

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

**Consolidated Financial Statements and
Supplemental Information
September 30, 2019 and 2018**

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Index

September 30, 2019 and 2018

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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 (the "Company"), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets and of 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 the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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, 2019 and 2018, and the results of their operations, their changes in 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 20, 2019

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 302,286,576	\$ 322,549,958
Short-term investments	22,626,428	21,116,065
Assets limited as to use	13,590,535	13,225,172
Accounts receivable, net	91,487,414	91,048,606
Inventories	13,594,455	10,240,352
Due from Medicare	10,414,529	-
Other current assets	28,139,308	22,912,553
Total current assets	<u>482,139,245</u>	<u>481,092,706</u>
Assets limited as to use		
Held by trustee	32,655,145	111,061,717
Less amount required to meet current obligations	<u>(13,590,535)</u>	<u>(13,225,172)</u>
Total assets limited as to use	<u>19,064,610</u>	<u>97,836,545</u>
Long-term investments		
Property and equipment, net	27,300	27,300
Other assets	534,734,232	462,254,609
Total assets	<u>8,560,823</u>	<u>62,529,025</u>
Total assets	<u>\$ 1,044,526,210</u>	<u>\$ 1,103,740,185</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 88,544,720	\$ 85,432,123
Current portion of long-term debt	3,417,556	3,246,874
Due to Medicare	-	1,858,784
Other current liabilities	10,551,836	9,611,016
Total current liabilities	<u>102,514,112</u>	<u>100,148,797</u>
Long-term debt, net of current portion		
Other liabilities	381,078,457	386,700,855
Total liabilities	<u>39,281,596</u>	<u>38,028,834</u>
Total liabilities	<u>522,874,165</u>	<u>524,878,486</u>
Net assets		
Without donor restrictions	501,128,030	559,692,982
With donor restrictions	20,524,015	19,168,717
Total net assets	<u>521,652,045</u>	<u>578,861,699</u>
Total liabilities and net assets	<u>\$ 1,044,526,210</u>	<u>\$ 1,103,740,185</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, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenues	\$ 752,244,492	\$ 742,639,412
Other revenue	14,257,111	14,634,844
Total operating revenues	<u>766,501,603</u>	<u>757,274,256</u>
Operating Expenses		
Salaries, wages and benefits	364,898,140	341,752,389
Supplies and other	281,699,307	264,945,071
Professional fees	69,689,182	66,627,025
Depreciation and amortization	36,567,259	32,183,609
Interest expense	9,633,269	6,335,524
Total operating expenses	<u>762,487,157</u>	<u>711,843,618</u>
Operating income	4,014,446	45,430,638
Other revenues and expenses, net	8,023,232	4,128,833
Excess of revenues over expenses	12,037,678	49,559,471
Net assets released from restrictions used for program services and purchase of equipment	1,105,877	1,870,241
Change in pension liability	<u>(71,708,507)</u>	<u>61,183,141</u>
Change in net assets without donor restrictions	<u>\$ (58,564,952)</u>	<u>\$ 112,612,853</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, 2019 and 2018

	2019	2018
Net assets without donor restrictions		
Excess of revenues over expenses	\$ 12,037,678	\$ 49,559,471
Net assets released from restrictions used for program services and purchase of equipment	1,105,877	1,870,241
Change in pension liability	<u>(71,708,507)</u>	<u>61,183,141</u>
Change in net assets without donor restrictions	<u>(58,564,952)</u>	<u>112,612,853</u>
Net assets with donor restrictions		
Contributions	1,789,961	1,698,118
Investment return, net	671,214	445,253
Net assets released from restrictions used for program services and purchases of equipment	<u>(1,105,877)</u>	<u>(1,870,241)</u>
Change in net assets with donor restrictions	<u>1,355,298</u>	<u>273,130</u>
Change in net assets	(57,209,654)	112,885,983
Net assets		
Beginning of year	<u>578,861,699</u>	<u>465,975,716</u>
End of year	<u>\$ 521,652,045</u>	<u>\$ 578,861,699</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, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (57,209,654)	\$ 112,885,983
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	36,567,259	32,183,609
Depreciation on office space rental property	1,056,010	1,056,009
Amortization of bond discount (premium) and bond issue costs	(485,195)	(70,538)
Net realized and unrealized gains on investments	(267,234)	(306,662)
Change in fair value of derivatives	(2,658,939)	650,599
Change in pension liability	57,031,663	(81,814,395)
Loss (gain) on sale of property and equipment	19,526	(1,059,103)
Endowment contributions	(204,794)	(235,351)
(Increase) decrease in		
Patient accounts receivable	(438,808)	(5,746,935)
Inventories	(3,354,103)	(233,613)
Due from Medicare	(10,414,529)	6,517,083
Other current assets	(5,226,755)	675,723
Other assets	(11,363)	(4,691)
Increase (decrease) in		
Accounts payable and accrued expenses	6,540,670	4,332,649
Due to Medicare	(1,858,784)	1,858,784
Other current liabilities	1,021,502	222,019
Other liabilities	1,252,762	651,585
Net cash provided by operating activities	<u>21,359,234</u>	<u>71,562,755</u>
Cash flows from investing activities		
Purchases of property and equipment	(114,109,433)	(122,489,409)
Proceeds from disposals of equipment	47,416	1,527,221
Investments		
Purchases of investments	(16,973,387)	(16,102,633)
Proceeds from sales and maturities of investments	15,610,533	15,116,377
Assets limited as to use		
Purchases of investments	(1,495,823)	(1,787,085)
Proceeds from sales and maturities of investments	80,022,120	82,771,910
Payments for physician guarantee contracts	(511,207)	(18,414)
Proceeds from physician guarantee contracts	426,087	150,464
(Increase) decrease in notes receivable and deposits	(393,159)	4,142,325
Net cash used in investing activities	<u>(37,376,853)</u>	<u>(36,689,244)</u>

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Statements of Cash Flows, continued
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from financing activities		
Payments on capital lease obligations	(632,557)	(621,298)
Payments on long-term debt	(3,818,000)	(3,728,000)
Payments on endowment contributions	204,794	235,351
Net cash used in financing activities	<u>(4,245,763)</u>	<u>(4,113,947)</u>
Change in cash and cash equivalents	(20,263,382)	30,759,564
Cash and cash equivalents		
Beginning of year	<u>322,549,958</u>	<u>291,790,394</u>
End of year	<u>\$ 302,286,576</u>	<u>\$ 322,549,958</u>
Supplemental Cash Flow Information		
Cash paid for interest, net of capitalized amounts of \$5,045,000 and \$8,134,000 as of September 30, 2019 and 2018, respectively	\$ 13,565,000	\$ 10,640,261
Non-Cash Investing Activities		
Accrued purchases of property and equipment	\$ 3,832,806	\$ 7,175,759

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, 2019 and 2018

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"), and Medicus Select, 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.

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 accounting principles generally accepted in the United States of America 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 in accordance with accounting principles generally accepted in the United States of America.

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. Significant estimates include, but are not limited to, accounts receivable price concessions, due to/from Medicare, self-insurance liabilities, accrued pension liability and depreciation and amortization expense.

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.

Accounts Receivable

Accounts receivable consist primarily of amounts owed by various governmental agencies, insurance companies and patients. TMH, Inc. manages these receivables by regularly reviewing the accounts and contracts and by recording appropriate price concessions. Amounts TMH, Inc. receives for treatment of patients covered by governmental programs and third-party payors as well as directly from patients are subject to both explicit and implicit price concessions. TMH, Inc. estimates these price concessions using contractual agreements, discount policies, and historical experience. TMH, Inc. records price concessions in the period of service based on the analysis and consideration of these factors.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

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 and Equipment

Property 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, 2019 and 2018

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 \$337,000 and \$252,000 at September 30, 2019 and 2018, 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 Assets

Net assets without restrictions include undesignated amounts as well as amounts designated by the board for a specific purpose. Net assets with donor restrictions are held by the Foundation and consist primarily of amounts contributed to the Foundation by donors with purpose restrictions. The Company also has net assets with donor restrictions that are perpetual in nature. Earnings on these assets are available for use as specified by the donors.

Net Patient Service Revenues

Net patient service revenues 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.

Excess of Revenues Over Expenses

The consolidated statements of operations include the excess of revenues over expenses. Changes in net assets without donor restrictions 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.

Contributions Received

The Foundation reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions assets are reclassified as net assets without donor restrictions 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 net assets without donor restrictions in the accompanying consolidated financial statements.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

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, 2019 and 2018 was an asset of approximately \$3,770,000 and \$1,111,000, 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 net assets without donor restrictions, 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 a floating rate amount defined as 70% of the one month maturity USD-LIBOR-BBA plus the Spread and receive a fixed amount of 5.25% on the notional amount based on the Series 2016B Health Facilities Revenue Bonds. Effective July 25, 2019, the Hospital and the financial institution amended the terms of Total Return Swap agreement to extend the termination date to July 25, 2024 from February 2, 2021 and change the floating rate to the weighted average USD-SIFMA Municipal Swap Index plus the Spread.

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, 2019 and 2018, the fair value of the Basis Rate Swap was a liability of approximately \$122,000 and an asset of approximately \$164,000, respectively, and the fair value of the Total Return Swap was an asset of approximately \$3,892,000 and \$947,000, respectively. 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 swaps required the recording of a gain (loss) of approximately \$2,659,000 and (\$651,000) in other revenues and expenses, net, in the accompanying consolidated statements of operations for the years ended September 30, 2019 and 2018, respectively.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

The Hospital received funds related to the Basis Rate Swap of approximately \$232,000 and \$76,000 for the years ended September 30, 2019 and 2018, 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 \$2,726,000 and \$3,362,000 for the years ended September 30, 2019 and 2018, 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 \$150,000 and \$0 at September 30, 2019 and 2018, 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
Notes to Consolidated Financial Statements
September 30, 2019 and 2018

The following tables present the financial instruments carried at fair value as of September 30, 2019 and 2018, by caption on the consolidated balance sheets by the ASC 820 valuation hierarchy defined above:

September 30, 2019	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	\$ 331,670,368	\$ -	\$ -	\$ 331,670,368
Corporate obligations	6,822,961	453,933	-	7,276,894
Mutual funds	8,000,826	1,630,278	-	9,631,104
U.S. government and agency obligations	-	5,381,062	-	5,381,062
Equities	2,288,743	-	-	2,288,743
Private real estate fund	-	-	1,347,278	1,347,278
Total cash, investments and assets limited as to use	348,782,898	7,465,273	1,347,278	357,595,449
Total return swap receivable	-	3,892,386	-	3,892,386
Charitable remainder annuity trusts	-	109,179	-	109,179
Insurance contracts	-	132,076	-	132,076
Total assets at fair value	<u>\$ 348,782,898</u>	<u>\$ 11,598,914</u>	<u>\$ 1,347,278</u>	<u>\$ 361,729,090</u>
Liabilities				
Basis rate swap payable	\$ -	\$ 122,904	\$ -	\$ 122,904
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 122,904</u>	<u>\$ -</u>	<u>\$ 122,904</u>
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 contracts	-	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>

* 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.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

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, 2019 and 2018 was as follows:

	2019	2018
Medicare	33%	23%
Medicaid	8%	11%
Managed Care	23%	24%
Blue Cross	15%	17%
Other	22%	25%
	<u>100%</u>	<u>100%</u>

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“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. TMH, Inc. 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. It is effective for fiscal year 2019 and TMH, Inc. has adopted this standard for the current year. The impact of adoption to TMH, Inc.’s annual financial statements includes presentation of net assets within the statements of financial position as net assets without donor restrictions. Additionally, Note 6 and Note 16 have been added to address the enhanced disclosures related to liquidity and availability of functional expenses.

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. TMH, Inc. 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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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. TMH, Inc. is currently evaluating the impact of this ASU on the consolidated financial statements, which is effective for the year ended September 30, 2020.

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. TMH, Inc. is currently evaluating the impact of this ASU on the consolidated financial statements, which is effective for the year ended September 30, 2020.

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. TMH, Inc. is currently evaluating the impact of this ASU on the consolidated financial statements, which are effective for the years ended September 30, 2020.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement ("Topic 820"): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU is intended to improve the effectiveness of disclosures required by entities regarding recurring and nonrecurring fair value measurements. ASU 2018-13 eliminates certain required disclosures for recurring Level 3 fair value measurements and the requirement to disclose the amounts and reasons for any transfers between Level 1 and Level 2. The new guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. An entity is permitted to early adopt either the entire standard or only the provisions that eliminate or modify requirements. Reporting entities may remove the disclosures no longer required and amend the disclosures immediately with retrospective application. TMH, Inc. adopted the entire standard for the year ended September 30, 2019. The adoption of this standard did not have a material impact on the accompanying consolidated balance sheets or statements of operations and changes in net assets for the years ended September 30, 2019 and 2018.

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In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. ASU 2018-14 remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The provisions of ASU 2018-14 are effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. TMH, Inc. is currently evaluating the impact of this ASU on the consolidated financial statements, which is effective for the year ended September 30, 2022.

2. Revenue Recognition and Accounts Receivable

Recently Adopted Accounting Pronouncement

Beginning in May 2014, the FASB issued several Accounting Standards Updates which established Topic 606, *Revenue From Contracts with Customers* (the "standard"). This standard supersedes existing revenue recognition requirements and seeks to eliminate most industry-specific guidance under current GAAP. The core principle of the new guidance is that 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 and services. TMH, Inc. adopted the new standard on October 1, 2018, using the full retrospective transition method. Other than these changes in presentation and disclosure, the adoption of the standard did not have a material impact on the accompanying consolidated balance sheets or statements of operations and changes in net assets for the years ended September 30, 2019 and 2018.

Net Patient Service Revenue

The components of net patient service revenue for the years ended September 30, 2019 and 2018 are as follows:

	2019	2018
Gross patient service revenue	\$ 3,189,574,044	\$ 2,929,061,228
Contractual adjustments and other deductions	<u>(2,437,329,552)</u>	<u>(2,186,421,816)</u>
Net patient service revenue	<u>\$ 752,244,492</u>	<u>\$ 742,639,412</u>

Net patient service revenue is reported at the amount that reflects the consideration to which TMH, Inc. expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. Generally, TMH, Inc. bills the patient and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by TMH, Inc. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. TMH, Inc. believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospital receiving inpatient acute care services. TMH, Inc. measures the performance obligation from admission into the hospital to the point when it is no

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longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and TMH, Inc. does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, TMH, Inc. has elected to apply the practical expedient provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amounts of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. These performance obligations are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

TMH, Inc. determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with TMH, Inc.'s policies, and/or implicit price concessions provided to uninsured patients. TMH, Inc. determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. TMH, Inc. determines its estimate of implicit price concessions based on historical collection experience.

Agreements with third-party payors typically provide for payment at the amounts less than established charges. For services provided under Medicare and Medicaid programs, inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per diagnosis. 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. Outpatient services are paid at a prospectively determined rate. Physician services are paid based upon established fee schedules. TMH, Inc. is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by TMH, Inc. and audits thereof by the fiscal intermediary. Payment arrangements with commercial insurance carriers included prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and potential exclusion from related programs. There can be no assurance that regulatory authorities will not challenge TMH, Inc.'s compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon TMH, Inc. In addition, the contracts TMH, Inc. has with the commercial payors also provide for retroactive audit and review of claims.

Cost report settlements under reimbursement agreements with Medicare and Medicaid for retroactive adjustments due to audits, reviews or investigations are variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and TMH, Inc.'s historical experience. Estimated settlements are adjusted in future periods as final settlements are determined. There is a reasonable possibility that recorded estimates could change by a material amount in the near term. Adjustments arising from a change in the transaction price were not significant in 2019 and 2018.

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Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. TMH, Inc. also provides services to uninsured patients. The transaction price for both uninsured patients and as well as insured patients with deductibles and coinsurance is estimated based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense is reported as reduction of Net patient service revenues in the consolidated statements of operations and was not significant for the years ended September 30, 2019 and 2018.

Amounts previously classified as the provision for bad debts in the 2018 consolidated statement of operations are now reflected as implicit price concessions and therefore included as a reduction to net patient service revenue. For the years ended September 30, 2019 and 2018, the Company recorded approximately \$178,980,000 and \$133,297,000, respectively, of implicit price concessions as a direct reduction of net patient service revenues that would have been recorded as provision for bad debts prior to the adoption of ASC 606. For the years ended September 30, 2019 and 2018, the Company recorded approximately \$106,994,000 and \$93,924,000, respectively, as a direct reduction of Accounts Receivable that would have been reflected as allowance for uncollectible accounts prior to the adoption of the standard.

The composition of net patient service revenues by payor is as follows:

	Year ended September 30	
	2019	2018
Medicare	\$ 280,370,444	253,446,433
Medicaid	48,936,836	57,064,122
Managed Care	231,888,846	236,361,060
Blue Cross	142,566,219	142,202,794
Other	48,482,147	53,565,003
Total	<u>\$ 752,244,492</u>	<u>\$ 742,639,412</u>

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

In addition to patient service revenues, TMH, Inc. also recognizes revenue related to other, non-patient related transactions. These transactions primarily include rental income, parking deck revenue, donations, grants and investment income from subsidiaries. Revenue from these transactions is recognized when obligations under the terms of the respective contract are satisfied. Revenue from these transactions is measured as the amount of consideration TMH, Inc. expects to receive from those services. TMH, Inc. recognizes rental income on a straight-line basis over the lease term in accordance with ASC 840-10, *Leases*.

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Medicare

The Hospital's Medicare cost reports have been audited and settled by Medicare for all years through September 30, 2015. During fiscal year 2019, fiscal year 2012 was settled and fiscal years 2013, 2014 and 2015 were reopened by the Florida Medicare Administrative Contractor ("MAC") for Indirect Medical Education ("IME") and Graduate Medical Education ("GME"). To date, fiscal year 2013 has been settled and fiscal years 2014 and 2015 audits have not been completed. Approximately 37% and 34% of net patient service revenues for the years ended September 30, 2019 and 2018, respectively, is subject to the provisions of Medicare agreements.

Medicaid

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.

The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2015 (2015 cost report used for 2017 rates). During fiscal year 2019, the Agency for Health Care Administration finalized the Medicaid rate settlements for the years 2015 through 2017 (cost reports 2013-2015). The fiscal year 2015 cost report is the last cost report used for cost-based rates.

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 \$25,734,000 and \$25,411,000 as of September 30, 2019 and 2018, 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. 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(a) by reason described in section 501(c)(3). Medicus is a disregarded entity. 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, 2019 and 2018 is set forth in the following table:

	2019	2018
Held by trustee under indenture agreements		
Cash, cash equivalents and short-term investments	\$ 27,167,021	\$ 105,908,873
	<u>27,167,021</u>	<u>105,908,873</u>
Held by trustee for self-insurance funding arrangements		
Cash, cash equivalents and short-term investments	513,464	116,525
U.S. government and agency obligations	479,006	476,753
Mutual funds	1,630,278	1,504,176
Equities	2,261,443	2,234,068
Corporate obligations	453,933	821,322
	<u>5,338,124</u>	<u>5,152,844</u>
Held by trustee as swap collateral		
Cash	150,000	-
	<u>\$ 32,655,145</u>	<u>\$ 111,061,717</u>

Short-term and long-term investments, stated at fair value, at September 30, 2019 and 2018 include:

	2019	2018
Cash and cash equivalents	\$ 100,064	\$ 126,983
Corporate obligations	6,822,961	3,501,991
Certificates of deposit	1,453,243	1,452,193
Private equities	27,300	27,300
U.S. government and agency obligations	4,902,056	7,423,658
Mutual funds	8,000,826	7,314,801
Private real estate fund	1,347,278	1,296,439
	<u>22,653,728</u>	<u>21,143,365</u>
Less: Long-term investments	<u>(27,300)</u>	<u>(27,300)</u>
Short-term investments	<u>\$ 22,626,428</u>	<u>\$ 21,116,065</u>

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Investment return 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, 2019 and 2018:

	2019	2018
Investment Return		
Investment income		
Without donor restrictions	\$ 4,539,541	\$ 2,719,230
With donor restrictions	609,034	396,048
Net realized (losses) gains on sales of trading securities		
Without donor restrictions	(274,765)	(216,670)
With donor restrictions	(200,225)	(145,582)
Net unrealized gains (losses) on trading securities		
Without donor restrictions	479,819	474,127
With donor restrictions	262,405	194,787
Total investment return	<u>\$ 5,415,808</u>	<u>\$ 3,421,940</u>

6. Liquidity and Availability of Resources

As of September 30, 2019, TMH, Inc. has a working capital of \$379,625,000 and average days cash on hand of 163 days.

Financial assets available within one year to cover general expenditures are comprised of:

	2019	2018
Cash and cash equivalents	\$ 302,286,576	\$ 322,549,958
Accounts receivable, net	91,487,414	91,048,606
Short-term investments	22,626,428	21,116,065
Due from Medicare	10,414,529	-
Financial assets available to be used within one year	<u>\$ 426,814,947</u>	<u>\$ 434,714,629</u>

As part of TMH, Inc.'s liquidity management plan, cash in excess of daily requirements is invested in either money market funds, short-term investments or long-term investments. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities, and other obligations come due.

As of September 30, 2019, TMH, Inc. was in compliance with financial covenants as discussed in Note 9, Long-Term Debt.

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7. Property and Equipment

Property and equipment as of September 30, 2019 and 2018 is summarized as follows:

	2019	2018
Land	\$ 32,645,876	\$ 31,094,927
Buildings	582,168,504	353,363,249
Equipment	345,972,647	284,539,406
Leasehold improvements	8,918,743	8,399,043
	<u>969,705,770</u>	<u>677,396,625</u>
Less: Accumulated depreciation	<u>(447,975,190)</u>	<u>(410,522,867)</u>
	521,730,580	266,873,758
Construction-in-progress	<u>13,003,652</u>	<u>195,380,851</u>
Property and equipment, net	<u>\$ 534,734,232</u>	<u>\$ 462,254,609</u>

Interest costs incurred during the fiscal years 2019 and 2018 were approximately \$14,598,000 and \$14,469,000, respectively. Interest capitalized was approximately \$5,045,000 and \$8,134,000 during fiscal years 2019 and 2018, respectively.

Depreciation expense for the years ended September 30, 2019 and 2018 was approximately \$36,567,000 and \$32,184,000, respectively. Depreciation expense on office space rental property for the years ended September 30, 2019 and 2018 was approximately \$1,056,000 in each year and was included in other revenues and expenses, net in the accompanying consolidated statements of operations. Construction-in-progress at September 30, 2019 consisted of routine facility renovations and various information technology projects. Estimated costs to complete are approximately \$30,577,000.

The Hospital leases substantially all of its property and equipment from the City of Tallahassee under the terms of a lease, as amended, which expires in September 2060. 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 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 and equipment.

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The Hospital leases a portion of its office and equipment under agreements which expire at various dates through 2024. Rent expense for the years ended September 30, 2019 and 2018 was approximately \$6,161,000 and \$5,944,000, respectively. As of September 30, 2019, future minimum rental payments required under noncancelable operating leases are:

Years Ending	
2020	\$ 349,194
2021	140,994
2022	77,302
2023	51,402
2024	12,851
	<u>\$ 631,743</u>

8. Other Liabilities

Other liabilities consist of the following at September 30, 2019 and 2018:

	2019	2018
Workers' compensation liability	\$ 1,997,082	\$ 1,874,079
Self-insured professional liability	22,321,007	23,298,918
Agency for HealthCare Administration statutory liability	6,064,213	3,833,425
Deferred compensation arrangement	4,498,009	3,328,572
Other liability	380,000	380,000
Obligation for supplemental executive retirement benefits	3,818,785	3,712,369
Due to Medicaid	-	1,298,971
Security deposits held	2,500	2,500
Due to outside organizations	200,000	300,000
	<u>\$ 39,281,596</u>	<u>\$ 38,028,834</u>

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9. Long-Term Debt

A summary of long-term debt and capital lease obligations at September 30, 2019 and 2018 follows:

	2019	2018
Healthcare Facilities Revenue Refunding Bonds, Series 2015A, interest of 4.0% to 5.0% at September 30, 2019 and 2018, 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, 2019 and 2018, final maturity December 2055.	142,180,000	144,875,000
Healthcare Facilities Revenue Bonds, Series 2016B, interest of 5.25% at September 30, 2019 and 2018, final maturity December 2051.	100,000,000	100,000,000
Capital lease obligations	<u>20,102,680</u>	<u>20,654,554</u>
	369,572,680	372,819,554
Add: Net amortized bond premium and bond issuance costs	<u>14,923,333</u>	<u>17,128,175</u>
Total long-term debt	384,496,013	389,947,729
Less: Current portion	<u>(3,417,556)</u>	<u>(3,246,874)</u>
Long-term portion	<u>\$ 381,078,457</u>	<u>\$ 386,700,855</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 have been 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 have been 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, 2019 and 2018.

All entities under TMH, Inc., with the exception of SECHS, TMHV, Medicus 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:

	Long-Term Debt	Capital Lease Obligations
Years Ending		
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
2024	3,190,000	2,030,249
Thereafter	<u>334,550,000</u>	<u>21,140,614</u>
	<u>\$ 349,470,000</u>	<u>\$ 30,808,609</u>
Less: Amount representing interest under the capital lease obligations		<u>(10,705,929)</u>
		<u>\$ 20,102,680</u>

The following equipment and buildings were financed under capital leases and are included in property and equipment on the consolidated balance sheets at September 30, 2019 and 2018:

	2019	2018
Equipment and buildings	\$ 22,872,616	\$ 22,872,616
Less: Accumulated depreciation	<u>(8,710,085)</u>	<u>(7,536,857)</u>
	<u>\$ 14,162,531</u>	<u>\$ 15,335,759</u>

10. 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, 2019. 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 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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2019 and 2018

liability of approximately \$32,002,000 and \$32,038,000 has been recorded at September 30, 2019 and 2018, 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 \$2,848,000 and \$2,725,000 has been recorded at September 30, 2019 and 2018, respectively.

The combined liability for professional liability and workers' compensation self-insurance at September 30, 2019 and 2018 was as follows:

	2019	2018
Other current liabilities	\$ 10,532,164	\$ 9,590,069
Other liabilities	<u>24,318,089</u>	<u>25,172,997</u>
	<u>\$ 34,850,253</u>	<u>\$ 34,763,066</u>

11. 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.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2019 and 2018

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:

	2019	2018
Accumulated benefit obligation	<u>\$ 474,664,493</u>	<u>\$ 417,414,772</u>
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 417,414,772	\$ 447,784,873
Interest cost	18,049,476	17,478,629
Actuarial loss (gain)	58,942,712	(28,823,155)
Benefits paid	<u>(19,742,467)</u>	<u>(19,025,575)</u>
Projected benefit obligation, end of year	<u>\$ 474,664,493</u>	<u>\$ 417,414,772</u>
Change in plan assets		
Plan assets at fair value, beginning of year	\$ 474,446,435	\$ 423,002,141
Employer contributions	-	14,400,000
Actual return on plan assets	17,427,910	56,069,869
Benefits paid	<u>(19,742,467)</u>	<u>(19,025,575)</u>
Plan assets at fair value, end of year	<u>\$ 472,131,878</u>	<u>\$ 474,446,435</u>
Funded status	<u>\$ (2,532,615)</u>	<u>\$ 57,031,663</u>
	2019	2018
Reconciliation of funded status		
Projected benefit obligation at end of year	\$ (474,664,493)	\$ (417,414,772)
Fair value of assets at end of year	<u>472,131,878</u>	<u>474,446,435</u>
Funded status at end of year	<u>\$ (2,532,615)</u>	<u>\$ 57,031,663</u>
Amounts recognized in the Consolidated Balance Sheet		
Other assets		
Long-term pension assets	<u>\$ -</u>	<u>\$ 57,031,663</u>
Total	<u>\$ -</u>	<u>\$ 57,031,663</u>
Other liability		
Current portion of pension liability	<u>(2,532,615)</u>	<u>-</u>
Total	<u>\$ (2,532,615)</u>	<u>\$ -</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2019 and 2018

	2019	2018
Amounts recognized in net assets without donor restrictions		
Net loss	\$ 112,510,891	\$ 40,802,385
Total amount recognized	<u>\$ 112,510,891</u>	<u>\$ 40,802,385</u>
Changes recognized in net assets without donor restrictions		
Net actuarial loss (gain)		
Net actuarial loss (gain) from liabilities	\$ 58,942,712	\$ (28,823,155)
Net actuarial loss (gain) from assets	<u>12,765,795</u>	<u>(26,639,282)</u>
Total net actuarial loss (gain)	71,708,507	(55,462,437)
Amortization of actuarial loss	<u>-</u>	<u>(5,720,704)</u>
Net change in net assets without donor restrictions	<u>\$ 71,708,507</u>	<u>\$ (61,183,141)</u>

	2019	2018
Weighted average assumptions for benefit obligations at September 30		
Discount rate	3.32%	4.43%
Rate of increase in future compensation levels	N/A	N/A
Weighted average assumptions for net periodic benefit costs at September 30		
Discount rate	4.43%	3.99%
Expected return on plan assets	6.50%	7.00%
Rate of compensation increase	N/A	N/A
Components of net periodic pension cost		
Interest cost	\$ 18,049,476	\$ 17,478,629
Expected return on plan assets	(30,193,704)	(29,430,587)
Amortization of loss	<u>-</u>	<u>5,720,704</u>
Net periodic pension benefit	<u>\$ (12,144,228)</u>	<u>\$ (6,231,254)</u>

The Plan assets are administered by a trustee and are invested in the following percentages in various instruments at September 30, 2019 and 2018:

	2019	2018
Mutual funds and short-term investments	6%	4%
Equity securities	68%	72%
Debt securities	<u>26%</u>	<u>24%</u>
	<u>100%</u>	<u>100%</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2019 and 2018

The fair value of the Plan's assets at September 30, 2019 and 2018 are as follows:

September 30, 2019	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	\$ 26,601,764	-	-	\$ 26,601,764
Corporate bonds and notes	-	50,538,156	-	50,538,156
U.S. government and agency obligations	-	73,184,033	-	73,184,033
Common stocks	321,807,925	-	-	321,807,925
Total investments	<u>\$ 348,409,689</u>	<u>\$ 123,722,189</u>	<u>\$ -</u>	<u>\$ 472,131,878</u>

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>

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

2020	\$ 20,862,305
2021	21,634,753
2022	22,618,453
2023	23,304,365
2024	24,009,923
2025 – 2029	153,105,926
	<u>\$ 265,535,725</u>

The Hospital expects to contribute \$0 to the Plan for the year ending September 30, 2020. Estimated amounts to be amortized out of net assets without donor restrictions for the year ending September 30, 2020 are \$6,500,000 and the amount will be recorded in pension expense.

Investment Strategy

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

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, 2019 and 2018 was approximately \$11,366,000 and \$10,729,000, 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, 2019 and 2018 were approximately \$779,000 and \$731,000, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

12. Net Assets with Donor Restrictions

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 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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2019 and 2018

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 the Foundation 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.

Net assets with donor restrictions are available for the following purposes at September 30, 2019 and 2018:

	2019	2018
Non-endowed net assets		
Animal Therapy	\$ 136,501	\$ 95,310
Behavioral Health	153,827	142,676
Cancer	4,025,731	3,881,971
Colleague Relations	197,487	183,846
Emergency	185,183	169,291
Family Care	766,386	630,179
Heart and Vascular	543,477	444,481
Laboratory	81,462	76,146
Medical Staff	32,844	29,335
Metabolic	935,142	849,784
Music Therapy	93,403	80,201
Neurosciences	363,528	331,537
Nursing	240,837	234,919
Other	389,789	371,935
Rehabilitation	256,484	257,116
Surgery	150,773	143,157
Women's and Children's	<u>3,123,029</u>	<u>2,876,760</u>
Total non-endowed net assets	<u>\$ 11,675,883</u>	<u>\$ 10,798,644</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2019 and 2018

	2019	2018
Endowed net assets		
Animal Therapy	\$ 198,663	\$ 37,508
Behavioral Health	166,605	162,595
Cancer	888,298	849,235
Colleague Relations	560,162	546,681
Emergency	346,203	336,806
Family Care	1,077,567	1,037,873
Heart and Vascular	496,179	482,838
Laboratory	92,703	90,472
Medical Staff	62,491	60,987
Metabolic	1,642,676	1,596,997
Music Therapy	239,668	232,976
Neurosciences	1,573,312	1,470,535
Nursing	203,560	196,141
Other	593,575	579,057
Rehabilitation	324,437	316,554
Women's and Children's	382,033	372,818
	<u>\$ 8,848,132</u>	<u>\$ 8,370,073</u>
Total endowed net assets		
Total net assets with donor restrictions	<u>\$ 20,524,015</u>	<u>\$ 19,168,717</u>

Net assets were released from donor restrictions during the years ended September 30, 2019 and 2018 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, 2019 and 2018 were as follows:

	2019	2018
Animal Therapy	\$ 27,201	\$ 20,838
Cancer	257,701	296,920
Colleague Relations	24,000	24,750
Emergency	32,429	481,833
Family Care	19,582	79,321
Heart and Vascular	24,526	50,059
Metabolic	18,166	39,680
Music Therapy	7,418	135,714
Neurosciences	171,949	316,090
Nursing	45,808	26,461
Other	8,196	29,271
Rehabilitation	22,467	15,613
Surgery	58,676	320
Women's and Children's	387,758	353,371
	<u>\$ 1,105,877</u>	<u>\$ 1,870,241</u>
Total restrictions satisfied		

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2019 and 2018

13. 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 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, 2019 and 2018, are as follows:

	2019	2018
Carrying value	\$ 349,470,000	\$ 352,165,000
Estimated fair value	383,934,189	368,335,000

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.

14. Commitments

As of September 30, 2019, future minimum payments required under noncancelable maintenance agreements were as follows:

2020	\$ 2,828,418
2021	2,897,365
2022	530,184
2023	530,184
2024	530,184
	<u>\$ 7,316,335</u>

15. 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, 2019 and 2018

16. Functional Expenses

TMH, Inc. provides general health care services to residents within its geographic region. TMH, Inc.'s financial statements report certain expense categories that are attributable to more than one function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, interest and other occupancy costs, are allocated to a function based on a square footage or units of service basis. Expenses relating to providing these services are as follows:

September 30, 2019				
	Program	General & Administrative	Fundraising	Total
Salaries, wages and benefits	\$ 324,331,193	\$ 39,947,601	\$ 619,346	\$ 364,898,140
Supplies and other	254,539,448	26,457,029	702,830	281,699,307
Professional fees	57,897,270	11,783,972	7,940	69,689,182
Depreciation and amortization	32,149,787	4,406,953	10,519	36,567,259
Interest expense	9,623,658	9,611	-	9,633,269
Total expenses	<u>\$ 678,541,356</u>	<u>\$ 82,605,166</u>	<u>\$ 1,340,635</u>	<u>\$ 762,487,157</u>

September 30, 2018				
	Program	General & Administrative	Fundraising	Total
Salaries, wages and benefits	\$ 306,195,111	\$ 35,001,209	\$ 556,069	\$ 341,752,389
Supplies and other	242,470,451	21,564,049	910,571	264,945,071
Professional fees	56,317,624	10,309,401	-	66,627,025
Depreciation and amortization	28,498,950	3,672,920	11,739	32,183,609
Interest expense	6,328,642	6,882	-	6,335,524
Total expenses	<u>\$ 639,810,778</u>	<u>\$ 70,554,461</u>	<u>\$ 1,478,379</u>	<u>\$ 711,843,618</u>

17. Subsequent Events

TMH, Inc. has evaluated subsequent events through December 20, 2019, 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, 2019 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 20, 2019

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2019

Schedule I

	Hospital	SECHS	TMHV	Foundation	Medicus	Eliminations	2019 TMH, Inc.	2018 TMH, Inc.
Assets								
Current assets								
Cash and cash equivalents	\$ 285,350,743	\$ 5,206,012	\$ 11,046,451	\$ 683,370	\$ -	\$ -	\$ 302,286,576	\$ 322,549,958
Short-term investments	1,453,243	-	-	21,173,185	-	-	22,626,428	21,116,065
Assets limited as to use	13,590,535	-	-	-	-	-	13,590,535	13,225,172
Accounts receivable, net	91,487,414	-	-	-	-	-	91,487,414	91,048,606
Inventories	13,571,249	-	23,206	-	-	-	13,594,455	10,240,352
Due from Medicare	10,414,529	-	-	-	-	-	10,414,529	-
Other current assets	19,122,585	34,903	8,499,774	464,065	17,981	-	28,139,308	22,912,553
Total current assets	<u>434,990,298</u>	<u>5,240,915</u>	<u>19,569,431</u>	<u>22,320,620</u>	<u>17,981</u>	<u>-</u>	<u>482,139,245</u>	<u>481,092,706</u>
Assets limited as to use								
Held by trustee	32,655,145	-	-	-	-	-	32,655,145	111,061,717
Less amount required to meet current obligations	<u>(13,590,535)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,590,535)</u>	<u>(13,225,172)</u>
Total assets limited as to use	<u>19,064,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,064,610</u>	<u>97,836,545</u>
Long-term investments	27,300	-	-	-	-	-	27,300	27,300
Property and equipment, net	522,008,780	8,062,219	4,463,147	200,086	-	-	534,734,232	462,254,609
Due from TMH, Inc.	6,731,217	-	574,813	-	2,324,013	(9,630,043)	-	-
Other assets	8,494,044	-	-	66,779	-	-	8,560,823	62,529,025
Total assets	<u>\$ 991,316,249</u>	<u>\$ 13,303,134</u>	<u>\$ 24,607,391</u>	<u>\$ 22,587,485</u>	<u>\$ 2,341,994</u>	<u>\$ (9,630,043)</u>	<u>\$ 1,044,526,210</u>	<u>\$ 1,103,740,185</u>

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2019

Schedule I

	Hospital	SECHS	TMHV	Foundation	Medicus	Eliminations	2019 TMH, Inc.	2018 TMH, Inc.
Liabilities and Net Assets								
Current liabilities								
Accounts payable and accrued expenses	\$ 86,552,962	\$ 303,810	\$ 1,857,400	\$ 116,990	\$ 1,997,066	\$ (2,283,508)	\$ 88,544,720	\$ 85,432,123
Current portion of long-term debt	3,417,556	410,475	-	-	-	(410,475)	3,417,556	3,246,874
Due to Medicare	-	-	-	-	-	-	-	1,858,784
Other current liabilities	10,532,164	-	-	19,672	-	-	10,551,836	9,611,016
Due to TMH, Inc.	-	3,874,321	2,354,915	361,896	344,928	(6,936,060)	-	-
Total current liabilities	<u>100,502,682</u>	<u>4,588,606</u>	<u>4,212,315</u>	<u>498,558</u>	<u>2,341,994</u>	<u>(9,630,043)</u>	<u>102,514,112</u>	<u>100,148,797</u>
Long-term debt, net of current portion	381,078,457	-	-	-	-	-	381,078,457	386,700,855
Other liabilities	39,081,596	-	-	200,000	-	-	39,281,596	38,028,834
Total liabilities	<u>520,662,735</u>	<u>4,588,606</u>	<u>4,212,315</u>	<u>698,558</u>	<u>2,341,994</u>	<u>(9,630,043)</u>	<u>522,874,165</u>	<u>524,878,486</u>
Net assets								
Without donor restrictions	470,653,514	8,714,528	20,395,076	1,364,912	-	-	501,128,030	559,692,982
With donor restrictions	-	-	-	20,524,015	-	-	20,524,015	19,168,717
Total net assets	<u>470,653,514</u>	<u>8,714,528</u>	<u>20,395,076</u>	<u>21,888,927</u>	<u>-</u>	<u>-</u>	<u>521,652,045</u>	<u>578,861,699</u>
Total liabilities and net assets	<u>\$ 991,316,249</u>	<u>\$ 13,303,134</u>	<u>\$ 24,607,391</u>	<u>\$ 22,587,485</u>	<u>\$ 2,341,994</u>	<u>\$ (9,630,043)</u>	<u>\$ 1,044,526,210</u>	<u>\$ 1,103,740,185</u>

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Statement of Operations
Year Ended September 30, 2019

Schedule II

	Hospital	SECHS	TMHV	Foundation	Medicus	Eliminations	2019 TMH, Inc.	2018 TMH, Inc.
Operating Revenues								
Net patient service revenues	\$ 752,244,492	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 752,244,492	\$ 742,639,412
Other revenue	<u>3,653,476</u>	<u>523,502</u>	<u>8,972,832</u>	<u>2,716,250</u>	<u>22,335,159</u>	<u>(23,944,108)</u>	<u>14,257,111</u>	<u>14,634,844</u>
Total operating revenues	<u>755,897,968</u>	<u>523,502</u>	<u>8,972,832</u>	<u>2,716,250</u>	<u>22,335,159</u>	<u>(23,944,108)</u>	<u>766,501,603</u>	<u>757,274,256</u>
Operating Expenses								
Salaries, wages and benefits	362,233,140	50,953	1,754,323	952,135	22,198,100	(22,290,511)	364,898,140	341,752,389
Supplies and other	278,287,164	4,360	4,119,572	2,202,473	137,059	(3,051,321)	281,699,307	264,945,071
Professional fees	69,592,729	11,020	-	85,433	-	-	69,689,182	66,627,025
Depreciation and amortization	36,160,672	97,835	294,581	14,171	-	-	36,567,259	32,183,609
Interest	<u>9,623,658</u>	<u>13,526</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,915)</u>	<u>9,633,269</u>	<u>6,335,524</u>
Total operating expenses	<u>755,897,363</u>	<u>177,694</u>	<u>6,168,476</u>	<u>3,254,212</u>	<u>22,335,159</u>	<u>(25,345,747)</u>	<u>762,487,157</u>	<u>711,843,618</u>
Operating income (loss)	605	345,808	2,804,356	(537,962)	-	1,401,639	4,014,446	45,430,638
Other revenues and expenses, net	<u>9,197,330</u>	<u>51,224</u>	<u>181,543</u>	<u>-</u>	<u>-</u>	<u>(1,406,865)</u>	<u>8,023,232</u>	<u>4,128,833</u>
Excess (deficit) of revenues over expenses	9,197,935	397,032	2,985,899	(537,962)	-	(5,226)	12,037,678	49,559,471
Net assets released from restrictions used for program services and purchase of equipment	(34,568)	-	-	1,105,877	-	34,568	1,105,877	1,870,241
Change in pension liability	<u>(71,708,507)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(71,708,507)</u>	<u>61,183,141</u>
Change in net assets without donor restrictions	<u>\$ (62,545,140)</u>	<u>\$ 397,032</u>	<u>\$ 2,985,899</u>	<u>\$ 567,915</u>	<u>\$ -</u>	<u>\$ 29,342</u>	<u>\$ (58,564,952)</u>	<u>\$ 112,612,853</u>

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
Year Ended September 30, 2019

Schedule III

	Hospital	SECHS	TMHV	Foundation	Medicus	Eliminations	2019 TMH, Inc.	2018 TMH, Inc.
Net assets without donor restrictions								
Excess (deficit) of revenues over expenses	\$ 9,197,935	\$ 397,032	\$ 2,985,899	\$ (537,962)	\$ -	\$ (5,226)	\$ 12,037,678	\$ 49,559,471
Net assets released from restrictions used for program services and purchase of equipment	(34,568)	-	-	1,105,877	-	34,568	1,105,877	1,870,241
Change in pension liability	(71,708,507)	-	-	-	-	-	(71,708,507)	61,183,141
Change in net assets without donor restrictions	(62,545,140)	397,032	2,985,899	567,915	-	29,342	(58,564,952)	112,612,853
Net assets with donor restrictions								
Contributions	-	-	-	1,789,961	-	-	1,789,961	1,698,118
Investment return, net	-	-	-	671,214	-	-	671,214	445,253
Net assets released from restrictions used for program services and purchases of equipment	-	-	-	(1,105,877)	-	-	(1,105,877)	(1,870,241)
Change in net assets with donor restrictions	-	-	-	1,355,298	-	-	1,355,298	273,130
Change in net assets	(62,545,140)	397,032	2,985,899	1,923,213	-	29,342	(57,209,654)	112,885,983
Net assets								
Beginning of year	533,198,654	8,317,496	17,409,177	19,965,714	-	(29,342)	578,861,699	465,975,716
End of year	\$ 470,653,514	\$ 8,714,528	\$ 20,395,076	\$ 21,888,927	\$ -	\$ -	\$ 521,652,045	\$ 578,861,699

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