

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

**Consolidated Financial Statements and
Supplemental Data
September 30, 2017 and 2016**

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

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September 30, 2017 and 2016

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Report of Independent Certified Public Accountants

To the Board of Directors of
Tallahassee Memorial HealthCare, Inc.

We have audited the accompanying consolidated financial statements of Tallahassee Memorial HealthCare, Inc. and Subsidiaries ("TMH, Inc."), 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.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Certified Public Accountants' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to TMH, Inc.'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 TMH, Inc.'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 Tallahassee Memorial HealthCare, Inc. and Subsidiaries as of September 30, 2017 and 2016, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

December 12, 2017

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 291,790,394	\$ 256,926,285
Short-term investments	12,049,255	11,319,327
Assets limited as to use	13,585,520	13,363,214
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$88,600,000 and \$78,737,000 as of September 30, 2017 and 2016, respectively	85,301,671	77,657,632
Inventories	10,006,739	10,450,091
Due from Medicare	6,517,083	7,149,668
Other current assets	23,588,276	19,433,439
Total current assets	442,838,938	396,299,656
Assets limited as to use		
Held by trustee	191,862,315	261,386,228
Less amount required to meet current obligations	(13,585,520)	(13,363,214)
Total assets limited as to use	178,276,795	248,023,014
Long-term investments	7,985,419	7,548,614
Property, plant and equipment, net	368,704,807	302,471,801
Other assets	10,285,595	8,933,977
Total assets	\$ 1,008,091,554	\$ 963,277,062
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 75,096,123	\$ 64,401,126
Current portion of long-term debt	3,012,579	3,076,809
Current portion of pension liability	17,866,616	18,242,781
Other current liabilities	9,533,292	9,883,622
Total current liabilities	105,508,610	95,604,338
Long-term debt, net of current portion	392,313,863	398,095,669
Long-term pension liability	6,916,116	79,708,110
Other liabilities	37,377,249	34,743,368
Total liabilities	542,115,838	608,151,485
Commitments and contingencies		
Net assets		
Unrestricted	447,080,129	336,960,134
Temporarily restricted	10,937,468	10,644,129
Permanently restricted	7,958,119	7,521,314
Total net assets	465,975,716	355,125,577
Total liabilities and net assets	\$ 1,008,091,554	\$ 963,277,062

The accompanying notes are an integral part of these consolidated financial statements.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended September 30, 2017 and 2016

	2017	2016
Unrestricted revenues, gains and other support		
Net patient service revenue (net of contractual allowances and discounts)	\$ 808,821,067	\$ 764,631,140
Provision for bad debts	<u>(122,307,863)</u>	<u>(112,773,298)</u>
Net patient service revenue less provision for bad debts	686,513,204	651,857,842
Other revenue	<u>12,216,175</u>	<u>13,770,344</u>
Total revenues, gains and other support	<u>698,729,379</u>	<u>665,628,186</u>
Expenses		
Salaries, wages and benefits	321,285,817	302,901,812
Supplies and other	231,892,110	227,638,214
Professional fees	57,462,285	51,338,028
Depreciation and amortization	32,582,117	32,063,491
Interest	<u>6,315,221</u>	<u>6,351,262</u>
Total expenses	<u>649,537,550</u>	<u>620,292,807</u>
Operating income	49,191,829	45,335,379
Loss on extinguishment of debt	(211,531)	-
Other revenues and expenses, net	<u>32,207</u>	<u>(1,465,061)</u>
Excess of revenues over expenses	49,012,505	43,870,318
Net assets released from restrictions used for program services and purchase of equipment	1,594,038	1,843,552
Change in pension liability	<u>59,513,452</u>	<u>(1,966,994)</u>
Increase in unrestricted net assets	<u>\$ 110,119,995</u>	<u>\$ 43,746,876</u>

The accompanying notes are an integral part of these consolidated financial statements.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2017 and 2016

	2017	2016
Unrestricted net assets		
Excess of revenues over expenses	\$ 49,012,505	\$ 43,870,318
Net assets released from restrictions used for program services and purchase of equipment	1,594,038	1,843,552
Change in pension liability	59,513,452	(1,966,994)
Increase in unrestricted net assets	<u>110,119,995</u>	<u>43,746,876</u>
Temporarily restricted net assets		
Contributions	1,686,726	1,492,786
Provision for bad debts	(8,478)	(61,467)
Income on investments	350,818	767,506
Net unrealized and realized losses on investments	(40,649)	(430,272)
Net assets released from restrictions—used for program services	(1,604,385)	(965,508)
Net asset transfers from temporarily restricted net assets to permanently restricted net assets	<u>(90,693)</u>	<u>(116,153)</u>
Increase in temporarily restricted net assets	<u>293,339</u>	<u>686,892</u>
Permanently restricted net assets		
Contributions	165,579	78,973
Provision for bad debts	(1,050)	(6,000)
Income on investments	205,381	450,861
Net unrealized and realized losses on investments	(23,798)	(252,758)
Net asset transfers to permanently restricted net assets from temporarily restricted net assets	<u>90,693</u>	<u>116,153</u>
Increase in permanently restricted net assets	<u>436,805</u>	<u>387,229</u>
Increase in net assets	110,850,139	44,820,997
Net assets		
Beginning of year	<u>355,125,577</u>	<u>310,304,580</u>
End of year	<u>\$ 465,975,716</u>	<u>\$ 355,125,577</u>

The accompanying notes are an integral part of these consolidated financial statements.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 110,850,139	\$ 44,820,997
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	32,582,117	32,063,491
Depreciation on office space rental property	1,077,451	1,087,456
Amortization of bond (premium) discount and bond issue costs	(147,746)	(226,869)
Net realized and unrealized (gains) losses on trading securities	(58,778)	1,935,814
Change in fair value of derivatives	(1,114,207)	(1,101,162)
Provision for bad debts	122,307,863	112,773,298
Provision for bad debts on temporarily and permanently restricted pledges	9,528	67,467
Change in pension liability	(73,168,159)	(8,852,853)
(Gain) loss on sale of property, plant and equipment	(61,329)	590,907
Restricted contributions	(199,025)	(80,748)
Loss on extinguishment of debt	211,531	-
(Increase) decrease in		
Patient accounts receivable	(129,951,902)	(115,653,908)
Inventories	443,352	(789,588)
Due from Medicare	632,585	(7,149,668)
Other current assets	(4,164,365)	(4,511,800)
Other assets	358,733	27,369
Increase (decrease) in		
Accounts payable and accrued expenses	2,273,684	4,207,483
Due to Medicare	-	(9,050,142)
Other current liabilities	(350,330)	615,622
Other liabilities	2,633,881	11,724,277
Net cash provided by operating activities	<u>64,165,023</u>	<u>62,497,443</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(93,088,122)	(53,824,584)
Proceeds from disposals of equipment	627,108	138,133
Investments		
Purchases of investments	(22,753,082)	(20,145,218)
Proceeds from sales and maturities of investments	21,420,322	17,331,157
Assets limited as to use		
Purchases of investments	(820,000)	(256,338,560)
Proceeds from sales and maturities of investments	70,568,718	1,530,513
Payments for physician guarantee contracts	(58,904)	(409,286)
Proceeds from physician guarantee contracts	13,195	81,368
Increase in notes receivable and deposits	(609,339)	(871,709)
Net cash used in investing activities	<u>(24,700,104)</u>	<u>(312,508,186)</u>
Cash flows from financing activities		
Payments on capital lease obligations	(556,835)	(358,214)
Repayment of Series 2008 Bonds	(600,000)	-
Payments on long-term debt	(3,643,000)	(317,000)
Proceeds from the issuance of Series 2016A and 2016 B Bonds	-	272,001,300
Payments for debt issuance costs	-	(1,593,128)
Payments on restricted contributions	199,025	80,748
Net cash (used in) provided by financing activities	<u>(4,600,810)</u>	<u>269,813,706</u>
Net increase in cash and cash equivalents	34,864,109	19,802,963
Cash and cash equivalents		
Beginning of year	<u>256,926,285</u>	<u>237,123,322</u>
End of year	<u>\$ 291,790,394</u>	<u>\$ 256,926,285</u>

The accompanying notes are an integral part of these consolidated financial statements.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Supplemental Cash Flow Information		
Cash paid for interest, net of capitalized amounts of \$7,655,000 and \$4,689,000 as of September 30, 2017 and 2016, respectively	\$ 11,329,612	\$ 5,941,957
Non-Cash Investing Activities		
Capital assets purchased through capital lease obligation	\$ -	\$ 164,216
Accrued purchases of property, plant and equipment	\$ 8,480,217	\$ 4,839,126

The accompanying notes are an integral part of these consolidated financial statements.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

1. Summary of Significant Accounting Policies

Organization and Reporting Entity

Tallahassee Memorial HealthCare, Inc. and Subsidiaries ("TMH, Inc.") is a not-for-profit parent holding corporation which manages and operates a health delivery system. Tallahassee Memorial Hospital (the "Hospital"), a not-for-profit health care facility, is the hospital division of TMH, Inc. Through common board control, provision of bylaws and direct stock ownership, TMH, Inc. is the parent corporation of Southeast Community Health Services, Inc. ("SECHS"), Tallahassee Memorial Health Ventures, Inc. ("TMHV"), Tallahassee Memorial HealthCare Foundation, Inc. ("Foundation"), Medicus Select, LLC and TMH 1607, LLC. SECHS is a not-for-profit property holding company. TMHV is a for-profit corporation which manages activities which are not tax exempt. The Foundation is a not-for-profit organization which promotes the educational training and research programs of TMH, Inc. Medicus is a disregarded entity that provides the Hospital with leased labor. TMH 1607, LLC is a wholly-owned limited liability corporation formed October 17, 2016 for the purpose of participating in a joint venture that acquired a building, which will be leased to TMH, Inc. and other tenants.

The accompanying consolidated financial statements include the accounts of TMH, Inc. and all of the above mentioned controlled subsidiaries or divisions and are prepared in a manner consistent with generally accepted accounting principles and are presented only for purposes of additional analysis and are not required as part of the consolidated financial statements. The information is presented on the accrual basis of accounting and all significant intercompany accounts and transactions are eliminated in consolidation. The consolidating financial information was derived from the accounting records used to prepare the consolidated financial statements.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. Net assets are identified as unrestricted, temporarily restricted, or permanently restricted.

- Unrestricted – Net assets that are not subject to donor-imposed restrictions.
- Temporarily restricted – Net assets whose use is subject to donor-imposed stipulations that can be fulfilled by actions of TMH, Inc. pursuant to those stipulations or that expire by the passage of time.
- Permanently restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently.

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates involve accounting for the allowance for doubtful accounts and contractual allowances, due to/from Medicare, self-insurance liabilities, accrued pension liability and depreciation and amortization expense.

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Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less when purchased.

Investments

Short-term investments consist primarily of certificates of deposit with maturities of less than one year, money market funds, equities and private real estate funds. Long-term investments consist primarily of equities, corporate obligations, mutual funds, and U.S. government and agency obligations. All investments in debt securities and marketable equity securities with readily determinable fair values are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including unrealized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses except for income or loss that is restricted by donor or law. Unrealized gains and losses on short-term and long-term investments classified as other than trading securities are excluded from the excess of revenues over expenses. TMH, Inc. evaluates the nature and classification of securities on a periodic basis under Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities* ("ASC 958"). Such securities are classified as trading securities.

Assets Limited as to Use

Assets limited as to use include assets held by trustees under indenture agreements and self-insurance trust arrangements. Amounts required to meet current liabilities of the Hospital have been presented as current assets in the accompanying consolidated balance sheets. Assets limited as to use are classified as trading securities and stated at fair market value. Amounts consist of cash and cash equivalents, U.S. government and agency obligations, mutual funds, corporate bonds and equities. The Hospital evaluates the nature and classification of securities on a periodic basis and has designated all securities as trading.

Inventories

Inventories consist principally of unused supplies and are stated at the lower of cost (first-in, first-out method) or net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization is computed on the straight-line method over the estimated useful lives of the assets generally as follows:

	Estimated Useful Lives
Building and building improvements	5–40
Leasehold improvements	5–25
Equipment	3–20

Expenditures for additions and improvements are capitalized. Costs incurred to acquire material and services in obtaining and installing internal-use software and payroll costs directly spent on the installation of such software are capitalized. Training and maintenance fees are expensed as incurred. Expenditures for maintenance and repairs are charged to operations as incurred. Upon sale or retirement of depreciable assets, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss is included in other revenues and expenses, net.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

Debt Issuance Costs

Debt issuance costs incurred in connection with the bond issuances are being amortized over their respective terms utilizing the straight-line method, which approximates the effective interest method. Debt issuance costs of approximately \$2,938,000, net of accumulated amortization of approximately \$167,000 at September 30, 2017 remain to be amortized over future periods. Debt issuance costs of approximately \$3,314,000, net of accumulated amortization was approximately \$233,000 at September 30, 2016. The Series 2008 Bonds were repaid on June 30, 2017 and approximately \$212,000 of unamortized debt issuance cost related to the repayment bonds was expensed and included in the loss on extinguishment of debt on the consolidated statements of operations. Net unamortized bond issuance cost are included in the long-term debt in the accompanying consolidated financial statements.

Accrued Self-Insurance Liabilities

The provision for estimated self-insured professional liability (malpractice), workers' compensation and employee health includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The current portion of professional liability, workers' compensation and employee health are included in other current liabilities and the long-term portion is included in other liabilities in the consolidated balance sheets.

Net Patient Service Revenue

The components of net patient service revenue for the years ended September 30, 2017 and 2016 are as follows:

	2017	2016
Gross patient service revenue	\$ 2,661,000,122	\$ 2,449,564,289
Contractual adjustments and other deductions	<u>(1,852,179,055)</u>	<u>(1,684,933,149)</u>
Net patient service revenue	<u>\$ 808,821,067</u>	<u>\$ 764,631,140</u>

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient accounts receivable are stated at their estimated net realizable value as determined by management. Management's estimate is based on an assessment of historical and expected net collections, considering business and economic conditions, trends in health care coverage and other collection indicators.

Excess of Revenues Over Expenses

The consolidated statements of operations include the excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include net assets released from restrictions used for program services and purchases of equipment and the change in pension liability.

Charity Care

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Donations

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions, other than for equipment, whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

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

Other Revenues and Expenses, Net

Other revenues and expenses, net consist primarily of interest income, rental income and the related rental expenses incurred to maintain rental property and the total change in the fair value of the derivative and self-insurance trust fund.

Derivatives

TMH, Inc. recognizes the asset or liability for the derivative instruments on the consolidated balance sheets at fair value. The fair value of the derivative instruments at September 30, 2017 and 2016 was an asset of approximately \$1,762,000 and \$648,000, respectively, which is included in other assets. Changes in the fair value of the derivative instruments are recorded each period in excess of revenues over expenses or as a change in unrestricted net assets, depending on the type of hedge transaction.

On March 22, 2001, the Hospital entered into a "Basis Rate Swap" agreement with a financial institution to receive or pay the spread between two variable interest rates for a notional amount equal to the outstanding principal on the Series 2000 Bonds. The Series 2000 Bonds were refunded with the proceeds from the Series 2015A Health Facilities Revenue Refunding Bonds; consequently the Basis Rate Swap agreement was amended effective May 28, 2015 with a financial institution on the same terms and conditions as the original agreement dated March 22, 2001.

On January 7, 2016, the Hospital entered into a "Total Return Swap" agreement with a financial institution, to pay an amount based upon a floating rate and receive a fixed amount of 5.25% on the notional amount based on the Series 2016B Health Facilities Revenue Bonds.

The purpose of the swap agreements is to reduce interest costs over the life of the debt obligations. However, the swap agreements do not meet the definition of a hedge. Consequently, changes in the fair value of the instruments are required to be recorded in other revenues and expenses, net in the accompanying consolidated statements of operations.

At September 30, 2017, the fair value of the Basis Rate Swap was a liability of approximately \$667,000 and the fair value of the Total Return Swap was an asset of approximately \$2,429,000. The net swap fair value is recorded in other assets in the accompanying consolidated balance sheets. The fair values of the derivatives were estimated using the present value of expected discounted future cash flows based on the maturity date. The changes in the fair value of the

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Notes to Consolidated Financial Statements

September 30, 2017 and 2016

swaps required the recording of a gain of approximately \$1,114,000 and \$1,101,000 in other revenues and expenses, net, in the accompanying consolidated statements of operations for the years ended September 30, 2017 and 2016, respectively.

The Hospital (paid) received funds related to the Basis Rate Swap of approximately \$(39,000) and \$59,000 for the years ended September 30, 2017 and 2016, respectively, which is recorded in other revenues and expenses, net in the accompanying consolidated statements of operations. The Hospital received funds related to the Total Return Swap of approximately \$3,909,000 and \$1,165,000 for the years ended September 30, 2017 and 2016, respectively, which is recorded as capitalized interest in the accompanying consolidated balance sheets. Furthermore, the Hospital was required to post collateral in the amount of approximately \$659,000 and \$939,000 at September 30, 2017 and 2016, respectively, as part of the margin call related to the Basis Rate Swap. The cash collateral is recorded in assets limited as to use in the accompanying consolidated balance sheets.

Fair Value Measurements

TMH, Inc. accounts for fair value in accordance with ASC 820, *Fair Value Measurements* ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC 820 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by TMH, Inc. for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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September 30, 2017 and 2016

The following tables present the financial instruments carried at fair value as of September 30, 2017 and 2016, by caption on the consolidated balance sheets by the ASC 820 valuation hierarchy defined above:

September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value*	Total Fair Value
Assets				
Cash, investments and assets limited as to use				
Cash and cash equivalents	\$ 480,475,468	\$ -	\$ -	\$ 480,475,468
Corporate obligations	2,341,734	927,153	-	3,268,887
Mutual funds	6,398,276	1,608,780	-	8,007,056
U.S. government and agency obligations	-	8,595,016	-	8,595,016
Equities	2,128,345	-	-	2,128,345
Private real estate fund	-	-	1,212,611	1,212,611
Total cash, investments and assets limited as to use	491,343,823	11,130,949	1,212,611	503,687,383
Total return swap receivable	-	2,428,591	-	2,428,591
Charitable remainder annuity trusts	-	124,062	-	124,062
Insurance contract	-	131,007	-	131,007
Total assets at fair value	<u>\$ 491,343,823</u>	<u>\$ 13,814,609</u>	<u>\$ 1,212,611</u>	<u>\$ 506,371,043</u>
Liabilities				
Basis rate swap payable	\$ -	\$ 666,449	\$ -	\$ 666,449
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 666,449</u>	<u>\$ -</u>	<u>\$ 666,449</u>
September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value*	Total Fair Value
Assets				
Cash, investments and assets limited as to use				
Cash and cash equivalents	\$ 515,643,723	\$ -	\$ -	\$ 515,643,723
Corporate obligations	2,724,007	1,582,747	-	4,306,754
Mutual funds	1,064,197	901,551	-	1,965,748
U.S. government and agency obligations	-	7,548,751	-	7,548,751
Equities	6,577,171	-	-	6,577,171
Private real estate fund	-	-	1,138,307	1,138,307
Total cash, investments and assets limited as to use	526,009,098	10,033,049	1,138,307	537,180,454
Total return swap receivable	-	1,836,280	-	1,836,280
Charitable remainder annuity trusts	-	139,050	-	139,050
Insurance contract	-	127,806	-	127,806
Total assets at fair value	<u>\$ 526,009,098</u>	<u>\$ 12,136,185</u>	<u>\$ 1,138,307</u>	<u>\$ 539,283,590</u>
Liabilities				
Basis rate swap payable	\$ -	\$ 1,188,345	\$ -	\$ 1,188,345
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 1,188,345</u>	<u>\$ -</u>	<u>\$ 1,188,345</u>

* Under ASU 2015-07, investments that are measured at fair value using net asset value ("NAV") as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation to the fair value hierarchy to the amounts presented in the consolidated balance sheets.

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Following is a description of TMH, Inc.'s valuation methodologies for assets and liabilities measured at fair value.

Fair value for Level 1 is based upon quoted prices in active markets that TMH, Inc. has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. TMH, Inc. does not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3, is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

Basis Rate Swaps and Total Return Swap are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

Investments in the private real estate fund are valued at fair value, which generally is TMH, Inc.'s pro rata interest in the net assets of the fund. TMH, Inc. receives quarterly NAV statements from the fund and generally relies on such information as a practical expedient for purposes of calculating the NAV.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while TMH, Inc. believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Concentrations of Credit Risk

TMH, Inc. maintains its cash and cash equivalents with several large institutions. All accounts at each financial institution are guaranteed by the Federal Deposit Insurance Corporation up to \$250,000 per bank. TMH, Inc. has cash deposits which exceed the federally insured deposited amount. Management does not anticipate nonperformance by financial institutions.

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TMH, Inc. grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors on a net basis at September 30, 2017 and 2016 was as follows:

	2017	2016
Medicare	22%	27%
Medicaid	12%	10%
Managed Care	22%	23%
Blue Cross	16%	14%
Other (principally Commercial)	28%	26%
	100%	100%

Recent Accounting Pronouncements

In May 2014, April 2016, May 2016, December 2016, and February 2017, FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (“Topic 606”)*; ASU 2016-10, *Identifying Performance Obligations and Licensing*; ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*; ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*; and ASU 2017-05, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, respectively, which supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605, *Revenue Recognition*. These ASU’s address when an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. These ASU’s are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years for public business entities and not-for-profit entities that have issued publicly traded debt, and December 15, 2018 for all other entities as amended by ASU 2015-14. The Company is currently evaluating the impact of these ASU’s on the consolidated financial statements, which are effective for the year ended September 30, 2019.

In February 2016, FASB issued ASU 2016-02, *Leases*. This ASU requires lessees to record a lease liability that represents the lessee’s future lease obligation payments and a right-of-use asset that represents the lessee’s right to use or control of a specified asset for the lease term. The main difference with current practice being that lessees will be required to record an asset and liability for what is now considered an operating lease. The provisions of ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, and interim periods within those years for public business entities and not-for-profit entities that have issued publicly traded debt, and December 15, 2019 for all other entities. The Company is currently evaluating the impact of this ASU on the consolidated financial statements, which is effective for the year ended September 30, 2020.

In August 2016, FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU requires not-for-profit entities to report two classes of net assets, as well as enhances disclosures on board designated funds, liquidity, and functional expenses. The provisions of ASU 2016-14 are effective for fiscal years beginning after December 15, 2017, and interim periods thereafter. The Company is currently evaluating the impact of this ASU on the consolidated financial statements, which is effective for the year ended September 30, 2019.

In November 2016, FASB issued ASU 2016-18, *Restricted Cash: a Consensus of the FASB Emerging Issues Task Force*. This ASU requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as

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restricted cash or restricted cash equivalents. The provisions of ASU 2016-18 are effective for fiscal years beginning after December 15, 2017, and interim periods within those year for public business entities, and December 15, 2018, and interim periods thereafter for all other entities. The Company is currently evaluating the impact of this ASU on the consolidated financial statements, which is effective for the year ended September 30, 2019.

In March 2017, FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires that an employer report the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The provisions of ASU 2017-07 are effective for fiscal years beginning after December 15, 2017, and interim periods within those years for public business entities, and December 15, 2018, and interim periods thereafter for all other entities. The Company is currently evaluating the impact of this ASU on the consolidated financial statements, which is effective for the year ended September 30, 2019.

2. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates.

Net patient service revenue and patient accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. For the years ended September 30, 2017 and 2016, net patient service revenue increased by approximately \$3,887,000 and \$11,038,000, respectively, due to such adjustments.

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

Medicare

Inpatient acute care services, skilled nursing services, hospital outpatient services and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain outpatient services rendered to Medicare beneficiaries, and direct graduate medical education costs are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

The Hospital's Medicare cost reports have been audited and settled by Medicare for all years through September 30, 2011. Additionally, the September 30, 2013 Medicare cost report has been audited and settled by Medicare. Medicare cost report audits by the Florida Medicare Administrative Contractor ("MAC") have begun but are not complete for fiscal years 2012, 2014 and 2015. Approximately 35% and 30% of net patient service revenue for the years ended September 30, 2017 and 2016, respectively, is subject to the provisions of Medicare agreements.

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Medicaid

Inpatient admissions are paid upon a prospectively determined rate based upon diagnostic categories adjusted for severity. For the year ended September 30, 2016 and for the nine months ended June 30, 2017, outpatient services (except for laboratory and pathology services) rendered to Medicaid program beneficiaries were reimbursed under a cost reimbursement methodology. Reimbursable cost is determined in accordance with the principles of reimbursement established by the State of Florida Title XIX Hospital Reimbursement Plan supplemented by the Medicare Principles of Reimbursement. Effective July 1, 2017, these outpatient services began being reimbursed on prospectively determined rates. The Hospital is reimbursed at a tentative rate with final settlement determined when the prospectively determined rate is adjusted as a result of intermediary audit of the cost report used in the establishment of the prospective rate. Retroactive adjustments for interim rate changes anticipated after the intermediary audit of the cost report are accrued on an estimated basis and adjusted in the period when final settlements are determined.

The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2014; however, the revised audited per diem rates have not been issued by Medicaid. The Hospital does not estimate any repayment due to Medicaid resulting from the completion of these audits. Approximately 6% and 4% of net patient service revenue for the years ended September 30, 2017 and 2016, respectively, is related to services provided to Medicaid patients.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Other

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Some of these arrangements provide for review of paid claims for compliance with the terms of the contract and result in retroactive settlement with third parties. Retroactive adjustments for other third-party claims are recorded in the period when final settlement is determined.

3. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The direct and in-direct costs estimated by the Hospital related to charity care were approximately \$24,649,000 and \$22,483,000 as of September 30, 2017 and 2016, respectively. The costs were estimated using the best information available to management using the cost to charge ratio. There were no funds received related to offsetting or subsidizing charity care.

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4. Tax Status

TMH, Inc., the Hospital and the Foundation are organized as Florida not-for-profit corporations and both are exempt from payment of income taxes under Internal Revenue Code Section 501(c)(3). Medicus and TMH 1607, LLC are disregarded entities. SECHS is organized as a Florida not-for-profit corporation and is exempt from payment of income taxes under Internal Revenue Code Section 501(c)(25) as a property holding company. The Internal Revenue Code provides for taxation of certain unrelated business income of tax exempt entities. TMHV is organized as a Florida corporation whose income is taxable under Subchapter C of the Internal Revenue Code.

5. Investments and Assets Limited As To Use

The composition of assets limited as to use at September 30, 2017 and 2016 is set forth in the following table:

	2017	2016
Held by trustee under indenture agreements		
Cash, cash equivalents and short-term investments	\$ 186,317,540	\$ 255,873,925
	<u>186,317,540</u>	<u>255,873,925</u>
Held by trustee for self-insurance funding arrangements		
Cash, cash equivalents and short-term investments	183,860	77,515
U.S. government and agency obligations	37,193	162,239
Mutual funds	1,608,780	901,551
Equities	2,128,346	1,848,808
Corporate obligations	927,153	1,582,747
	<u>4,885,332</u>	<u>4,572,860</u>
Held by trustee as swap collateral		
Cash	659,443	939,443
	<u>\$ 191,862,315</u>	<u>\$ 261,386,228</u>

Short-term and long-term investments, stated at fair value, at September 30, 2017 and 2016 include:

	2017	2016
Cash and cash equivalents	\$ 72,981	\$ 376,256
Corporate obligations	2,341,734	2,724,007
Certificates of deposit	1,451,249	1,450,299
Private equities	27,300	27,300
U.S. government and agency obligations	8,530,523	7,359,212
Mutual funds	6,398,276	1,064,197
Equities	-	4,728,363
Private real estate fund	1,212,611	1,138,307
	<u>20,034,674</u>	<u>18,867,941</u>
Less: Long-term investments	<u>(7,985,419)</u>	<u>(7,548,614)</u>
Short-term investments	<u>\$ 12,049,255</u>	<u>\$ 11,319,327</u>

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Investment income including net realized/unrealized (losses)/gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended September 30, 2017 and 2016:

	2017	2016
Income		
Investment income		
Unrestricted	\$ 1,653,878	\$ 2,144,296
Temporarily restricted	350,818	767,506
Permanently restricted	205,381	450,861
Net realized gains (losses) on sales of trading securities		
Unrestricted	414,543	(1,117,009)
Temporarily restricted	165,888	(524,375)
Permanently restricted	97,117	(308,037)
Net unrealized (losses) gains on trading securities		
Unrestricted	(291,318)	(135,775)
Temporarily restricted	(206,537)	94,103
Permanently restricted	(120,915)	55,279
Total investment income	<u>\$ 2,268,855</u>	<u>\$ 1,426,849</u>

6. Property, Plant and Equipment

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

	2017	2016
Land	\$ 25,180,530	\$ 25,485,730
Buildings	340,558,252	330,407,441
Equipment	260,962,197	249,129,594
Leasehold improvements	7,522,432	7,287,251
	<u>634,223,411</u>	<u>612,310,016</u>
Less: Accumulated depreciation	<u>(379,613,723)</u>	<u>(347,206,767)</u>
	254,609,688	265,103,249
Construction-in-progress	114,095,119	37,368,552
Property, plant and equipment, net	<u>\$ 368,704,807</u>	<u>\$ 302,471,801</u>

Interest costs incurred during the fiscal years 2017 and 2016 were approximately \$13,970,000 and \$11,040,000, respectively. Interest capitalized was approximately \$7,655,000 and \$4,689,000 during fiscal years 2017 and 2016, respectively.

Depreciation expense for the years ended September 30, 2017 and 2016 was approximately \$32,582,000 and \$32,063,000, respectively. Depreciation expense on office space rental property for the years ended September 30, 2017 and 2016 was approximately \$1,077,000 and \$1,087,000, respectively, and was included in other revenues and expenses, net in the accompanying consolidated statements of operations. Construction-in-progress at September 30, 2017 consisted of routine facility renovations, enabling projects and committed costs associated with the hospital addition of the M.T. Mustian Center and various information technology projects. Estimated costs to complete are approximately \$199,505,000.

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The Hospital leases substantially all of its property, plant and equipment from the City of Tallahassee under the terms of a lease, as amended, which expires in September 2057. The lease is automatically extended one year each September 30 unless the City of Tallahassee or the Hospital elects to nullify that year's extension. Any such election will not affect automatic renewals in future years. Property, plant and equipment acquired by the Hospital becomes a part of the leased properties, but are owned by the City of Tallahassee and are subject to the terms of the lease agreement. Obligations incurred for such acquisitions are the direct responsibility and liability of the Hospital. The Hospital leases the facility for \$1 per year and is responsible for payment of related taxes, insurance, operating expenses and capital improvements of the property, plant and equipment.

The Hospital leases a portion of its office and equipment under agreements which expire at various dates through 2020. Rent expense for the years ended September 30, 2017 and 2016 was approximately \$4,922,000 and \$4,747,000, respectively. As of September 30, 2017, future minimum rental payments required under noncancelable operating leases are:

Years Ending	
2018	\$ 253,914
2019	149,547
2020	46,596
2021	44,400
2022	25,900
	<u>\$ 520,357</u>

7. Other Liabilities

Other liabilities consist of the following at September 30, 2017 and 2016:

	2017	2016
Workers' compensation liability	\$ 1,837,286	\$ 1,612,545
Self-insured professional liability	24,013,050	22,108,657
Agency for HealthCare Administration statutory liability	3,567,576	3,354,858
Deferred compensation arrangement	3,123,826	2,950,976
Other liability	380,000	380,000
Obligation for supplemental executive retirement benefits	4,053,011	4,314,332
Security deposits held	2,500	-
Due to outside organizations	400,000	22,000
	<u>\$ 37,377,249</u>	<u>\$ 34,743,368</u>

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8. Long-Term Debt

A summary of long-term debt and capital lease obligations at September 30, 2017 and 2016 follows:

	2017	2016
Healthcare Facilities Subordinated Revenue Bonds, Series 2008, interest of 9.3% at September 30, 2017 and 2016, final maturity June 2028.	\$ -	\$ 600,000
Healthcare Facilities Revenue Refunding Bonds, Series 2015A, interest of 4.0% to 5.0% at September 30, 2017 and 2016, final maturity December 2044.	107,290,000	107,290,000
Healthcare Facilities Revenue Bonds, Series 2016A, interest of 4.0% to 5.0% at September 30, 2017 and 2016, final maturity December 2055.	147,480,000	150,000,000
Healthcare Facilities Revenue Bonds, Series 2016B, interest of 5.25% at September 30, 2017 and 2016, final maturity December 2051.	100,000,000	100,000,000
Capital lease obligations	<u>21,131,557</u>	<u>21,688,393</u>
	375,901,557	379,578,393
Add: Net amortized bond premium and bond issuance costs	<u>19,424,885</u>	<u>21,594,085</u>
Total long-term debt	395,326,442	401,172,478
Less: Current portion	<u>(3,012,579)</u>	<u>(3,076,809)</u>
Long-term portion	<u>\$ 392,313,863</u>	<u>\$ 398,095,669</u>

On September 12, 2008, the Hospital, with the City of Tallahassee acting as a conduit, issued Healthcare Facilities Subordinated Revenue Bonds, Series 2008, in the amount of \$600,000 for the construction of a sleep center. The Series 2008 Bonds are privately placed and contain an interest rate of 9.3%. The 2008 Bonds were repaid on June 30, 2017.

On May 28, 2015, the Obligated Group, with the City of Tallahassee acting as a conduit, issued HealthCare Facilities Revenue Refunding Bonds, Series 2015A, in the amount of \$107,290,000, the proceeds of which were used for the refunding of the outstanding (a) Health Facilities Revenue Bonds, Series 1992B, (b) Health Facilities Revenue Bonds, Series 2000, (c) Series 2015 Notes, and (d) to pay the costs of issuance of the Series 2015A Bonds. The Series 2015A Bonds are collateralized by the revenues of the Hospital.

On February 2, 2016, the Obligated Group, with the City of Tallahassee acting as a conduit, issued Health Facility Revenue Bonds, Series 2016A, in the amount of \$150,000,000, the proceeds will be used for providing funds, together with other available funds, for the construction of the M.T. Mustian Center. The Series 2016A Bonds are collateralized by the revenues of the Hospital.

On February 2, 2016, the Obligated Group, with the City of Tallahassee acting as a conduit, issued Health Facility Revenue Bonds, Series 2016B, in the amount of \$100,000,000, the proceeds will be used for providing funds, together with other available funds, for the construction of the M.T. Mustian Center. The Series 2016B Bonds are collateralized by the revenues of the Hospital.

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The bond trust indentures require compliance with various restrictive covenants, such as minimum debt service coverage ratios, and include maintenance of certain debt service funds. The Hospital was in compliance with the various restrictive financial covenants at September 30, 2017 and 2016.

All entities under TMH, Inc., with the exception of SECHS, TMHV, Medicus, TMH 1607, LLC and the Foundation, are part of the Obligated Group responsible for the repayment of these bonds per the bond indentures.

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

Years Ending	Long-Term Debt	Capital Lease Obligations
2018	\$ 2,605,000	\$ 1,750,678
2019	2,695,000	1,794,445
2020	2,785,000	1,839,306
2021	2,880,000	1,885,288
2022	2,980,000	1,932,421
Thereafter	<u>340,825,000</u>	<u>25,151,594</u>
	<u>\$ 354,770,000</u>	34,353,732
Less: Amount representing interest under the capital lease obligations		<u>(13,222,175)</u>
		<u>\$ 21,131,557</u>

The following equipment and buildings were financed under capital leases and are included in property, plant and equipment on the consolidated balance sheets at September 30, 2017 and 2016:

	2017	2016
Equipment and buildings	\$ 22,872,616	\$ 22,872,616
Less: Accumulated depreciation	<u>(6,615,036)</u>	<u>(5,609,412)</u>
	<u>\$ 16,257,580</u>	<u>\$ 17,263,204</u>

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9. Self-Insurance

The Hospital has professional liability insurance coverage through a commercial insurance policy on a claims-made basis. Since May 1, 2005, the Hospital has been and is currently self-insured for the first \$3,000,000 of each claim. From May 1, 2003 through April 30, 2005, the Hospital was self-insured for the first \$5,000,000 of each claim. From March 28, 2002 through April 30, 2003, the Hospital was self-insured for the first \$3,000,000 of each claim. From March 15, 2001 through March 27, 2002, the Hospital was self-insured for the first \$1,000,000 of each claim. From January 1, 1989 through March 14, 2001, the Hospital was self-insured for the first \$250,000 and prior to January 1, 1989, the Hospital was self-insured for the first \$100,000 of each claim. Malpractice claims, including amounts for which the Hospital is self-insured, have been asserted by various claimants, and additional claims may be asserted for known incidents occurring through September 30, 2017. The claims are in various stages of processing and some may ultimately be brought to trial. Moreover, additional claims arising from services provided to patients in the past may be asserted. The Hospital has engaged an independent actuary to assist in the computation of an accrual for self-insurance of professional liability coverage. The actuarial computations were based upon an evaluation of past incidents. A liability of approximately \$32,673,000 and \$31,122,000 has been recorded at September 30, 2017 and 2016, respectively, representing management's best estimates based upon the actuarial computations.

On May 1, 2005, the Hospital entered into a captive arrangement with Health Care Casualty Risk Retention Group, Inc. ("HCCR") for professional and general liability reinsurance coverage. HCCR provided liability insurance coverage of \$20,000,000 per occurrence in excess of the \$3,000,000 retention; however, effective August 1, 2014, HCCR's aggregate liability coverage increased from \$20,000,000 to \$25,000,000.

HCCR was incorporated under the Captive Insurance Company Act of 2004 and the District of Columbia Business Corporation Act, D.C. Code, 2001 edition, on December 14, 2004. HCCR was added to the list of registered Risk Retention Groups by the state of Florida on March 8, 2005. In addition, the Hospital owns shares of Health Care Casualty Insurance Limited (the "Captive") which was incorporated as a limited liability company under the Companies Law of the Cayman Islands on August 30, 2002 and holds an unrestricted Class "B" Cayman Islands insurer's license under Section 4(2) of the Cayman Islands Insurance Law. The license enables the Captive to transact insurance business, other than domestic business, from within the Cayman Islands. The Cayman Islands Monetary Authority has imposed a minimum capital requirement of \$120,000.

HCCR and the Captive are owned by a number of healthcare institutions based in the United States. The owners are all not-for-profit hospitals and healthcare systems. The principal activity of the Captive and HCCR is to provide professional and general liability coverage on a claims made and occurrence basis for the risk associated with the delivery of healthcare services for the shareholders, their employees and medical staff members. The Hospital became a shareholder of the Captive and HCCR on May 1, 2005. As of September 30, 2015, the Hospital is one of eight owners of the Captive, four of which are active and four are inactive and one of five owners of HCCR. TMH, Inc.'s investments in HCCR and the Captive are carried at cost. The investment in HCCR was \$100,000 at September 30, 2017 and 2016 and the investment in the Captive was \$857,000 at September 30, 2017 and 2016. The Captive's bylaws indicate that no more than 15 organizations can be owners. HCCR maintains a facultative reinsurance agreement with the Captive whereby all of the professional and general liability risk of the Hospital for in force (not expired) policies is effectively transferred to the Captive. Effective from August 1, 2009, the Captive entered into a reinsurance contract with limits reinsured of \$14,000,000 per claim and aggregate in excess of \$6,000,000 per claim in excess of each insured's retention. Effective

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August 1, 2006, the Captive entered into a three year reinsurance contract with limits of \$14,000,000 per claim and \$21,000,000 annual aggregate in excess of \$6,000,000 per claim in excess of each insured's retention. Prior to August 1, 2006, the Captive retained \$5,000,000 of professional liability risk for each claim and maintained a reinsurance treaty that provided \$5,000,000 of excess coverage for each claim. Effective August 1, 2016, the owners of the Captive and HCCR have elected to no longer issue policies of professional liability insurance. The Boards of Directors of the Captive and HCCR are developing a plan of action to wind down the operations of both companies, obtain various regulatory approvals for such actions and provide for payment of any outstanding liabilities.

The Hospital is self-insured for workers' compensation up to \$600,000 per occurrence, and has purchased excess coverage from commercial carriers up to the amount allowed by Florida Statutes. A liability of approximately \$2,688,000 and \$2,464,000 has been recorded at September 30, 2017 and 2016, respectively.

The combined liability for professional liability and workers' compensation self-insurance at September 30, 2017 and 2016 was as follows:

	2017	2016
Other current liabilities	\$ 9,511,070	\$ 9,864,566
Other liabilities	25,850,336	23,721,202
	<u>\$ 35,361,406</u>	<u>\$ 33,585,768</u>

10. Retirement Plans

The Hospital maintains a noncontributory defined benefit pension plan (the "Plan") covering substantially all employees. The Plan's benefits are based on years of service and the employees' compensation during the highest five years of credited service. TMH, Inc.'s funding policy is to contribute annually the minimum amount permitted under ERISA using the Projected Unit Credit Actuarial Cost Method. Plan assets consist primarily of listed stocks, corporate bonds, government bonds and notes, and mutual funds.

On October 20, 2004, the Board of Directors of TMH, Inc. approved a resolution to freeze benefit accruals under the Plan effective December 31, 2004. While continued service after December 31, 2004 will count towards eligibility for early retirement benefits and vesting purposes, no service or compensation after December 31, 2004 will be considered for benefit accruals.

The Hospital accounts for the Plan in accordance with ASC 715, *Compensation - Retirements* ("ASC 715"). ASC 715 requires an employer to recognize the net funded status of defined benefit pensions and other postretirement benefit plans as an asset or liability in its balance sheet and to recognize changes in the funded status through net assets. Additional minimum pension liabilities ("AML") and related intangible assets were derecognized upon adoption of ASC 715. For pension plans, the benefit obligation is the projected benefit obligation; for other postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation.

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The following table sets forth the approximate change in projected benefit obligation, change in plan assets, weighted average assumptions and component of net periodic pension cost for the Plan:

	2017	2016
Accumulated benefit obligation	<u>\$ 447,784,873</u>	<u>\$ 480,073,210</u>
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 480,073,210	\$ 460,120,403
Interest cost	17,883,298	18,583,437
Actuarial (gain) loss	(31,533,694)	19,369,570
Benefits paid	<u>(18,637,941)</u>	<u>(18,000,200)</u>
Projected benefit obligation, end of year	<u>\$ 447,784,873</u>	<u>\$ 480,073,210</u>
Change in plan assets		
Plan assets at fair value, beginning of year	\$ 382,122,319	\$ 353,316,659
Employer contributions	14,400,000	14,400,000
Actual return on plan assets	45,117,763	32,405,860
Benefits paid	<u>(18,637,941)</u>	<u>(18,000,200)</u>
Plan assets at fair value, end of year	<u>\$ 423,002,141</u>	<u>\$ 382,122,319</u>
Funded status	<u>\$ (24,782,732)</u>	<u>\$ (97,950,891)</u>
	2017	2016
Reconciliation of funded status		
Projected benefit obligation at end of year	\$ (447,784,873)	\$ (480,073,210)
Fair value of assets at end of year	<u>423,002,141</u>	<u>382,122,319</u>
Funded status at end of year	<u>\$ (24,782,732)</u>	<u>\$ (97,950,891)</u>
Amounts recognized in the Consolidated Balance Sheet		
Other assets		
Current portion of pension liability	\$ (17,866,616)	\$ (18,242,781)
Long-term pension liability	<u>(6,916,116)</u>	<u>(79,708,110)</u>
Total	<u>\$ (24,782,732)</u>	<u>\$ (97,950,891)</u>
	2017	2016
Amounts recognized in unrestricted net assets		
Net loss	\$ 101,985,526	\$ 161,498,978
Total amount recognized	<u>\$ 101,985,526</u>	<u>\$ 161,498,978</u>
Changes recognized in unrestricted net assets		
Net actuarial loss		
Net actuarial (gain)loss from liabilities	\$ (31,533,694)	\$ 19,369,570
Net actuarial (gain) loss from assets	<u>(16,630,592)</u>	<u>(6,050,582)</u>
Total net actuarial (gain) loss	<u>(48,164,286)</u>	<u>13,318,988</u>
Amortization of actuarial loss	<u>(11,349,166)</u>	<u>(11,351,994)</u>
Net change in unrestricted net assets	<u>\$ (59,513,452)</u>	<u>\$ 1,966,994</u>
Net periodic pension cost	<u>\$ 745,293</u>	<u>\$ 3,580,152</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

	2017	2016
Weighted average assumptions for benefit obligations at September 30		
Discount rate	3.99%	3.80%
Rate of increase in future compensation levels	N/A	N/A
Weighted average assumptions for net periodic benefit costs at September 30		
Discount rate	3.80%	4.12%
Expected return on plan assets	7.00%	7.50%
Rate of compensation increase	N/A	N/A
Components of net periodic pension cost		
Interest cost	\$ 17,883,298	\$ 18,583,437
Expected return on plan assets	(28,487,171)	(26,355,279)
Amortization of loss	11,349,166	11,351,994
Net periodic pension cost	<u>\$ 745,293</u>	<u>\$ 3,580,152</u>

The Plan assets are administered by a trustee and are invested in the following percentages in various instruments at September 30, 2017 and 2016:

	2017	2016
Mutual funds and short-term investments	7%	10%
Equity securities	70%	67%
Debt securities	23%	23%
	<u>100%</u>	<u>100%</u>

The fair value of the Plan's assets at September 30, 2017 and 2016 are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
September 30, 2017				
Short-term investments	\$ 28,999,385	\$ -	\$ -	\$ 28,999,385
Corporate bonds and notes	-	47,936,501	-	47,936,501
U.S. government and agency obligations	-	50,576,637	-	50,576,637
Common stocks	295,489,618	-	-	295,489,618
Total investments	<u>\$ 324,489,003</u>	<u>\$ 98,513,138</u>	<u>\$ -</u>	<u>\$ 423,002,141</u>
September 30, 2016				
Short-term investments	\$ 37,301,491	\$ -	\$ -	\$ 37,301,491
Corporate bonds and notes	-	50,363,477	-	50,363,477
U.S. government and agency obligations	-	38,328,166	-	38,328,166
Common stocks	256,129,185	-	-	256,129,185
Total investments	<u>\$ 293,430,676</u>	<u>\$ 88,691,643</u>	<u>\$ -</u>	<u>\$ 382,122,319</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

Future benefit payments for years ending September 30 are as follows:

2018	\$ 19,640,047
2019	20,550,194
2020	21,340,300
2021	22,043,275
2022	22,954,719
2023 – 2028	149,952,423
	<u>\$ 256,480,958</u>

The Hospital expects to contribute approximately \$14,400,000 to the Plan for the year ending September 30, 2018. Estimated amounts to be amortized out of unrestricted net assets for the year ending September 30, 2018 are approximately \$5,721,000 and the amount will be recorded in pension expense.

Investment Strategy

The asset allocation and investment strategy of the Plan is designed to earn superior returns on Plan assets consistent with a reasonably prudent level of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of large losses. The Hospital uses investment managers specializing in each asset category and, where appropriate, provides the investment managers with specific guidelines, which include allowable and/or prohibited investment types. The Hospital regularly monitors manager performance and compliance with investment guidelines.

Expected Rate of Return

The expected long-term rate of return on Plan assets is based on historical and projected rates of return for current and planned asset categories in the Plan's investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns for the effect of expenses paid from Plan assets.

Retirement Savings Plan

During the year ended September 30, 2005, the Hospital established the Tallahassee Memorial HealthCare 401(A) Retirement Savings Plan (the "Savings Plan"), a qualified defined contribution plan covering all employees who are at least 21 years of age and have completed one year of service. TMH, Inc. contributes 4% of eligible income to each eligible employee and an additional matching contribution up to 2% of eligible income. Participants become fully vested after three years of service. The contribution required under the Savings Plan for the years ended September 30, 2017 and 2016 was approximately \$10,457,000 and \$8,878,000, respectively. These contributions have been included in salaries, wages and benefits expense in the accompanying consolidated statements of operations. Additionally, the amounts due to the Savings Plan as of September 30, 2017 and 2016 were approximately \$911,000 and \$273,000, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

11. Related Party Transactions

During the years ended September 30, 2017 and 2016, the Hospital charged rent amounting to approximately \$1,402,000 annually to TMHV. For the years ended September 30, 2017 and 2016, the Hospital received contributions of approximately \$879,000 and \$664,000, respectively, from the Foundation. For the years ended September 30, 2017 and 2016, the Hospital paid for leased space of approximately \$655,000 and \$563,000, respectively, to SECHS and approximately \$271,000 and \$267,000, respectively, to TMHV. For the years ended September 30, 2017 and 2016, Medicus provided TMH with approximately \$13,386,000 and \$11,796,000, respectively, in leased labor. At September 30, 2017 and 2016, the Hospital had outstanding receivables from TMH, Inc. of approximately \$964,000 and other receivables from subsidiaries of TMH, Inc. of approximately \$6,254,000 and \$4,045,000, respectively.

12. Temporarily Restricted Net Assets

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

	2017	2016
Angie C. Deeb Cancer Research and Treatment Trust (represents earnings on endowment fund)	\$ 309,919	\$ 301,516
Women's and Children's Center	1,116,138	1,090,861
Cancer Treatment	1,219,090	1,044,101
Diabetes Center	225,176	216,327
Pediatrics	1,422,890	1,331,398
Heart and Vascular Center	128,782	183,849
Other - multiple designated restrictions	3,602,102	3,455,034
Sharon Ewing Walker	207,662	304,377
Geriatric - Physician and Hospital Training	122,781	122,781
Dansby Trauma Center	429,159	422,844
Cancer Building	1,714,050	1,741,565
Dozier Charitable Remainder Annuity Trust	124,665	118,178
Family Practice Residency	315,054	311,298
Total temporarily restricted net assets	<u>\$ 10,937,468</u>	<u>\$ 10,644,129</u>

Net assets were released from donor restrictions during the years ended September 30, 2017 and 2016 by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

Purpose restrictions accomplished during the years ended September 30, 2017 and 2016 were as follows:

	2017	2016
Diabetes	\$ 10,601	\$ 16,789
Pediatrics	87,338	95,016
Give-a-Hand	204,004	141,002
Neurology	200,838	104,980
Woman's Pavilion	45,668	42,559
Cancer Center	138,672	95,868
Arts in Medicine	114,275	144,891
Cancer Building	99,560	108,087
Family Practice	46,613	12,079
Nursing	100,375	-
Other	556,441	204,237
Total restrictions satisfied	<u>\$ 1,604,385</u>	<u>\$ 965,508</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

13. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following programs at September 30, 2017 and 2016:

	2017	2016
General - TMH Endowment	\$ 261,461	\$ 267,377
General - F Rhodes Sanderson	191,477	187,693
General - Various	46,843	39,559
Nursing Scholarships - Frueauff	494,356	484,587
Nursing Scholarships - Various	167,882	162,847
Nursing - Brady Family Endowment	23,794	23,324
Nursing - Friends of Nursing	18,727	18,357
Cancer Treatment - Deeb	371,130	363,436
Cancer Treatment - Radiation Therapy	188,757	184,572
Cancer - Luca	53,294	51,341
Cancer - Saskia Kindness	15,308	5,066
Cancer-Dixon, S Ewing Breast Center	54,652	5,117
Cancer - Employees of Proctor	53,028	-
Arts in Medicine - Akers	100,618	91,992
Arts in Medicine - Bender/Plescia	69,759	68,380
Arts in Medicine - C. Virginia Bert	128,824	126,278
Animal Therapy - Friends of Rikki	9,146	-
Diabetes Care - Various	90,749	88,956
Diabetes Care - Proctor	1,284,407	1,212,935
Diabetes Youth Camp - Sweat	13,679	13,408
Diabetes - E.B. Crowell, Ph.D.	18,054	-
Cardiac Care - Smith	105,937	103,788
Cardiac Care - Owenby	42,193	41,359
Cardiac Intensive Care - Higdon	220,135	215,784
Cardiac - Various	100,161	86,286
Cardiac - Ray B. Munroe Jr. PHD	99,399	75,064
Cardiac - Jyotsna "Dr. Jo" Dalal	10,545	10,336
Clinical Medicine - Dozier	770,973	755,737
Laboratory Research - Graham	88,946	87,188
Pediatric Care - Oven	17,324	16,982
Pediatric Care - Various	144,916	141,627
Pediatrics - Cohen	43,792	42,926
Pediatrics - Margaret Mosco	63,919	62,656
Pediatrics - Marco J. Ginaldi	36,159	35,499
Behavioral Health - Geissinger	159,852	156,693
Extended Care - Shelfer	311,136	304,909
Neurointensive Care - Vogter	655,390	602,983
Medical Library - Founding Physicians	59,958	58,773
Neurosciences - Bryan W. Robinson	655,414	624,953
Neurocognitive Rehab - Bender/Plescia	107,070	104,654
Primary Care - Pettit	191,200	189,873
Emergency Services - Bixler	329,468	321,477
Veller Endowment	88,287	86,542
	<u>\$ 7,958,119</u>	<u>\$ 7,521,314</u>
Total permanently restricted net assets		

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

14. Financial Instruments

The carrying amount of certain of TMH, Inc.'s financial instruments (including cash and cash equivalents, short-term investments, and assets limited as to use) approximates fair value because of their relatively short maturities. Long-term investments consist of marketable equity securities and are reported in the consolidated balance sheets at fair value based on quoted market prices.

The estimated fair value of TMH, Inc.'s bonds and notes payable is estimated based on dealer quotations for hospital debt with similar terms and maturities for the same or similar issues. The aggregate carrying amount and estimated fair value of the bonds and notes payable, exclusive of the capital lease obligations, as of September 30, 2017 and 2016, are as follows:

	2017	2016
Carrying value	\$ 354,770,000	\$ 357,890,000
Estimated fair value	378,357,277	403,694,968

Certain financial instruments potentially subject TMH, Inc. to concentrations of credit risk. These financial instruments consist primarily of cash and cash equivalents, short-term investments, assets limited as to use, and patient accounts receivable. TMH, Inc. maintains its cash and cash equivalents and investments with what management believes to be high quality financial institutions and thus limits its credit exposure. Concentrations of credit risk with respect to patient accounts receivable include Medicare, Medicaid and various commercial payors.

15. Commitments

As of September 30, 2017, future minimum payments required under noncancelable maintenance agreements were as follows:

2018	\$ 2,211,852
2029	2,272,770
2020	2,244,899
2021	2,218,909
2022	-
	<u>\$ 8,948,430</u>

16. Contingencies

In the normal course of business, the Hospital is subject to various litigation and claims such as labor-related and other matters. Management has analyzed such pending unresolved disputes and estimated the potential cost of settlements, legal fees and other costs associated with an unfavorable outcome. The consolidated financial statements include accruals related to these disputes. In the opinion of management, after consultation with legal counsel, no other material liabilities are likely to result from the ultimate disposition of such matters.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

17. Endowment

The Foundation operates under the Florida Uniform Management of Institutional Funds Act (“FUMIFA”). The FUMIFA defines an endowment fund as an institutional fund or part thereof that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis. Furthermore, FUMIFA allows a governing board to expend that amount of an endowment fund determined to be prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. In accordance with FUMIFA, the Foundation considers the following in expenditure decisions for its endowment funds:

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

The Foundation's endowments consist of individual donor restricted endowment funds and quasi-endowment funds which are internally designated by the Board of Trustees of the Foundation for a variety of purposes plus pledges receivable where the assets have been designated for endowment. The net assets associated with endowment funds including funds internally designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions in a manner consistent with the standard of prudence prescribed by FUMIFA.

The Foundation's investment policy requires the endowed assets be invested for the sole interest of Tallahassee Memorial Healthcare Foundation, Inc. and with the same care, skill and diligence as a prudent investor would use in a similar capacity. The endowed investments should earn the spending rate of the endowment, plus inflation, and preserve the assets for the Foundation. In addition, the endowed investments should outperform a blended benchmark consisting of 60% Russell 3000 and 40% Barclays Aggregate, over a 3 and 5 year time period, respectively.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

The Foundation had the following endowment activities during the years ended September 30 delineated by net asset class and donor-restricted versus Board-designated funds:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ -	\$ 10,937,468	\$ 7,958,119	\$ 18,895,587
Board-designated endowment fund	1,902,784	-	-	1,902,784
Total endowment funds	<u>\$ 1,902,784</u>	<u>\$ 10,937,468</u>	<u>\$ 7,958,119</u>	<u>\$ 20,798,371</u>
Net assets, October 1, 2016	\$ 1,242,104	\$ 10,644,129	\$ 7,521,314	\$ 19,407,547
Gifts	2,258,988	1,686,726	165,579	4,111,293
Provision for bad debts	-	(8,478)	(1,050)	(9,528)
Appropriation of endowment assets for expenditure	(2,373,397)	(1,604,385)	-	(3,977,782)
Investment gain allocation	775,089	310,169	181,583	1,266,841
Net asset transfer to/from other restriction	-	(90,693)	90,693	-
Net assets, September 30, 2017	<u>\$ 1,902,784</u>	<u>\$ 10,937,468</u>	<u>\$ 7,958,119</u>	<u>\$ 20,798,371</u>

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ -	\$ 10,644,129	\$ 7,521,314	\$ 18,165,443
Board-designated endowment fund	1,242,104	-	-	1,242,104
Total endowment funds	<u>\$ 1,242,104</u>	<u>\$ 10,644,129</u>	<u>\$ 7,521,314</u>	<u>\$ 19,407,547</u>
Net assets, October 1, 2015	\$ 963,065	\$ 9,957,237	\$ 7,134,085	\$ 18,054,387
Gifts	2,106,159	1,492,786	78,973	3,677,918
Provision for bad debts	-	(61,467)	(6,000)	(67,467)
Appropriation of endowment assets for expenditure	(2,545,486)	(965,508)	-	(3,510,994)
Investment gain allocation	718,366	337,234	198,103	1,253,703
Net asset transfer to/from other restriction	-	(116,153)	116,153	-
Net assets, September 30, 2016	<u>\$ 1,242,104</u>	<u>\$ 10,644,129</u>	<u>\$ 7,521,314</u>	<u>\$ 19,407,547</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only)

The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation as of September 30:

Permanently Restricted

	2017	2016
Permanently restricted for program support	<u>\$ 7,958,119</u>	<u>\$ 7,521,314</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

Temporarily Restricted

	2017	2016
Temporarily restricted for program support	<u>\$ 10,937,468</u>	<u>\$ 10,644,129</u>

18. Subsequent Events

TMH, Inc. has evaluated subsequent events through December 12, 2017, which is the date the consolidated financial statements were issued.

TMH 1607, LLC, a wholly controlled subsidiary of TMH, Inc. owns 53.1% of 1607 Building, LLC as of September 30, 2017. On December 1, 2017, TMH 1607, LLC purchased for \$1.8 million the remaining 46.9% ownership interest of 1607 Building, LLC from TPC Building, LLC which results in TMH 1607, LLC owning 100% of 1607 Building, LLC.



**Report of Independent Certified Public Accountants on
Accompanying Consolidating Information**

To the Board of Directors of
Tallahassee Memorial HealthCare, Inc.

We have audited the consolidated financial statements of Tallahassee Memorial Healthcare, Inc. and Subsidiaries as of September 30, 2017 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating 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 consolidating 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

A handwritten signature in black ink that reads "PricewaterhouseCoopers 22P".

December 12, 2017

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Balance Sheet – By Subsidiary/Division
September 30, 2017

Schedule I

	Hospital	SECHS	TMHV	Foundation	Medicus	TMH 1607 LLC	Eliminations	2017 TMH, Inc.	2016 TMH, Inc.
Assets									
Current assets									
Cash and cash equivalents	\$ 277,171,794	\$ 3,911,528	\$ 8,992,410	\$ 1,714,662	\$ -	\$ -	\$ -	\$ 291,790,394	\$ 256,926,285
Short-term investments	1,451,249	-	-	10,598,006	-	-	-	12,049,255	11,319,327
Assets limited as to use	13,585,520	-	-	-	-	-	-	13,585,520	13,363,214
Patient accounts receivable, net	85,301,671	-	-	-	-	-	-	85,301,671	77,657,632
Inventories	9,995,840	-	10,899	-	-	-	-	10,006,739	10,450,091
Due from Medicare	6,517,083	-	-	-	-	-	-	6,517,083	7,149,668
Other current assets	15,842,483	124,693	4,754,134	850,772	55,780	1,960,414	-	23,588,276	19,433,439
Total current assets	<u>409,865,640</u>	<u>4,036,221</u>	<u>13,757,443</u>	<u>13,163,440</u>	<u>55,780</u>	<u>1,960,414</u>	<u>-</u>	<u>442,838,938</u>	<u>396,299,656</u>
Assets limited as to use									
Held by trustee	191,862,315	-	-	-	-	-	-	191,862,315	261,386,228
Less amount required to meet current obligations	<u>(13,585,520)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,585,520)</u>	<u>(13,363,214)</u>
Total assets limited as to use	<u>178,276,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,276,795</u>	<u>248,023,014</u>
Long-term investments	27,300	-	-	7,958,119	-	-	-	7,985,419	7,548,614
Property, plant and equipment, net	356,562,403	8,123,262	3,789,805	229,337	-	-	-	368,704,807	302,471,801
Due from TMH, Inc.	7,217,857	-	549,111	-	1,683,673	-	(9,450,641)	-	-
Other assets	10,234,870	-	-	50,725	-	-	-	10,285,595	8,933,977
Total assets	<u>\$ 962,184,865</u>	<u>\$ 12,159,483</u>	<u>\$ 18,096,359</u>	<u>\$ 21,401,621</u>	<u>\$ 1,739,453</u>	<u>\$ 1,960,414</u>	<u>\$ (9,450,641)</u>	<u>\$ 1,008,091,554</u>	<u>\$ 963,277,062</u>

The accompanying notes are an integral part of these consolidated financial statements.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Balance Sheet – By Subsidiary/Division
September 30, 2017

Schedule I

	Hospital	SECHS	TMHV	Foundation	Medicus	TMH 1607 LLC	Eliminations	2017 TMH, Inc.	2016 TMH, Inc.
Liabilities and Net Assets									
Current liabilities									
Accounts payable and accrued expenses	\$ 73,815,884	\$ 272,892	\$ 1,150,079	\$ 55,372	\$ 1,334,751	\$ -	\$ (1,532,855)	\$ 75,096,123	\$ 64,401,126
Current portion of long-term debt	3,012,579	410,475	-	-	-	-	(410,475)	3,012,579	3,076,809
Current portion of pension liability	17,866,616	-	-	-	-	-	-	17,866,616	18,242,781
Other current liabilities	9,511,070	-	-	22,222	-	-	-	9,533,292	9,883,622
Due to TMH, Inc.	-	3,736,380	1,338,786	125,656	404,702	-	(5,605,524)	-	-
Total current liabilities	<u>104,206,149</u>	<u>4,419,747</u>	<u>2,488,865</u>	<u>203,250</u>	<u>1,739,453</u>	<u>-</u>	<u>(7,548,854)</u>	<u>105,508,610</u>	<u>95,604,338</u>
Long-term debt, net of current portion	392,313,863	-	-	-	-	-	-	392,313,863	398,095,669
Long-term pension liability	6,916,116	-	-	-	-	-	-	6,916,116	79,708,110
Other liabilities	36,977,249	-	-	400,000	-	-	-	37,377,249	34,743,368
Total liabilities	<u>540,413,377</u>	<u>4,419,747</u>	<u>2,488,865</u>	<u>603,250</u>	<u>1,739,453</u>	<u>-</u>	<u>(7,548,854)</u>	<u>542,115,838</u>	<u>608,151,485</u>
Commitments and contingencies									
Net assets									
Unrestricted	421,771,488	7,739,736	15,607,494	1,902,784	-	1,960,414	(1,901,787)	447,080,129	336,960,134
Temporarily restricted	-	-	-	10,937,468	-	-	-	10,937,468	10,644,129
Permanently restricted	-	-	-	7,958,119	-	-	-	7,958,119	7,521,314
Total net assets	<u>421,771,488</u>	<u>7,739,736</u>	<u>15,607,494</u>	<u>20,798,371</u>	<u>-</u>	<u>1,960,414</u>	<u>(1,901,787)</u>	<u>465,975,716</u>	<u>355,125,577</u>
Total liabilities and net assets	<u>\$ 962,184,865</u>	<u>\$ 12,159,483</u>	<u>\$ 18,096,359</u>	<u>\$ 21,401,621</u>	<u>\$ 1,739,453</u>	<u>\$ 1,960,414</u>	<u>\$ (9,450,641)</u>	<u>\$ 1,008,091,554</u>	<u>\$ 963,277,062</u>

The accompanying notes are an integral part of these consolidated financial statements.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Statement of Operations - By Subsidiary/Division
Year Ended September 30, 2017

Schedule II

	Hospital	SECHS	TMHV	Foundation	Medicus	TMH 1607 LLC	Eliminations	2017 TMH, Inc.	2016 TMH, Inc.
Unrestricted revenues, gains and other support									
Net patient service revenue (net of contractual allowances and discounts)	\$ 808,821,067	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 808,821,067	\$ 764,631,140
Provision for bad debts	(122,307,863)	-	-	-	-	-	-	(122,307,863)	(112,773,298)
Net patient service revenue less provision for bad debts	686,513,204	-	-	-	-	-	-	686,513,204	651,857,842
Other revenue	3,240,401	626,773	7,144,249	3,034,077	13,483,969	58,627	(15,371,921)	12,216,175	13,770,344
Total revenues, gains and other support	689,753,605	626,773	7,144,249	3,034,077	13,483,969	58,627	(15,371,921)	698,729,379	665,628,186
Expenses									
Salaries, wages and benefits	318,952,818	42,842	1,554,806	829,935	13,386,401	-	(13,480,985)	321,285,817	302,901,812
Supplies and other	228,282,271	3,571	3,813,998	2,998,970	97,568	-	(3,304,268)	231,892,110	227,638,214
Professional fees	57,320,672	10,850	-	130,763	-	-	-	57,462,285	51,338,028
Depreciation and amortization	32,267,893	101,690	194,420	18,114	-	-	-	32,582,117	32,063,491
Interest	6,315,221	13,526	-	-	-	-	(13,526)	6,315,221	6,351,262
Total expenses	643,138,875	172,479	5,563,224	3,977,782	13,483,969	-	(16,798,779)	649,537,550	620,292,807
Operating income (loss)	46,614,730	454,294	1,581,025	(943,705)	-	58,627	1,426,858	49,191,829	45,335,379
Loss on extinguishment of debt	(211,531)	-	-	-	-	-	-	(211,531)	-
Other revenues and expenses, net	1,380,920	49,344	18,454	-	-	-	(1,416,511)	32,207	(1,465,061)
Excess (deficit) of revenues over expenses	47,784,119	503,638	1,599,479	(943,705)	-	58,627	10,347	49,012,505	43,870,318
Net assets released from restrictions used for program services and purchase of equipment	-	-	-	1,604,385	-	-	(10,347)	1,594,038	1,843,552
Change in pension liability	59,513,452	-	-	-	-	-	-	59,513,452	(1,966,994)
Increase in unrestricted net assets	\$ 107,297,571	\$ 503,638	\$ 1,599,479	\$ 660,680	\$ -	\$ 58,627	\$ -	\$ 110,119,995	\$ 43,746,876

The accompanying notes are an integral part of these consolidated financial statements.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Statement of Changes in Net Assets - By Subsidiary/Division
Year Ended September 30, 2017

Schedule III

	Hospital	SECHS	TMHV	Foundation	Medicus	TMH 1607 LLC	Eliminations	2017 TMH, Inc.	2016 TMH, Inc.
Unrestricted net assets									
Excess (deficit) of revenues over expenses	\$ 47,784,119	\$ 503,638	\$ 1,599,479	\$ (943,705)	\$ -	\$ 58,627	\$ 10,347	\$ 49,012,505	\$ 43,870,318
Net assets released from restrictions used for program services and purchase of equipment	-	-	-	1,604,385	-	-	(10,347)	1,594,038	1,843,552
Change in pension liability	59,513,452	-	-	-	-	-	-	59,513,452	(1,966,994)
Contributed capital	-	-	-	-	-	1,901,787	(1,901,787)	-	-
Increase in unrestricted net assets	<u>107,297,571</u>	<u>503,638</u>	<u>1,599,479</u>	<u>660,680</u>	<u>-</u>	<u>1,960,414</u>	<u>(1,901,787)</u>	<u>110,119,995</u>	<u>43,746,876</u>
Temporarily restricted net assets									
Contributions	-	-	-	1,686,726	-	-	-	1,686,726	1,492,786
Provision for bad debts	-	-	-	(8,478)	-	-	-	(8,478)	(61,467)
Income on investments	-	-	-	350,818	-	-	-	350,818	767,506
Net unrealized and realized losses on investments	-	-	-	(40,649)	-	-	-	(40,649)	(430,272)
Net assets released from restrictions—used for program services	-	-	-	(1,604,385)	-	-	-	(1,604,385)	(965,508)
Net asset transfers from temporarily restricted net assets to permanently restricted net assets	-	-	-	(90,693)	-	-	-	(90,693)	(116,153)
Increase in temporarily restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>293,339</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>293,339</u>	<u>686,892</u>
Permanently restricted net assets									
Contributions	-	-	-	165,579	-	-	-	165,579	78,973
Provision for bad debts	-	-	-	(1,050)	-	-	-	(1,050)	(6,000)
Income on investments	-	-	-	205,381	-	-	-	205,381	450,861
Net unrealized and realized losses on investments	-	-	-	(23,798)	-	-	-	(23,798)	(252,758)
Net asset transfers to permanently restricted net assets from temporarily restricted net assets	-	-	-	90,693	-	-	-	90,693	116,153
Increase in permanently restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>436,805</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>436,805</u>	<u>387,229</u>
Increase in net assets	<u>107,297,571</u>	<u>503,638</u>	<u>1,599,479</u>	<u>1,390,824</u>	<u>-</u>	<u>1,960,414</u>	<u>(1,901,787)</u>	<u>110,850,139</u>	<u>44,820,997</u>
Net assets									
Beginning of year	<u>314,473,917</u>	<u>7,236,098</u>	<u>14,008,015</u>	<u>19,407,547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>355,125,577</u>	<u>310,304,580</u>
End of year	<u>\$ 421,771,488</u>	<u>\$ 7,739,736</u>	<u>\$ 15,607,494</u>	<u>\$ 20,798,371</u>	<u>\$ -</u>	<u>\$ 1,960,414</u>	<u>\$ (1,901,787)</u>	<u>\$ 465,975,716</u>	<u>\$ 355,125,577</u>

The accompanying notes are an integral part of these consolidated financial statements.