealth entered into an Asset Purchase Agreement (the "Agreement") with Hamlet, H.M.A., LLC, Hamlett HMA PPM, LLC and Hamlet HMA Physician Management LLC (collectively, the "Sellers") whereby FirstHealth purchased certain of the assets and assumed certain liabilities owned and used by the Sellers in connection with the operations of Sandhills Regional Medical Center in Hamlet, North Carolina. The transaction took place on December 1, 2016. Under the Agreement, the purchase price for the assets was \$7,000,000 plus a net working capital amount as of the date of the transaction.

A summary of the assets, liabilities acquired and consideration paid as part of this transaction follows:

Consideration	
Purchase Price	\$ 7,000
Net Working Capital	1,207
Total Consideration	<u>\$ 8,207</u>
Fair Value of Assets and Liabilities Acquired:	
Land	\$ 1,890
Land Improvements	315
Building	10,245
Equipment	3,099
Total Fair Market Value of Property and Equipment	<u>15,549</u>
Net Working Capital	1,207
Net Assets Acquired	<u>16,756</u>
Bargain Purchase Gain	<u>\$ 8,549</u>

NOTE 22 SUBSEQUENT EVENT

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into United States tax law and included numerous provisions that will affect businesses. The Act, for instance, introduces changes that impact corporate tax rates, business-related exclusions, and deductions and credits. The Act has widespread applicability and it will impact the carrying value of deferred tax assets and liabilities. FirstHealth is currently assessing the impact of the Act.

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2017
(IN \$000s)

ASSETS	<u>Restricted Group Consolidated</u>	<u>FirstHealth Physician Group, LLC</u>	<u>FirstHealth Professional Services, Inc.</u>	<u>FirstCarolinaCare Insurance Company, Inc.</u>	<u>StarFirst, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS							
Cash and Cash Equivalents	\$ 21,472	\$ 252	\$ -	\$ 13,305	\$ 416	\$ -	\$ 35,445
Patient Accounts Receivable, Net	84,786	10,431	-	-	-	-	95,217
Other Receivables	8,318	158	199	4,260	77	-	13,012
Inventories	13,040	-	-	-	-	-	13,040
Prepaid Expenses	5,462	271	-	2	-	-	5,735
Estimated Settlements Due from Third-Party Payers	7,711	-	-	-	-	-	7,711
Due from (to) Affiliates	(5,631)	(6,142)	(221)	(35)	-	12,029	-
Total Current Assets	<u>135,158</u>	<u>4,970</u>	<u>(22)</u>	<u>17,532</u>	<u>493</u>	<u>12,029</u>	<u>170,160</u>
ASSETS LIMITED AS TO USE							
Internally Designated by Board	441,732	-	-	-	24,943	-	466,675
Held by Trustee Under Bond Indenture Agreements	5,744	-	-	-	-	-	5,744
Self-Insurance Reserves	19,126	-	-	-	6,784	-	25,910
Statutory and Capital Insurance Reserves	-	-	-	16,428	-	-	16,428
Held by Foundations	56,178	-	-	-	-	-	56,178
Total Assets Limited as to Use	<u>522,780</u>	<u>-</u>	<u>-</u>	<u>16,428</u>	<u>31,727</u>	<u>-</u>	<u>570,935</u>
INVESTMENTS IN AFFILIATES	99	-	-	-	-	(99)	-
PROPERTY AND EQUIPMENT, NET	378,669	4,525	-	68	-	-	383,262
FIDUCIARY ASSETS	14,938	-	-	-	-	-	14,938
OTHER ASSETS	5,071	368	-	16,822	-	-	22,261
Total Assets	<u>\$ 1,056,715</u>	<u>\$ 9,863</u>	<u>\$ (22)</u>	<u>\$ 50,850</u>	<u>\$ 32,220</u>	<u>\$ 11,930</u>	<u>\$ 1,161,556</u>

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET (CONTINUED)
SEPTEMBER 30, 2017
(IN \$000s)

LIABILITIES AND NET ASSETS	<u>Restricted Group Consolidated</u>	<u>FirstHealth Physician Group, LLC</u>	<u>FirstHealth Professional Services, Inc.</u>	<u>FirstCarolinaCare Insurance Company, Inc.</u>	<u>StarFirst, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT LIABILITIES							
Accounts Payable	\$ 25,042	\$ 1,265	\$ -	\$ 1,445	\$ 11	\$ -	\$ 27,763
Accrued Expenses and Other Liabilities	35,731	2,135	-	19,632	6,784	-	64,282
Estimated Settlements Due to Third-Party Payers	6,999	-	-	-	-	-	6,999
Current Portion of Long-Term Debt	11,546	-	-	-	-	-	11,546
Due to Affiliates	<u>(107,734)</u>	<u>96,109</u>	<u>(1,438)</u>	<u>1,011</u>	<u>20</u>	<u>12,032</u>	<u>-</u>
Total Current Liabilities	(28,416)	99,509	(1,438)	22,088	6,815	12,032	110,590
LONG-TERM DEBT, LESS CURRENT PORTION, NET OF DEFERRED FINANCING COSTS	193,107	-	-	-	-	-	193,107
OTHER LIABILITIES	<u>14,908</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,908</u>
Total Liabilities	179,599	99,509	(1,438)	22,088	6,815	12,032	318,605
NET ASSETS							
Unrestricted	835,843	(89,646)	1,416	28,762	25,405	(102)	801,678
Temporarily Restricted	23,946	-	-	-	-	-	23,946
Permanently Restricted	<u>17,327</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,327</u>
Total Net Assets	<u>877,116</u>	<u>(89,646)</u>	<u>1,416</u>	<u>28,762</u>	<u>25,405</u>	<u>(102)</u>	<u>842,951</u>
Total Liabilities and Net Assets	<u>\$ 1,056,715</u>	<u>\$ 9,863</u>	<u>\$ (22)</u>	<u>\$ 50,850</u>	<u>\$ 32,220</u>	<u>\$ 11,930</u>	<u>\$ 1,161,556</u>

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS
SEPTEMBER 30, 2017
(IN \$000s)

	Restricted Group Consolidated	FirstHealth Physician Group, LLC	FirstHealth Professional Services, Inc.	FirstCarolinaCare Insurance Company, Inc.	StarFirst, LLC	Eliminations	Consolidated
REVENUE, GAINS, AND OTHER SUPPORT							
Patient Service Revenue (Net of Contractual Allowances and Discounts)	\$ 682,095	\$ 37,744	\$ -	\$ -	\$ -	\$ (44,089)	\$ 675,750
Provision for Bad Debts	(96,187)	(9)	-	-	-	-	(96,196)
Net Patient Service Revenue Less Provision for Bad Debts	585,908	37,735	-	-	-	(44,089)	579,554
Other Revenue	31,336	1,163	332	135,516	2,596	(5,034)	165,909
Net Assets Released from Restrictions Used for Operations	2,612	-	-	-	-	-	2,612
Total Revenue, Gains, and Other Support	619,856	38,898	332	135,516	2,596	(49,123)	748,075
OPERATING EXPENSES							
Salaries	233,684	31,476	-	4,057	-	-	269,217
Fringe Benefits	50,452	4,565	-	1,013	-	-	56,030
Supplies	144,401	2,124	-	229	-	332	147,086
Purchased Services	41,873	10,337	332	13,493	125	(750)	65,410
Depreciation and Amortization	28,884	695	-	36	-	-	29,615
Interest	4,917	-	-	-	-	-	4,917
Other	70,883	10,533	2	128,126	(1,061)	(48,706)	159,777
Total Operating Expenses	575,094	59,730	334	146,954	(936)	(49,124)	732,052
OPERATING INCOME (LOSS)	44,762	(20,832)	(2)	(11,438)	3,532	1	16,023
NONOPERATING INCOME (EXPENSE)							
Investment Income (Loss)	30,634	-	-	(5)	857	-	31,486
Loss on Bond Refunding	(332)	-	-	-	-	-	(332)
Loss on Asset Disposals, Net	(14)	-	-	-	-	-	(14)
Bargain Purchase Gain	8,274	275	-	-	-	-	8,549
Other	(692)	-	-	-	-	-	(692)
Nonoperating Income (Expense)	37,870	275	-	(5)	857	-	38,997
Excess of Revenues Over (Under) Expenses before Unrealized (Gain) Loss on Derivative Financial Instruments	82,632	(20,557)	(2)	(11,443)	4,389	1	55,020
Realized and Unrealized Gain on Derivative Financial Instruments	4,284	-	-	-	-	-	4,284
Excess of Revenues Over (Under) Expenses	86,916	(20,557)	(2)	(11,443)	4,389	1	59,304
Unrealized Gains on Investments Other Than Trading Securities, Net	20,632	-	-	403	804	-	21,839
Distributions to Joint Venture Members, Net of Contributions Transfers	(152)	-	-	-	-	-	(152)
Net Assets Released from Restrictions for the Purchase of Property and Equipment	(16,999)	-	-	21,999	(5,000)	-	-
	140	-	-	-	-	-	140
Increase (Decrease) in Unrestricted Net Assets	\$ 90,537	\$ (20,557)	\$ (2)	\$ 10,959	\$ 193	\$ 1	\$ 81,131

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET – RESTRICTED GROUP
SEPTEMBER 30, 2017
(IN \$000s)

ASSETS	Combined Moore Regional Hospital - Pinehurst	Moore Regional Hospital - Richmond	Moore Regional Hospital - Hoke	Moore Regional Hospital - Hamlet	Montgomery Memorial Hospital	The Foundation of FirstHealth	Eliminations	Restricted Group Consolidated
CURRENT ASSETS								
Cash and Cash Equivalents	\$ 21,485	\$ (3)	\$ (4)	\$ (1,010)	\$ 70	\$ 934	\$ -	\$ 21,472
Patient Accounts Receivable, Net	(1,431)	50,726	30,268	1,706	3,517	-	-	84,786
Other Receivables	8,279	5	4	26	4	-	-	8,318
Inventories	10,520	1,049	485	721	265	-	-	13,040
Prepaid Expenses	5,391	22	3	39	7	-	-	5,462
Estimated Settlements Due from Third-Party Payers	7,711	-	-	-	-	-	-	7,711
Due from (to) Affiliates	229,684	5,601	(887)	767	749	-	(241,545)	(5,631)
Total Current Assets	<u>281,639</u>	<u>57,400</u>	<u>29,869</u>	<u>2,249</u>	<u>4,612</u>	<u>934</u>	<u>(241,545)</u>	<u>135,158</u>
ASSETS LIMITED AS TO USE								
Internally Designated by Board	441,732	-	-	-	-	-	-	441,732
Held by Trustee Under Bond Indenture Agreements	5,744	-	-	-	-	-	-	5,744
Self-Insurance Reserves	19,126	-	-	-	-	-	-	19,126
Held by Foundations	-	-	-	-	-	56,178	-	56,178
	<u>466,602</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,178</u>	<u>-</u>	<u>522,780</u>
INVESTMENTS IN AFFILIATES	99	-	-	-	-	-	-	99
PROPERTY AND EQUIPMENT, NET	286,453	25,667	42,862	16,105	3,158	4,424	-	378,669
FIDUCIARY ASSETS	-	-	-	-	-	14,938	-	14,938
OTHER ASSETS	4,824	-	-	-	-	247	-	5,071
Total Assets	<u>\$ 1,039,617</u>	<u>\$ 83,067</u>	<u>\$ 72,731</u>	<u>\$ 18,354</u>	<u>\$ 7,770</u>	<u>\$ 76,721</u>	<u>\$ (241,545)</u>	<u>\$ 1,056,715</u>

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET – RESTRICTED GROUP (CONTINUED)
SEPTEMBER 30, 2017
(IN \$000s)

LIABILITIES AND NET ASSETS	Combined Moore Regional Hospital - Pinehurst	Moore Regional Hospital - Richmond	Moore Regional Hospital - Hoke	Moore Regional Hospital - Hamlet	Montgomery Memorial Hospital	The Foundation of FirstHealth	Eliminations	Restricted Group Consolidated
CURRENT LIABILITIES								
Accounts Payable	\$ 22,983	\$ 791	\$ 186	\$ 519	\$ 116	\$ 447	\$ -	\$ 25,042
Accrued Expenses and Other Liabilities	33,637	1,203	289	175	427	-	-	35,731
Estimated Settlements Due to Third-Party Payers	6,871	-	-	128	-	-	-	6,999
Current Portion of Long-Term Debt	11,546	-	-	-	-	-	-	11,546
Due to Affiliates	-	41,468	64,679	15,199	11,725	740	(241,545)	(107,734)
Total Current Liabilities	<u>75,037</u>	<u>43,462</u>	<u>65,154</u>	<u>16,021</u>	<u>12,268</u>	<u>1,187</u>	<u>(241,545)</u>	<u>(28,416)</u>
LONG-TERM DEBT, LESS CURRENT PORTION, NET OF DEFERRED FINANCING COSTS	193,107	-	-	-	-	-	-	193,107
OTHER LIABILITIES	<u>10,891</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,017</u>	<u>-</u>	<u>14,908</u>
Total Liabilities	279,035	43,462	65,154	16,021	12,268	5,204	(241,545)	179,599
NET ASSETS								
Unrestricted	759,118	39,605	7,577	2,333	(5,247)	32,457	-	835,843
Temporarily Restricted	1,464	-	-	-	749	21,733	-	23,946
Permanently Restricted	-	-	-	-	-	17,327	-	17,327
Total Net Assets	<u>760,582</u>	<u>39,605</u>	<u>7,577</u>	<u>2,333</u>	<u>(4,498)</u>	<u>71,517</u>	<u>-</u>	<u>877,116</u>
Total Liabilities and Net Assets	<u>\$ 1,039,617</u>	<u>\$ 83,067</u>	<u>\$ 72,731</u>	<u>\$ 18,354</u>	<u>\$ 7,770</u>	<u>\$ 76,721</u>	<u>\$ (241,545)</u>	<u>\$ 1,056,715</u>

FIRSTHEALTH OF THE CAROLINAS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS – RESTRICTED GROUP
YEAR ENDED SEPTEMBER 30, 2017
(IN \$000s)

	Combined Moore Regional Hospital - Pinehurst	Moore Regional Hospital - Richmond	Moore Regional Hospital - Hoke	Moore Regional Hospital - Hamlet	Montgomery Memorial Hospital	The Foundation of FirstHealth	Eliminations	Restricted Group Consolidated
REVENUE, GAINS, AND OTHER SUPPORT								
Patient Service Revenue (Net of Contractual Allowances and Discounts)	\$ 546,857	\$ 68,521	\$ 36,401	\$ 12,057	\$ 18,259	\$ -	\$ -	\$ 682,095
Provision for Bad Debts	(51,335)	(19,663)	(14,403)	(4,976)	(5,810)	-	-	(96,187)
Net Patient Service Revenue Less Provision for Bad Debts	495,522	48,858	21,998	7,081	12,449	-	-	585,908
Other Revenue	32,286	1,237	106	68	72	1,919	(4,352)	31,336
Net Assets Released from Restrictions Used for Operations	-	-	-	-	-	2,612	-	2,612
Total Revenue, Gains, and Other Support	527,808	50,095	22,104	7,149	12,521	4,531	(4,352)	619,856
OPERATING EXPENSES								
Salaries	194,330	21,009	7,361	4,514	6,470	-	-	233,684
Fringe Benefits	41,182	4,969	1,793	1,079	1,512	-	(83)	50,452
Supplies	132,615	6,806	2,048	2,002	933	-	(3)	144,401
Purchased Services	31,007	5,868	3,336	2,814	2,128	-	(3,280)	41,873
Depreciation and Amortization	22,402	2,679	2,301	664	542	296	-	28,884
Interest	4,713	204	-	-	-	-	-	4,917
Other	59,521	4,257	1,186	2,017	408	4,480	(986)	70,883
Total Operating Expenses	485,770	45,792	18,025	13,090	11,993	4,776	(4,352)	575,094
OPERATING INCOME (LOSS)	42,038	4,303	4,079	(5,941)	528	(245)	-	44,762
NONOPERATING INCOME (EXPENSE)								
Investment Income	29,332	2	1	-	4	1,295	-	30,634
Loss on Bond Refunding	(332)	-	-	-	-	-	-	(332)
Loss on Asset Disposals, Net	(14)	-	-	-	-	-	-	(14)
Bargain Purchase Gain	-	-	-	8,274	-	-	-	8,274
Other	(692)	-	-	-	-	-	-	(692)
Nonoperating Income (Loss)	28,294	2	1	8,274	4	1,295	-	37,870
Excess of Revenues Over Expenses before Unrealized Gain on Derivative Financial Instruments								
Unrealized Gain on Derivative Financial Instruments	70,332	4,305	4,080	2,333	532	1,050	-	82,632
Realized and Unrealized Gain on Derivative Financial Instruments	4,284	-	-	-	-	-	-	4,284
Excess of Revenues Over Expenses								
Unrealized Gains on Investments Other Than Trading Securities	17,455	-	-	-	-	3,177	-	20,632
Distributions to Joint Venture Members, Net of Contributions	(152)	-	-	-	-	-	-	(152)
Net Assets Released from Restrictions for Purchase of Property and Equipment	-	-	-	-	140	-	-	140
Transfers	(16,999)	-	-	-	-	-	-	(16,999)
Increase in Unrestricted Net Assets	<u>\$ 74,920</u>	<u>\$ 4,305</u>	<u>\$ 4,080</u>	<u>\$ 2,333</u>	<u>\$ 672</u>	<u>\$ 4,227</u>	<u>\$ -</u>	<u>\$ 90,537</u>