

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

**Consolidated Financial Statements and
Supplemental Data
September 30, 2018 and 2017**

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

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September 30, 2018 and 2017

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Report of Independent Auditors

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, 2018 and 2017, 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.

Auditors' 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, 2018 and 2017, 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 22P".

December 10, 2018

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 322,549,958	\$ 291,790,394
Short-term investments	12,745,992	12,049,255
Assets limited as to use	13,225,172	13,585,520
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$93,900,000 and \$88,600,000 as of September 30, 2018 and 2017, respectively	91,048,606	85,301,671
Inventories	10,240,352	10,006,739
Due from Medicare	-	6,517,083
Other current assets	22,912,553	23,588,276
Total current assets	<u>472,722,633</u>	<u>442,838,938</u>
Assets limited as to use		
Held by trustee	111,061,717	191,862,315
Less amount required to meet current obligations	<u>(13,225,172)</u>	<u>(13,585,520)</u>
Total assets limited as to use	<u>97,836,545</u>	<u>178,276,795</u>
Long-term investments	8,397,373	7,985,419
Property, plant and equipment, net	462,254,609	368,704,807
Other assets	62,529,025	10,285,595
Total assets	<u>\$ 1,103,740,185</u>	<u>\$ 1,008,091,554</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 85,432,123	\$ 75,096,123
Current portion of long-term debt	3,246,874	3,012,579
Current portion of pension liability	-	17,866,616
Due to Medicare	1,858,784	-
Other current liabilities	9,611,016	9,533,292
Total current liabilities	<u>100,148,797</u>	<u>105,508,610</u>
Long-term debt, net of current portion	386,700,855	392,313,863
Long-term pension liability	-	6,916,116
Other liabilities	38,028,834	37,377,249
Total liabilities	<u>524,878,486</u>	<u>542,115,838</u>
Commitments and contingencies		
Net assets		
Unrestricted	559,692,982	447,080,129
Temporarily restricted	10,798,644	10,937,468
Permanently restricted	8,370,073	7,958,119
Total net assets	<u>578,861,699</u>	<u>465,975,716</u>
Total liabilities and net assets	<u>\$ 1,103,740,185</u>	<u>\$ 1,008,091,554</u>

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, 2018 and 2017

	2018	2017
Unrestricted revenues, gains and other support		
Net patient service revenue (net of contractual allowances and discounts)	\$ 875,935,969	\$ 808,821,067
Provision for bad debts	<u>(133,296,557)</u>	<u>(122,307,863)</u>
Net patient service revenue less provision for bad debts	742,639,412	686,513,204
Other revenue	<u>14,634,844</u>	<u>12,216,175</u>
Total revenues, gains and other support	<u>757,274,256</u>	<u>698,729,379</u>
Expenses		
Salaries, wages and benefits	341,752,389	321,285,817
Supplies and other	264,945,071	231,892,110
Professional fees	66,627,025	57,462,285
Depreciation and amortization	32,183,609	32,582,117
Interest	<u>6,335,524</u>	<u>6,315,221</u>
Total expenses	<u>711,843,618</u>	<u>649,537,550</u>
Operating income	45,430,638	49,191,829
Loss on extinguishment of debt	-	(211,531)
Other revenues and expenses, net	<u>4,128,833</u>	<u>32,207</u>
Excess of revenues over expenses	49,559,471	49,012,505
Net assets released from restrictions used for program services and purchase of equipment	1,870,241	1,594,038
Change in pension liability	<u>61,183,141</u>	<u>59,513,452</u>
Increase in unrestricted net assets	<u>\$ 112,612,853</u>	<u>\$ 110,119,995</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, 2018 and 2017

	2018	2017
Unrestricted net assets		
Excess of revenues over expenses	\$ 49,559,471	\$ 49,012,505
Net assets released from restrictions used for program services and purchase of equipment	1,870,241	1,594,038
Change in pension liability	61,183,141	59,513,452
Increase in unrestricted net assets	<u>112,612,853</u>	<u>110,119,995</u>
Temporarily restricted net assets		
Contributions	1,508,842	1,686,726
Provision for bad debts	(8,200)	(8,478)
Income on investments	250,164	350,818
Net unrealized and realized gains (losses) on investments	31,080	(40,649)
Net assets released from restrictions—used for program services	(1,870,241)	(1,604,385)
Net asset transfers from temporarily restricted net assets to permanently restricted net assets	(50,469)	(90,693)
(Decrease) increase in temporarily restricted net assets	<u>(138,824)</u>	<u>293,339</u>
Permanently restricted net assets		
Contributions	200,976	165,579
Provision for bad debts	(3,500)	(1,050)
Income on investments	145,884	205,381
Net unrealized and realized gains (losses) on investments	18,125	(23,798)
Net asset transfers to permanently restricted net assets from temporarily restricted net assets	50,469	90,693
Increase in permanently restricted net assets	<u>411,954</u>	<u>436,805</u>
Increase in net assets	112,885,983	110,850,139
Net assets		
Beginning of year	<u>465,975,716</u>	<u>355,125,577</u>
End of year	<u>\$ 578,861,699</u>	<u>\$ 465,975,716</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, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 112,885,983	\$ 110,850,139
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	32,183,609	32,582,117
Depreciation on office space rental property	1,056,009	1,077,451
Amortization of bond (premium) discount and bond issue costs	(70,538)	(147,746)
Net realized and unrealized gains on trading securities	(306,662)	(58,778)
Change in fair value of derivatives	650,599	(1,114,207)
Provision for bad debts	133,296,557	122,307,863
Provision for bad debts on temporarily and permanently restricted pledges	11,700	9,528
Change in pension liability	(81,814,395)	(73,168,159)
Gain on sale of property, plant and equipment	(1,059,103)	(61,329)
Restricted contributions	(235,351)	(199,025)
Loss on extinguishment of debt	-	211,531
(Increase) decrease in		
Patient accounts receivable	(139,043,492)	(129,951,902)
Inventories	(233,613)	443,352
Due from Medicare	6,517,083	632,585
Other current assets	664,023	(4,164,365)
Other assets	(4,691)	358,733
Increase (decrease) in		
Accounts payable and accrued expenses	3,028,191	2,273,684
Due to Medicare	1,858,784	-
Other current liabilities	222,019	(350,330)
Other liabilities	651,585	2,633,881
Net cash provided by operating activities	<u>70,258,297</u>	<u>64,165,023</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(121,184,951)	(93,088,122)
Proceeds from disposals of equipment	1,527,221	627,108
Investments		
Purchases of investments	(16,102,633)	(22,753,082)
Proceeds from sales and maturities of investments	15,116,377	21,420,322
Assets limited as to use		
Purchases of investments	(1,787,085)	(820,000)
Proceeds from sales and maturities of investments	82,771,910	70,568,718
Payments for physician guarantee contracts	(18,414)	(58,904)
Proceeds from physician guarantee contracts	150,464	13,195
Decrease (increase) in notes receivable and deposits	4,142,325	(609,339)
Net cash used in investing activities	<u>(35,384,786)</u>	<u>(24,700,104)</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, 2018 and 2017

	2018	2017
Cash flows from financing activities		
Payments on capital lease obligations	(621,298)	(556,835)
Repayment of Series 2008 Bonds	-	(600,000)
Payments on long-term debt	(3,728,000)	(3,643,000)
Payments on restricted contributions	235,351	199,025
Net cash used in financing activities	<u>(4,113,947)</u>	<u>(4,600,810)</u>
Net increase in cash and cash equivalents	30,759,564	34,864,109
Cash and cash equivalents		
Beginning of year	<u>291,790,394</u>	<u>256,926,285</u>
End of year	<u>\$ 322,549,958</u>	<u>\$ 291,790,394</u>
Supplemental Cash Flow Information		
Cash paid for interest, net of capitalized amounts of \$8,134,000 and \$7,655,000 as of September 30, 2018 and 2017, respectively	\$ 10,640,261	\$ 11,329,612
Non-Cash Investing Activities		
Accrued purchases of property, plant and equipment	\$ 7,175,759	\$ 8,480,217

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, 2018 and 2017

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. On December 1, 2017, TMH 1607, LLC acquired the remaining 46.9% interest in the joint venture and is now the sole owner of 1607 Building, LLC.

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.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

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, 2018 and 2017

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 \$252,000 and \$167,000 at September 30, 2018 and 2017, respectively, remain to be amortized over future periods and are included in long-term debt in the accompanying consolidated balance sheets.

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, 2018 and 2017 are as follows:

	2018	2017
Gross patient service revenue	\$ 2,929,061,228	\$ 2,661,000,122
Contractual adjustments and other deductions	<u>(2,053,125,259)</u>	<u>(1,852,179,055)</u>
Net patient service revenue	<u>\$ 875,935,969</u>	<u>\$ 808,821,067</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

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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, 2018 and 2017 was an asset of approximately \$1,111,000 and \$1,762,000, 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, 2018, the fair value of the Basis Rate Swap was an asset of approximately \$164,000 and the fair value of the Total Return Swap was an asset of approximately \$947,000. 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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

swaps required the recording of a (loss) gain of approximately (\$651,000) and \$1,114,000 in other revenues and expenses, net, in the accompanying consolidated statements of operations for the years ended September 30, 2018 and 2017, respectively.

The Hospital received (paid) funds related to the Basis Rate Swap of approximately \$76,000 and \$(39,000) for the years ended September 30, 2018 and 2017, 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 \$3,362,000 and \$3,909,000 for the years ended September 30, 2018 and 2017, 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 \$0 and \$659,000 at September 30, 2018 and 2017, 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.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
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September 30, 2018 and 2017

The following tables present the financial instruments carried at fair value as of September 30, 2018 and 2017, by caption on the consolidated balance sheets by the ASC 820 valuation hierarchy defined above:

September 30, 2018	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	\$ 430,154,532	\$ -	\$ -	\$ 430,154,532
Corporate obligations	3,501,991	821,322	-	4,323,313
Mutual funds	7,314,801	1,504,176	-	8,818,977
U.S. government and agency obligations	-	7,900,411	-	7,900,411
Equities	2,261,368	-	-	2,261,368
Private real estate fund	-	-	1,296,439	1,296,439
Total cash, investments and assets limited as to use	443,232,692	10,225,909	1,296,439	454,755,040
Total return swap receivable	-	947,348	-	947,348
Basis rate swap receivable	-	164,195	-	164,195
Charitable remainder annuity trusts	-	109,179	-	109,179
Insurance contract	-	132,076	-	132,076
Total assets at fair value	<u>\$ 443,232,692</u>	<u>\$ 11,578,707</u>	<u>\$ 1,296,439</u>	<u>\$ 456,107,838</u>

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>

* 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 the 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, 2018 and 2017 was as follows:

	2018	2017
Medicare	23%	22%
Medicaid	11%	12%
Managed Care	24%	22%
Blue Cross	17%	16%
Other (principally Commercial)	25%	28%
	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.

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In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (“Topic 230”) – Classification of certain cash receipts and cash payments*. This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendment is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of this ASU on the consolidated financial statements, which are effective for the years ended September 30, 2020.

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 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.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (“Topic 958”): Clarifying the scope and the accounting guidance for contributions received and contributions made*. This ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. For transactions in which an entity is either a public business entity or a not-for-profit that has issued, or is a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market and serves as a resource recipient, the entity should apply the amendments in this Update on contributions received to annual periods beginning after June 15, 2018, including interim periods within those annual periods. All other entities should apply the amendments to annual periods beginning after December 15, 2018, and interim period within annual periods beginning after December 15, 2019. . The company is currently evaluating the impact of this ASU on the consolidated financial statements, which are effective for the years ended September 30, 2020.

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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, 2018 and 2017, net patient service revenue increased by approximately \$3,359,000 and \$3,887,000, 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, physician 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 cost reports for fiscal years ended September 30, 2013, 2014 and 2015 have been audited and settled by Medicare. An audit of the Medicare cost report for the fiscal year ended September 30, 2012 by the Florida Medicare Administrative Contractor ("MAC") has begun, but is not completed. Approximately 34% and 35% of net patient service revenue for the years ended September 30, 2018 and 2017, respectively, is subject to the provisions of Medicare agreements.

Medicaid

Inpatient admissions are paid upon a prospectively determined rate based upon diagnostic categories adjusted for severity. During all of fiscal year 2018 and for the nine months for fiscal year 2017, outpatient services (except for laboratory and pathology services) rendered to Medicaid program beneficiaries were reimbursed on prospectively determined rates. 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. Prior to July 1, 2017, the Hospital was reimbursed for outpatient services at a tentative rate with final settlement determined when the prospectively determined rate was 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 were accrued on an estimated basis and adjusted in the period when final settlements are determined.

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The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2015. During fiscal year 2018, the Agency for Health Care Administration finalized the Medicaid rate settlements for the years 1999 through 2012. Approximately 4% and 6% of net patient service revenue for the years ended September 30, 2018 and 2017, 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 \$25,411,000 and \$24,649,000 as of September 30, 2018 and 2017, 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.

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.

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5. Investments and Assets Limited As To Use

The composition of assets limited as to use at September 30, 2018 and 2017 is set forth in the following table:

	2018	2017
Held by trustee under indenture agreements		
Cash, cash equivalents and short-term investments	<u>\$ 105,908,873</u>	<u>\$ 186,317,540</u>
	<u>105,908,873</u>	<u>186,317,540</u>
Held by trustee for self-insurance funding arrangements		
Cash, cash equivalents and short-term investments	116,525	183,860
U.S. government and agency obligations	476,753	37,193
Mutual funds	1,504,176	1,608,780
Equities	2,234,068	2,128,346
Corporate obligations	<u>821,322</u>	<u>927,153</u>
	<u>5,152,844</u>	<u>4,885,332</u>
Held by trustee as swap collateral		
Cash	-	659,443
	<u>\$ 111,061,717</u>	<u>\$ 191,862,315</u>

Short-term and long-term investments, stated at fair value, at September 30, 2018 and 2017 include:

	2018	2017
Cash and cash equivalents	\$ 126,983	\$ 72,981
Corporate obligations	3,501,991	2,341,734
Certificates of deposit	1,452,193	1,451,249
Private equities	27,300	27,300
U.S. government and agency obligations	7,423,658	8,530,523
Mutual funds	7,314,801	6,398,276
Private real estate fund	<u>1,296,439</u>	<u>1,212,611</u>
	21,143,365	20,034,674
Less: Long-term investments	<u>(8,397,373)</u>	<u>(7,985,419)</u>
Short-term investments	<u>\$ 12,745,992</u>	<u>\$ 12,049,255</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
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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, 2018 and 2017:

	2018	2017
Income		
Investment income		
Unrestricted	\$ 2,719,230	\$ 1,653,878
Temporarily restricted	250,164	350,818
Permanently restricted	145,884	205,381
Net realized (losses) gains on sales of trading securities		
Unrestricted	(216,670)	414,543
Temporarily restricted	(91,957)	165,888
Permanently restricted	(53,625)	97,117
Net unrealized gains (losses) on trading securities		
Unrestricted	474,127	(291,318)
Temporarily restricted	123,037	(206,537)
Permanently restricted	71,750	(120,915)
Total investment income	<u>\$ 3,421,940</u>	<u>\$ 2,268,855</u>

6. Property, Plant and Equipment

Property, plant and equipment as of September 30, 2018 and 2017 is summarized as follows:

	2018	2017
Land	\$ 31,094,927	\$ 25,180,530
Buildings	353,363,249	340,558,252
Equipment	284,539,406	260,962,197
Leasehold improvements	8,399,043	7,522,432
	<u>677,396,625</u>	<u>634,223,411</u>
Less: Accumulated depreciation	<u>(410,522,867)</u>	<u>(379,613,723)</u>
	266,873,758	254,609,688
Construction-in-progress	195,380,851	114,095,119
Property, plant and equipment, net	<u>\$ 462,254,609</u>	<u>\$ 368,704,807</u>

Interest costs incurred during the fiscal years 2018 and 2017 were approximately \$14,469,000 and \$13,970,000, respectively. Interest capitalized was approximately \$8,134,000 and \$7,655,000 during fiscal years 2018 and 2017, respectively.

Depreciation expense for the years ended September 30, 2018 and 2017 was approximately \$32,184,000 and \$32,582,000, respectively. Depreciation expense on office space rental property for the years ended September 30, 2018 and 2017 was approximately \$1,056,000 and \$1,077,000, respectively, and was included in other revenues and expenses, net in the accompanying consolidated statements of operations. Construction-in-progress at September 30, 2018 consisted of routine facility renovations, enabling projects and committed costs associated with the hospital

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addition of the M.T. Mustian Center and various information technology projects. Estimated costs to complete are approximately \$71,020,000.

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 2058. 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 2022. Rent expense for the years ended September 30, 2018 and 2017 was approximately \$5,944,000 and \$4,922,000, respectively. As of September 30, 2018, future minimum rental payments required under noncancelable operating leases are:

Years Ending	
2019	\$ 218,451
2020	101,215
2021	44,400
2022	25,900
2023	-
	<u>\$ 389,966</u>

7. Other Liabilities

Other liabilities consist of the following at September 30, 2018 and 2017:

	2018	2017
Workers' compensation liability	\$ 1,874,079	\$ 1,837,286
Self-insured professional liability	23,298,918	24,013,050
Agency for HealthCare Administration statutory liability	3,833,425	3,567,576
Deferred compensation arrangement	3,328,572	3,123,826
Other liability	380,000	380,000
Obligation for supplemental executive retirement benefits	3,712,369	4,053,011
Due to Medicaid	1,298,971	-
Security deposits held	2,500	2,500
Due to outside organizations	300,000	400,000
	<u>\$ 38,028,834</u>	<u>\$ 37,377,249</u>

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8. Long-Term Debt

A summary of long-term debt and capital lease obligations at September 30, 2018 and 2017 follows:

	2018	2017
Healthcare Facilities Revenue Refunding Bonds, Series 2015A, interest of 4.0% to 5.0% at September 30, 2018 and 2017, 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, 2018 and 2017, final maturity December 2055.	144,875,000	147,480,000
Healthcare Facilities Revenue Bonds, Series 2016B, interest of 5.25% at September 30, 2018 and 2017, final maturity December 2051.	100,000,000	100,000,000
Capital lease obligations	<u>20,654,554</u>	<u>21,131,557</u>
	372,819,554	375,901,557
Add: Net amortized bond premium and bond issuance costs	<u>17,128,175</u>	<u>19,424,885</u>
Total long-term debt	389,947,729	395,326,442
Less: Current portion	<u>(3,246,874)</u>	<u>(3,012,579)</u>
Long-term portion	<u>\$ 386,700,855</u>	<u>\$ 392,313,863</u>

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.

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, 2018 and 2017.

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.

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

Years Ending	Long-Term Debt	Capital Lease Obligations
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
2023	3,085,000	1,980,731
Thereafter	<u>337,740,000</u>	<u>23,170,865</u>
	<u>\$ 352,165,000</u>	32,603,056
Less: Amount representing interest under the capital lease obligations		<u>(11,948,502)</u>
		<u>\$ 20,654,554</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, 2018 and 2017:

	2018	2017
Equipment and buildings	\$ 22,872,616	\$ 22,872,616
Less: Accumulated depreciation	<u>(7,536,857)</u>	<u>(6,615,036)</u>
	<u>\$ 15,335,759</u>	<u>\$ 16,257,580</u>

9. Self-Insurance

The Hospital maintains a self-insured retention (“SIR”) for professional liability insurance on a claims-made basis and general liability on an occurrence-made basis. In addition, the Hospital has excess insurance coverage through a commercial insurance policy in the amount of \$25 million per event and \$25 million in aggregate. Since May 1, 2005, the SIR has been and is currently the first \$3,000,000 of each professional or general liability claim. Effective dates and amount of Hospital’s SIR are as follows:

Effective Dates	SIR Amount
May 1, 2005 to present	\$3,000,000
May 1, 2003 to April 30, 2005	\$5,000,000
March 28, 2002 to April 30, 2003	\$3,000,000
March 15, 2001 to March 27, 2002	\$1,000,000
January 1, 1989 to March 14, 2001	\$250,000
Prior to January 1, 1989	\$100,000

Professional and general liability claims, including amounts for which the Hospital maintains an SIR, have been asserted by various claimants in addition to claims which may be asserted for known incidents occurring through September 30, 2018. The asserted 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

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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 \$32,038,000 and \$32,673,000 has been recorded at September 30, 2018 and 2017, 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 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.

During the period May 1, 2005 to July 31, 2014, HCCR provided professional and general liability coverage of \$20,000,000 per occurrence in excess of the SIR. During the period August 1, 2014 to July 31, 2016, HCCR provided professional and general liability coverage of \$25,000,000 per occurrence in excess of the SIR. Effective August 1, 2016, the owners of the Captive and HCCR have elected to no longer issue policies of professional and general liability insurance. The Boards of Directors of the Captive and HCCR are winding down the operations of both companies and will obtain any 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 \$2,725,000 and \$2,688,000 has been recorded at September 30, 2018 and 2017, respectively.

The combined liability for professional liability and workers' compensation self-insurance at September 30, 2018 and 2017 was as follows:

	2018	2017
Other current liabilities	\$ 9,590,069	\$ 9,511,070
Other liabilities	<u>25,172,997</u>	<u>25,850,336</u>
	<u>\$ 34,763,066</u>	<u>\$ 35,361,406</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.

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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.

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:

	2018	2017
Accumulated benefit obligation	<u>\$ 417,414,772</u>	<u>\$ 447,784,873</u>
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 447,784,873	\$ 480,073,210
Interest cost	17,478,629	17,883,298
Actuarial gain	(28,823,155)	(31,533,694)
Benefits paid	<u>(19,025,575)</u>	<u>(18,637,941)</u>
Projected benefit obligation, end of year	<u>\$ 417,414,772</u>	<u>\$ 447,784,873</u>
Change in plan assets		
Plan assets at fair value, beginning of year	\$ 423,002,141	\$ 382,122,319
Employer contributions	14,400,000	14,400,000
Actual return on plan assets	56,069,869	45,117,763
Benefits paid	<u>(19,025,575)</u>	<u>(18,637,941)</u>
Plan assets at fair value, end of year	<u>\$ 474,446,435</u>	<u>\$ 423,002,141</u>
Funded status	<u>\$ 57,031,663</u>	<u>\$ (24,782,732)</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

	2018	2017
Reconciliation of funded status		
Projected benefit obligation at end of year	\$ (417,414,772)	\$ (447,784,873)
Fair value of assets at end of year	<u>474,446,435</u>	<u>423,002,141</u>
Funded status at end of year	<u>\$ 57,031,663</u>	<u>\$ (24,782,732)</u>
Amounts recognized in the Consolidated Balance Sheet		
Other assets		
Long-term pension assets	\$ 57,031,663	\$ -
Total	<u>\$ 57,031,663</u>	<u>\$ -</u>
Other liability		
Current portion of pension liability	\$ -	\$ (17,866,616)
Long-term pension liability	<u>-</u>	<u>(6,916,116)</u>
Total	<u>\$ -</u>	<u>\$ (24,782,732)</u>
	2018	2017
Amounts recognized in unrestricted net assets		
Net loss	<u>\$ 40,802,385</u>	<u>\$ 101,985,526</u>
Total amount recognized	<u>\$ 40,802,385</u>	<u>\$ 101,985,526</u>
Changes recognized in unrestricted net assets		
Net actuarial loss		
Net actuarial gain from liabilities	\$ (28,823,155)	\$ (31,533,694)
Net actuarial gain from assets	<u>(26,639,282)</u>	<u>(16,630,592)</u>
Total net actuarial gain	<u>(55,462,437)</u>	<u>(48,164,286)</u>
Amortization of actuarial loss	<u>(5,720,704)</u>	<u>(11,349,166)</u>
Net change in unrestricted net assets	<u>\$ (61,183,141)</u>	<u>\$ (59,513,452)</u>
Net periodic pension (benefit) cost	<u>\$ (6,231,254)</u>	<u>\$ 745,293</u>
	2018	2017
Weighted average assumptions for benefit obligations at September 30		
Discount rate	4.43%	3.99%
Rate of increase in future compensation levels	N/A	N/A
Weighted average assumptions for net periodic benefit costs at September 30		
Discount rate	3.99%	3.80%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A
Components of net periodic pension cost		
Interest cost	\$ 17,478,629	\$ 17,883,298
Expected return on plan assets	(29,430,587)	(28,487,171)
Amortization of loss	<u>5,720,704</u>	<u>11,349,166</u>
Net periodic pension (benefit) cost	<u>\$ (6,231,254)</u>	<u>\$ 745,293</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

The Plan assets are administered by a trustee and are invested in the following percentages in various instruments at September 30, 2018 and 2017:

	2018	2017
Mutual funds and short-term investments	4%	7%
Equity securities	72%	70%
Debt securities	24%	23%
	<u>100%</u>	<u>100%</u>

The fair value of the Plan's assets at September 30, 2018 and 2017 are as follows:

September 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Short-term investments	\$ 21,123,400	\$ -	\$ -	\$ 21,123,400
Corporate bonds and notes	-	49,539,290	-	49,539,290
U.S. government and agency obligations	-	62,534,659	-	62,534,659
Common stocks	341,249,086	-	-	341,249,086
Total investments	<u>\$ 362,372,486</u>	<u>\$ 112,073,949</u>	<u>\$ -</u>	<u>\$ 474,446,435</u>

September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
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>

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

2019	\$ 20,173,386
2020	21,011,898
2021	21,728,292
2022	22,676,536
2023	23,342,032
2024 – 2029	<u>151,173,204</u>
	<u>\$ 260,105,348</u>

The Hospital expects to contribute approximately \$0 to the Plan for the year ending September 30, 2019. Estimated amounts to be amortized out of unrestricted net assets for the year ending September 30, 2019 are approximately \$0 and the amount will be recorded in pension expense.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

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, 2018 and 2017 was approximately \$10,729,000 and \$10,457,000, 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, 2018 and 2017 were approximately \$731,000 and \$911,000, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

11. Related Party Transactions

During the years ended September 30, 2018 and 2017, the Hospital charged rent amounting to approximately \$1,402,000 annually to TMHV. For the years ended September 30, 2018 and 2017, the Hospital received contributions of approximately \$2,220,000 and \$879,000, respectively, from the Foundation. For the years ended September 30, 2018 and 2017, the Hospital paid for leased space of approximately \$592,000 and \$655,000, respectively, to SECHS and approximately \$331,000 and \$271,000, respectively, to TMHV. For the years ended September 30, 2018 and 2017, Medicus provided TMH with approximately \$17,323,000 and \$13,386,000, respectively, in leased labor. At September 30, 2018 and 2017, the Hospital had outstanding receivables from TMH, Inc. of approximately \$964,000 and other receivables from subsidiaries of TMH, Inc. of approximately \$10,279,000 and \$6,254,000, respectively.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

12. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2018 and 2017:

	2018	2017
Angie C. Deeb Cancer Research and Treatment Trust (represents earnings on endowment fund)	\$ 324,790	\$ 309,919
Women's and Children's Center	1,120,672	1,116,138
Cancer Treatment	1,345,816	1,219,090
Diabetes Center	222,205	225,176
Pediatrics	1,410,217	1,422,890
Heart and Vascular Center	112,638	128,782
Other - multiple designated restrictions	3,906,910	3,602,102
Sharon Ewing Walker	209,352	207,662
Geriatric - Physician and Hospital Training	122,781	122,781
Dansby Trauma Center	-	429,159
Cancer Building	1,634,349	1,714,050
Dozier Charitable Remainder Annuity Trust	119,986	124,665
Family Practice Residency	268,928	315,054
	<u>\$ 10,798,644</u>	<u>\$ 10,937,468</u>
Total temporarily restricted net assets	<u>\$ 10,798,644</u>	<u>\$ 10,937,468</u>

Net assets were released from donor restrictions during the years ended September 30, 2018 and 2017 by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

Purpose restrictions accomplished during the years ended September 30, 2018 and 2017 were as follows:

	2018	2017
Trauma Center	\$ 468,698	\$ -
Emergency Services	43,659	-
Diabetes	12,306	10,601
Pediatrics	100,137	87,338
Give-a-Hand	188,235	204,004
Neurology	231,640	200,838
Woman's Pavilion	29,897	45,668
Cancer Center	64,384	138,672
Arts in Medicine	135,714	114,275
Cancer Building	132,705	99,560
Family Practice	14,727	46,613
Nursing	1,202	100,375
Other	446,937	556,441
	<u>\$ 1,870,241</u>	<u>\$ 1,604,385</u>
Total restrictions satisfied	<u>\$ 1,870,241</u>	<u>\$ 1,604,385</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

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, 2018 and 2017:

	2018	2017
General - TMH Endowment	\$ 270,181	\$ 261,461
General - F Rhodes Sanderson	194,763	191,477
General - Various	48,668	46,843
Nursing Scholarships - Frueauff	502,840	494,356
Nursing Scholarships - Various	172,375	167,882
Nursing - Brady Family Endowment	24,203	23,794
Nursing - Friends of Nursing	19,048	18,727
Cancer Treatment - Deeb	377,759	371,130
Cancer Treatment - Radiation Therapy	193,549	188,757
Cancer - Luca	69,732	53,294
Cancer - Saskia Kindness	15,571	15,308
Cancer - Dixon, S Ewing Breast Center	51,626	54,652
Cancer - Employees of Proctor	70,042	53,028
Arts in Medicine - Akers	101,941	100,618
Arts in Medicine - Bender/Plescia	70,956	69,759
Arts in Medicine - C. Virginia Bert	131,035	128,824
Animal Therapy - Friends of Rikki	37,508	9,146
Diabetes Care - Various	92,306	90,749
Diabetes Care - Proctor	1,357,541	1,284,407
Diabetes Youth Camp - Sweat	13,913	13,679
Diabetes - E.B. Crowell, Ph.D.	25,429	18,054
Cardiac Care - Smith	107,808	105,937
Cardiac Care - Owenby	42,917	42,193
Cardiac Intensive Care - Higdon	223,912	220,135
Cardiac - Various	101,879	100,161
Cardiac - Ray B. Munroe Jr. Ph.D.	103,405	99,399
Cardiac - Jyotsna "Dr. Jo" Dalal	10,726	10,545
Clinical Medicine - Dozier	784,203	770,973
Family Practice - Brickler	61,063	-
Laboratory Research - Graham	90,472	88,946
Labor & Delivery - Brickler	61,063	-
Pediatric Care - Oven	17,622	17,324
Pediatric Care - Various	147,430	144,916
Pediatrics - Cohen	44,907	43,792
Pediatrics - Margaret Mosco	65,016	63,919
Pediatrics - Marco J. Ginaldi	36,779	36,159
Behavioral Health - Geissing	162,595	159,852
Extended Care - Shelfer	316,554	311,136
Neurointensive Care - Vogter	677,942	655,390
Medical Library - Founding Physicians	60,987	59,958
Neurosciences - Bryan W. Robinson	683,686	655,414
Neurocognitive Rehab - Bender/Plescia	108,907	107,070
Primary Care - Pettit	192,607	191,200
Emergency Services - Bixler	336,806	329,468
Veller Endowment	89,801	88,287
	<u>8,370,073</u>	<u>7,958,119</u>
Total permanently restricted net assets	\$ 8,370,073	\$ 7,958,119

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

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, 2018 and 2017, are as follows:

	2018	2017
Carrying value	\$ 352,165,000	\$ 354,770,000
Estimated fair value	368,335,000	378,357,000

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, 2018, future minimum payments required under noncancelable maintenance agreements were as follows:

2019	\$ 2,303,298
2020	2,366,045
2021	2,430,673
2022	211,764
2023	-
	<u>\$ 7,311,780</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, 2018 and 2017

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, 2018 and 2017

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:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ -	\$ 10,798,644	\$ 8,370,073	\$ 19,168,717
Board-designated endowment fund	796,997	-	-	796,997
Total endowment funds	<u>\$ 796,997</u>	<u>\$ 10,798,644</u>	<u>\$ 8,370,073</u>	<u>\$ 19,965,714</u>
Net assets, October 1, 2017	\$ 1,902,784	\$ 10,937,468	\$ 7,958,119	\$ 20,798,371
Gifts	2,123,300	1,508,842	200,976	3,833,118
Provision for bad debts	-	(8,200)	(3,500)	(11,700)
Appropriation of endowment assets for expenditure	(3,891,754)	(1,870,241)	-	(5,761,995)
Investment gain allocation	662,667	281,244	164,009	1,107,920
Net asset transfer to/from other restriction	-	(50,469)	50,469	-
Net assets, September 30, 2018	<u>\$ 796,997</u>	<u>\$ 10,798,644</u>	<u>\$ 8,370,073</u>	<u>\$ 19,965,714</u>

	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>

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

	2018	2017
Permanently restricted for program support	<u>\$ 8,370,073</u>	<u>\$ 7,958,119</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

Temporarily Restricted

	2018	2017
Temporarily restricted for program support	<u>\$ 10,798,644</u>	<u>\$ 10,937,468</u>

18. Subsequent Events

TMH, Inc. has evaluated subsequent events through December 10, 2018, which is the date the consolidated financial statements were issued.



Report of Independent Auditors

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, 2018 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 10, 2018

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Balance Sheet – By Subsidiary/Division
September 30, 2018

Schedule I

	Hospital	SECHS	TMHV	Foundation	Medicus	TMH 1607 LLC	Eliminations	2018 TMH, Inc.	2017 TMH, Inc.
Assets									
Current assets									
Cash and cash equivalents	\$ 306,250,434	\$ 4,600,074	\$ 10,081,513	\$ 1,609,581	\$ -	\$ 8,356	\$ -	\$ 322,549,958	\$ 291,790,394
Short-term investments	1,452,193	-	-	11,293,799	-	-	-	12,745,992	12,049,255
Assets limited as to use	13,225,172	-	-	-	-	-	-	13,225,172	13,585,520
Patient accounts receivable, net	91,048,606	-	-	-	-	-	-	91,048,606	85,301,671
Inventories	10,225,266	-	15,086	-	-	-	-	10,240,352	10,006,739
Due from Medicare	-	-	-	-	-	-	-	-	6,517,083
Other current assets	16,862,080	105,411	5,115,779	663,646	18,314	147,323	-	22,912,553	23,588,276
Total current assets	<u>439,063,751</u>	<u>4,705,485</u>	<u>15,212,378</u>	<u>13,567,026</u>	<u>18,314</u>	<u>155,679</u>	<u>-</u>	<u>472,722,633</u>	<u>442,838,938</u>
Assets limited as to use									
Held by trustee	111,061,717	-	-	-	-	-	-	111,061,717	191,862,315
Less amount required to meet current obligations	(13,225,172)	-	-	-	-	-	-	(13,225,172)	(13,585,520)
Total assets limited as to use	<u>97,836,545</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,836,545</u>	<u>178,276,795</u>
Long-term investments	27,300	-	-	8,370,073	-	-	-	8,397,373	7,985,419
Property, plant and equipment, net	446,258,459	8,087,407	4,180,702	211,127	-	3,516,914	-	462,254,609	368,704,807
Due from TMH, Inc.	11,243,022	-	561,962	-	2,280,491	-	(14,085,475)	-	-
Other assets	62,473,609	-	-	55,416	-	-	-	62,529,025	10,285,595
Total assets	<u>\$ 1,056,902,686</u>	<u>\$ 12,792,892</u>	<u>\$ 19,955,042</u>	<u>\$ 22,203,642</u>	<u>\$ 2,298,805</u>	<u>\$ 3,672,593</u>	<u>\$ (14,085,475)</u>	<u>\$ 1,103,740,185</u>	<u>\$ 1,008,091,554</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, 2018

Schedule I

	Hospital	SECHS	TMHV	Foundation	Medicus	TMH 1607 LLC	Eliminations	2018 TMH, Inc.	2017 TMH, Inc.
Liabilities and Net Assets									
Current liabilities									
Accounts payable and accrued expenses	\$ 84,578,616	\$ 285,611	\$ 959,362	\$ 35,870	\$ 1,566,508	\$ -	\$ (1,993,844)	\$ 85,432,123	\$ 75,096,123
Current portion of long-term debt	3,246,874	410,475	-	-	-	-	(410,475)	3,246,874	3,012,579
Current portion of pension liability	-	-	-	-	-	-	-	-	17,866,616
Due to Medicare	1,858,784	-	-	-	-	-	-	1,858,784	-
Other current liabilities	9,590,069	-	-	20,947	-	-	-	9,611,016	9,533,292
Due to TMH, Inc.	-	3,779,310	1,586,503	1,881,111	732,297	-	(7,979,221)	-	-
Total current liabilities	<u>99,274,343</u>	<u>4,475,396</u>	<u>2,545,865</u>	<u>1,937,928</u>	<u>2,298,805</u>	<u>-</u>	<u>(10,383,540)</u>	<u>100,148,797</u>	<u>105,508,610</u>
Long-term debt, net of current portion	386,700,855	-	-	-	-	-	-	386,700,855	392,313,863
Long-term pension liability	-	-	-	-	-	-	-	-	6,916,116
Other liabilities	<u>37,728,834</u>	<u>-</u>	<u>-</u>	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,028,834</u>	<u>37,377,249</u>
Total liabilities	<u>523,704,032</u>	<u>4,475,396</u>	<u>2,545,865</u>	<u>2,237,928</u>	<u>2,298,805</u>	<u>-</u>	<u>(10,383,540)</u>	<u>524,878,486</u>	<u>542,115,838</u>
Commitments and contingencies									
Net assets									
Unrestricted	533,198,654	8,317,496	17,409,177	796,997	-	3,672,593	(3,701,935)	559,692,982	447,080,129
Temporarily restricted	-	-	-	10,798,644	-	-	-	10,798,644	10,937,468
Permanently restricted	-	-	-	8,370,073	-	-	-	8,370,073	7,958,119
Total net assets	<u>533,198,654</u>	<u>8,317,496</u>	<u>17,409,177</u>	<u>19,965,714</u>	<u>-</u>	<u>3,672,593</u>	<u>(3,701,935)</u>	<u>578,861,699</u>	<u>465,975,716</u>
Total liabilities and net assets	<u>\$ 1,056,902,686</u>	<u>\$ 12,792,892</u>	<u>\$ 19,955,042</u>	<u>\$ 22,203,642</u>	<u>\$ 2,298,805</u>	<u>\$ 3,672,593</u>	<u>\$ (14,085,475)</u>	<u>\$ 1,103,740,185</u>	<u>\$ 1,008,091,554</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, 2018

Schedule II

	Hospital	SECHS	TMHV	Foundation	Medicus	TMH 1607 LLC	Eliminations	2018 TMH, Inc.	2017 TMH, Inc.
Unrestricted revenues, gains and other support									
Net patient service revenue (net of contractual allowances and discounts)	\$ 875,935,969	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 875,935,969	\$ 808,821,067
Provision for bad debts	(133,296,557)	-	-	-	-	-	-	(133,296,557)	(122,307,863)
Net patient service revenue less provision for bad debts	742,639,412	-	-	-	-	-	-	742,639,412	686,513,204
Other revenue	6,667,849	692,571	7,638,103	2,785,967	17,428,079	-	(20,577,725)	14,634,844	12,216,175
Total revenues, gains and other support	749,307,261	692,571	7,638,103	2,785,967	17,428,079	-	(20,577,725)	757,274,256	698,729,379
Expenses									
Salaries, wages and benefits	339,141,258	50,953	1,714,169	937,557	17,323,042	-	(17,414,590)	341,752,389	321,285,817
Supplies and other	260,715,187	2,414	3,995,271	4,738,546	105,037	38,593	(4,649,977)	264,945,071	231,892,110
Professional fees	66,544,690	10,960	-	67,682	-	3,693	-	66,627,025	57,462,285
Depreciation and amortization	31,816,813	99,287	203,616	18,210	-	45,683	-	32,183,609	32,582,117
Interest	6,328,642	20,408	-	-	-	-	(13,526)	6,335,524	6,315,221
Total expenses	704,546,590	184,022	5,913,056	5,761,995	17,428,079	87,969	(22,078,093)	711,843,618	649,537,550
Operating income (loss)	44,760,671	508,549	1,725,047	(2,976,028)	-	(87,969)	1,500,368	45,430,638	49,191,829
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	(211,531)
Other revenues and expenses, net	5,399,245	69,211	76,636	-	-	-	(1,416,259)	4,128,833	32,207
Excess (deficit) of revenues over expenses	50,159,916	577,760	1,801,683	(2,976,028)	-	(87,969)	84,109	49,559,471	49,012,505
Net assets released from restrictions used for program services and purchase of equipment	84,109	-	-	1,870,241	-	-	(84,109)	1,870,241	1,594,038
Change in pension liability	61,183,141	-	-	-	-	-	-	61,183,141	59,513,452
Increase (decrease) in unrestricted net assets	\$ 111,427,166	\$ 577,760	\$ 1,801,683	\$ (1,105,787)	\$ -	\$ (87,969)	\$ -	\$ 112,612,853	\$ 110,119,995

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, 2018

Schedule III

	Hospital	SECHS	TMHV	Foundation	Medicus	TMH 1607 LLC	Eliminations	2018 TMH, Inc.	2017 TMH, Inc.
Unrestricted net assets									
Excess (deficit) of revenues over expenses	\$ 50,159,916	\$ 577,760	\$ 1,801,683	\$ (2,976,028)	\$ -	\$ (87,969)	\$ 84,109	\$ 49,559,471	\$ 49,012,505
Net assets released from restrictions used for program services and purchase of equipment	84,109	-	-	1,870,241	-	-	(84,109)	1,870,241	1,594,038
Change in pension liability	61,183,141	-	-	-	-	-	-	61,183,141	59,513,452
Contributed capital	-	-	-	-	-	1,800,148	(1,800,148)	-	-
Increase in unrestricted net assets	<u>111,427,166</u>	<u>577,760</u>	<u>1,801,683</u>	<u>(1,105,787)</u>	<u>-</u>	<u>1,712,179</u>	<u>(1,800,148)</u>	<u>112,612,853</u>	<u>110,119,995</u>
Temporarily restricted net assets									
Contributions	-	-	-	1,508,842	-	-	-	1,508,842	1,686,726
Provision for bad debts	-	-	-	(8,200)	-	-	-	(8,200)	(8,478)
Income on investments	-	-	-	250,164	-	-	-	250,164	350,818
Net unrealized and realized losses on investments	-	-	-	31,080	-	-	-	31,080	(40,649)
Net assets released from restrictions—used for program services	-	-	-	(1,870,241)	-	-	-	(1,870,241)	(1,604,385)
Net asset transfers from temporarily restricted net assets to permanently restricted net assets	-	-	-	(50,469)	-	-	-	(50,469)	(90,693)
(Decrease) increase in temporarily restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>(138,824)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(138,824)</u>	<u>293,339</u>
Permanently restricted net assets									
Contributions	-	-	-	200,976	-	-	-	200,976	165,579
Provision for bad debts	-	-	-	(3,500)	-	-	-	(3,500)	(1,050)
Income on investments	-	-	-	145,884	-	-	-	145,884	205,381
Net unrealized and realized losses on investments	-	-	-	18,125	-	-	-	18,125	(23,798)
Net asset transfers to permanently restricted net assets from temporarily restricted net assets	-	-	-	50,469	-	-	-	50,469	90,693
Increase in permanently restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>411,954</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>411,954</u>	<u>436,805</u>
Increase (decrease) in net assets	<u>111,427,166</u>	<u>577,760</u>	<u>1,801,683</u>	<u>(832,657)</u>	<u>-</u>	<u>1,712,179</u>	<u>(1,800,148)</u>	<u>112,885,983</u>	<u>110,850,139</u>
Net assets									
Beginning 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>
End of year	<u>\$ 533,198,654</u>	<u>\$ 8,317,496</u>	<u>\$ 17,409,177</u>	<u>\$ 19,965,714</u>	<u>\$ -</u>	<u>\$ 3,672,593</u>	<u>\$ (3,701,935)</u>	<u>\$ 578,861,699</u>	<u>\$ 465,975,716</u>

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