

# THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## *Consolidated Financial Report* *September 30, 2017*



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## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors  
Thomas Health System, Inc.  
and Subsidiaries  
South Charleston, West Virginia

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Thomas Health System, Inc. and its subsidiaries (the System) which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thomas Health System, Inc. and its subsidiaries as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Annett Carlie Toothman LLP*

Charleston, West Virginia  
January 24, 2018

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2017 and 2016

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 12,112,420	\$ 8,513,090
Investments (Note 3)	5,017,625	8,511,319
Assets limited as to use (Note 3)	13,733,315	14,283,161
Patient accounts receivable, net of allowance for doubtful accounts of \$27,487,000 in 2017 and \$21,861,000 in 2016 (Note 1)	28,551,285	26,297,174
Supplies inventories	7,892,349	8,612,373
Prepaid and other current assets	2,987,874	4,570,179
Estimated third-party payor settlements	4,832,860	4,582,851
<b>Total current assets</b>	<b>75,127,728</b>	<b>75,370,147</b>
<b>Assets limited as to use, net of current portion (Note 3)</b>	<b>38,614,578</b>	<b>43,372,046</b>
<b>Property and equipment, net (Note 5)</b>	<b>148,225,522</b>	<b>147,781,076</b>
<b>Other assets</b>		
Other investments (Note 3)	86,564	72,174
Pledges receivable, net of current portion	118,789	212,290
Other	1,799,585	1,389,697
<b>Total other assets</b>	<b>2,004,938</b>	<b>1,674,161</b>
<b>Total assets</b>	<b>\$ 263,972,766</b>	<b>\$ 268,197,430</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Current portion of long-term debt (Note 6)	\$ 2,760,776	\$ 2,838,761
Accounts payable and accrued expenses	37,327,918	23,957,923
Accrued salaries and benefits	8,906,538	10,311,097
Accrued self-insurance liability (Note 10)	2,935,465	3,486,811
<b>Total current liabilities</b>	<b>51,930,697</b>	<b>40,594,592</b>
<b>Accrued pension and postretirement benefits (Note 14)</b>	<b>28,015,520</b>	<b>40,287,347</b>
<b>Accrued self-insurance liability (Note 10)</b>	<b>12,182,535</b>	<b>12,020,189</b>
<b>Long-term debt, net of current portion (Note 6)</b>	<b>142,982,364</b>	<b>144,647,959</b>
<b>Total liabilities</b>	<b>235,111,116</b>	<b>237,550,087</b>
<b>Net assets</b>		
Unrestricted	26,926,335	28,718,570
Temporarily restricted	803,782	807,240
Permanently restricted (Note 19)	1,131,533	1,121,533
<b>Total net assets</b>	<b>28,861,650</b>	<b>30,647,343</b>
<b>Total liabilities and net assets</b>	<b>\$ 263,972,766</b>	<b>\$ 268,197,430</b>

See Notes to Consolidated Financial Statements

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended September 30, 2017 and 2016

	2017	2016
<b>Unrestricted revenue, gains and other support</b>		
Patient service revenue (net of contractual allowances and discounts)	\$ 273,681,667	\$ 278,950,039
Less: Provision for bad debts	<u>(20,644,022)</u>	<u>(14,828,597)</u>
<b>Net patient service revenue (Note 8)</b>	<b>253,037,645</b>	264,121,442
Investment income (Note 3)	3,669,557	2,517,113
Rental income	2,541,447	3,095,593
Other revenue (Note 20)	8,706,463	8,976,313
Grant income	3,000	17,052
Public support - donations	<u>508,447</u>	<u>588,165</u>
<b>Total revenue, gains and other support</b>	<b>268,466,559</b>	279,315,678
<b>Expenses</b>		
Salaries and wages	96,402,776	98,147,914
Employee benefits	19,957,937	22,711,637
Supplies and other	61,721,727	66,820,360
Purchased services	46,078,931	36,790,382
Depreciation and amortization	12,541,884	12,601,671
Taxes	7,853,247	6,888,645
Interest	9,754,376	9,792,251
Insurance	1,610,132	4,427,068
Other	<u>23,163,004</u>	<u>25,917,094</u>
<b>Total expenses</b>	<b>279,084,014</b>	284,097,022
<b>Deficiency of revenues over expenses</b>	<b>(10,617,455)</b>	(4,781,344)
<b>Other changes in net assets</b>		
Net unrealized gains (loss) on investments (Note 3)	(301,634)	2,070,548
Net assets released from restriction	93,444	73,237
Defined benefit pension plan adjustment (Note 14)	9,016,528	(8,073,413)
Change in fair value of derivatives (Note 7)	<u>16,882</u>	<u>19,811</u>
<b>Decrease in unrestricted net assets</b>	<b>\$ (1,792,235)</b>	<b>\$ (10,691,161)</b>

See Notes to Consolidated Financial Statements

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
 Years ended September 30, 2017 and 2016

	2017	2016
<b>Unrestricted net assets</b>		
Deficiency of revenues over expenses	\$ (10,617,455)	\$ (4,781,344)
Net unrealized gain (loss) on investments (Note 3)	(301,634)	2,070,548
Net assets released from restriction	93,444	73,237
Defined benefit pension plan adjustment (Note 14)	9,016,528	(8,073,413)
Change in fair value of derivatives (Note 7)	16,882	19,811
<b>Decrease in unrestricted net assets</b>	<b>(1,792,235)</b>	<b>(10,691,161)</b>
<b>Temporarily restricted net assets</b>		
Public support - donations	89,986	59,833
Net assets released from restriction	(93,444)	(73,237)
<b>Decrease in temporarily restricted net assets</b>	<b>(3,458)</b>	<b>(13,404)</b>
<b>Permanently restricted net assets</b>		
Public support - donations	10,000	20,000
<b>Increase in permanently restricted net assets</b>	<b>10,000</b>	<b>20,000</b>
<b>Decrease in net assets</b>	<b>(1,785,693)</b>	<b>(10,684,565)</b>
<b>Net assets, beginning of year</b>	<b>30,647,343</b>	<b>41,331,908</b>
<b>Net assets, end of year</b>	<b>\$ 28,861,650</b>	<b>\$ 30,647,343</b>

See Notes to Consolidated Financial Statements

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended September 30, 2017 and 2016

	2017	2016
<b>Cash Flows From Operating Activities</b>		
Decrease in net assets	\$ (1,792,235)	\$ (10,691,161)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,541,884	12,601,671
Loss on sale of property and equipment	1,807	14,477
Provision for doubtful accounts	20,644,022	14,828,597
Net realized and unrealized gains on investments	(1,718,530)	(2,773,615)
Defined benefit pension plan adjustment	(9,016,528)	8,073,413
Change in working capital components:		
(Increase) decrease in:		
Patient accounts receivable	(22,898,133)	(14,761,926)
Supplies inventories	720,024	258,679
Other assets	1,241,939	(79,218)
Increase (decrease) in:		
Accounts payable and accrued expenses	13,369,995	7,684,499
Accrued salaries and benefits	(1,404,559)	(980,909)
Estimated third-party payor settlements	(250,009)	(5,036,382)
Other liabilities	(3,644,299)	(5,355,735)
<b>Net cash provided by operating activities</b>	<b>7,795,378</b>	<b>3,782,390</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(11,952,790)	(10,988,170)
Purchases of assets limited as to use and investments	(1,496,588)	(958,361)
Sales of assets limited as to use and investments	12,016,126	3,706,911
<b>Net cash used in investing activities</b>	<b>(1,433,252)</b>	<b>(8,239,620)</b>
<b>Cash Flows From Financing Activities</b>		
Principal payments on long-term debt	(2,769,338)	(2,788,468)
Proceeds from the issuance of long-term debt	-	1,857,000
Restricted contributions and income, net	6,542	6,596
<b>Net cash used in financing activities</b>	<b>(2,762,796)</b>	<b>(924,872)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,599,330</b>	<b>(5,382,102)</b>
<b>Cash and cash equivalents, beginning</b>	<b>8,513,090</b>	<b>13,895,192</b>
<b>Cash and cash equivalents, ending</b>	<b>\$ 12,112,420</b>	<b>\$ 8,513,090</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 9,647,098	\$ 9,680,401
Capital lease obligations for new equipment	\$ 1,006,678	\$ -

See Notes to Consolidated Financial Statements

**Note 1. Nature of Operations and Significant Accounting Policies**

**Nature of operations:** Thomas Health System, Inc. (System) is a not-for-profit corporation organized and existing under the laws of the State of West Virginia. The System was incorporated on December 4, 2006, in connection with a reorganization of Herbert J. Thomas Memorial Hospital Association and the acquisition of Charleston Hospital, Inc. (d/b/a Saint Francis Hospital). The System is the sole corporate member of both entities. Subsidiaries of the System are as follows:

- Herbert J. Thomas Memorial Hospital Association (Thomas Memorial) – A not-for-profit corporation organized and existing under the laws of the State of West Virginia. Thomas Memorial operates a 241-bed acute care hospital under the name Thomas Memorial Hospital in South Charleston, West Virginia. The subsidiary of Thomas Memorial is as follows:
  - TMH Services, Inc. (TMH Services) – A wholly owned, for-profit corporation that provides services including the sales and rental of communications equipment and related services, vending sales, and various other services.
- Foundation for the Thomas Memorial and Saint Francis Hospitals, Inc. (Foundation) – A Foundation established to solicit, raise, hold and invest contributions, gifts, bequests and devises for the purpose of providing support to Thomas Memorial and Saint Francis.
- Charleston Hospital, Inc. (d/b/a Saint Francis Hospital) (Saint Francis) – A not-for-profit corporation organized and existing under the laws of the State of West Virginia. Saint Francis operates a 123-bed acute care hospital under the name Saint Francis Hospital in Charleston, West Virginia.
- THS Physician Partners, Inc. (THS Physician Partners) – A not-for-profit corporation organized and existing under the laws of the State of West Virginia, formed to employ physicians working for the System.
- Thomas Memorial, the Foundation, and Saint Francis are collectively the “Obligated Group” under certain bond indentures.

**A summary of significant accounting policies is as follows:**

**Basis of consolidation:** The accompanying consolidated financial statements include the accounts of the System and its subsidiaries and are collectively referred to in these statements as the “System”. All significant intercompany transactions and balances have been eliminated in consolidation.

**Use of estimates:** The preparation of 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in determining the allowance for doubtful accounts, estimated third-party payor settlements, accrued pension, accrued medical malpractice cost and accrued health insurance cost. It is at least reasonably possible that the significant estimates used will change within the next year.

**Basis of presentation:** Net assets and revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the System and changes therein are classified and reported as follows:

**Unrestricted** – Resources over which the Board of Directors has discretionary control. The retained earnings of Thomas Memorial’s for-profit subsidiary, TMH Services, are also included in this classification of net assets.

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**Temporarily restricted** – Resources subject to donor imposed restrictions, which will be satisfied by actions of the System or passage of time. These net assets primarily consist of Foundation investments restricted for scholarships and Thomas Memorial capital projects.

**Permanently restricted** – Resources subject to donor imposed restrictions that they be maintained permanently by the System or for which perpetual trusts have been established. The donors of these resources permit the System to use all or part of the income earned on related investments, excluding capital appreciation, for scholarships, capital projects and other unrestricted purposes.

**Cash and cash equivalents:** Cash and cash equivalents include all highly liquid debt instruments with an original maturity of three months or less. The System routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations.

**Patient accounts receivable:** Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectability. Management also reviews troubled, aged accounts to determine collection potential. Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded as a reduction to the provision for bad debts when received. Interest is not charged on patient accounts receivable.

The Systems' allowance for doubtful accounts for self-pay patients was 95% and 98% of self-pay accounts receivable at September 30, 2017 and 2016, respectively. The System's provision for bad debts, which consist mostly of self-pay write-offs, increased \$5,815,000 from approximately \$14,829,000 for the fiscal year 2016 to approximately \$20,644,000 for fiscal year 2017. The System has not changed its charity care or uninsured discount policies during 2017 or 2016. The System does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

**Pledges receivable:** The Foundation has pledges receivable approximating \$171,000 and \$270,000 as of September 30, 2017 and 2016, respectively. As of September 30, 2017 and 2016, payments of approximately \$52,000 and \$58,000, respectively, are expected to be received within one year and are included in prepaid and other current assets, and approximately \$119,000 and \$212,000 within one to five years and are included in other long-term assets, respectively.

**Supplies inventories:** Supplies inventories are stated at latest invoice cost, which approximates lower of cost (first-in, first-out method) or net realizable value.

**Assets limited as to use:** Assets limited as to use primarily include assets held by trustees under indenture agreements and internally designated amounts by the Board for the System's self-insurance program and future capital improvements. Amounts required to meet the current liabilities of the System are reclassified as current in the accompanying consolidated balance sheets.

**Investments:** Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the deficiency of revenues over expenses unless the income or loss is restricted by donor or law, in which case the income or loss is reported as a change in temporarily or permanently restricted net assets in the consolidated statement of changes in net assets. Realized net gains and losses are computed based on the original cost of the investment sold and are included in the deficiency of revenues over expenses. Unrealized gains and losses on investments are excluded from the deficiency of revenues over expenses.

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**Property and equipment:** Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Expenditures for repairs and maintenance are charged to expense as incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of land, buildings, and equipment are reported at fair value and are presented 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. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the System reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Deferred financing costs:** Costs incurred to secure financing are amortized based on the effective interest method over the life of the debt. Amortization expense related to the deferred financing costs was \$108,615 and \$111,503 for 2017 and 2016, respectively. Deferred financing costs have been netted against long-term debt in accordance with authoritative guidance.

**Advertising Expense:** The System recognizes the costs for advertising as they are incurred. Advertising costs included in expenses for 2017 and 2016 were approximately \$847,000 and \$1,024,000, respectively.

**Deficiency of revenues over expenses:** The consolidated statement of operations includes *deficiency of revenues over expenses*. Changes in unrestricted net assets which are excluded from *deficiency of revenues over expenses*, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and amounts necessary to recognize defined benefit pension plan adjustments.

**Net patient service revenue:** The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is 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 and related services are rendered and adjusted in future periods as final settlements are determined.

**Charity care:** The System maintains a written charity care plan for which the purpose is the provision of health services to individuals who have demonstrated the inability to pay for all or part of the services. Records are maintained to identify and monitor the level of charity care provided by the System. These records include the amount of regular charges foregone for services and supplies furnished under the charity care plan and the estimated cost of those services and supplies. The System's policy is not to pursue collection of amounts determined to qualify as charity care if the patient has an annual income equal to or below 200% of the Federal Poverty Income levels. Accordingly, the System does not report these amounts in net revenues or in the allowance for doubtful accounts. Charity care services, as measured by gross charges foregone were \$1,395,295 and \$1,684,310 for the years ended September 30, 2017 and 2016, respectively. Of the System's total expenses reported for the years ended September 30, 2017 and 2016, an estimated cost of \$480,000 and \$597,000, respectively, arose from providing services to qualified charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the System's total expenses, divided by gross patient service revenue.

**Donor-restricted gifts:** Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

**Estimated malpractice costs:** The provision for estimated medical malpractice claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

**Income taxes:** The System, Thomas Memorial, the Foundation, Saint Francis and THS Physician Partners are recognized as exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes relating to not-for-profit organizations. Under applicable provisions of the Internal Revenue Code and state statutes, TMH Services, which is a for-profit entity and subject to Federal and state income taxes, elected to be treated as a C-corporation for income tax purposes.

Accounting principles generally accepted in the United States of America require the management of the System to evaluate tax positions taken by the System. Management has evaluated the System's tax positions and concluded that the System had maintained its tax exempt status and had taken no uncertain tax positions that require recognition or disclosure in the financial statements. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

The System is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The management of the System believes it is no longer subject to income tax examinations for years prior to the fiscal year ended September 30, 2014.

**Derivative Instruments and Hedging Activities:** The System utilizes derivative financial instruments to reduce interest rate risk. The System does not hold or issue derivative financial instruments for trading purposes. The System recognizes all derivatives as either assets or liabilities and measures those instruments at fair value. The changes in the fair value of the System derivative instruments are recorded as changes in net assets as they qualify for hedge accounting.

**Reclassifications:** Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation. The reclassifications have no impact on previously reported change in net assets.

**Subsequent events:** The System has evaluated subsequent events through January 24, 2018, the date on which the financial statements were available to be issued.

**New or recent accounting pronouncements:** In May 2014, the Financial Accounting Standards Board (FASB) issued guidance related to recognition of revenue from contracts with customers. This guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and requires certain qualitative and quantitative disclosures regarding revenue arising from contracts with customers. This Accounting Standards Update (ASU) will replace most existing revenue recognition guidance in U.S. generally accepted accounting principles (GAAP) when it becomes effective. The guidance permits the use of either a retrospective or modified retrospective (cumulative effect) transition method. In August 2015, the FASB issued an amendment to defer the effective dates for all entities by one year. During 2016, the FASB has issued varied guidance with the purpose of clarifying this ASU. Such clarifications included: improving the operability and understandability of the implementation guidance on principal versus agent considerations; identifying performance obligations and also to improve the operability and understandability of the licensing implementation guidance; clarifying the objective of the collectability criterion for applying paragraph 606-10-25-7; permitting an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; specifying that the measurement date for noncash consideration is contract inception; providing a practical expedient that permits an entity to reflect the aggregate effect of

all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations; determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations; clarifying that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application; and clarifying that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. This guidance is effective for public entities with annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted only as of annual reporting periods beginning after December 15, 2017, including interim reporting periods within the reporting period. For all other entities (nonpublic entities), the amendments in these ASUs will be effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. A nonpublic entity may elect to apply this guidance earlier, subject to certain limitations. Management is currently evaluating the impact, if any, that adoption will have on its financial statements. Management has not yet selected a transition method nor has the effect of this guidance on the System's ongoing financial reporting been determined.

In January 2016, the FASB issued guidance to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments for entities that hold financial assets or owe financial liabilities. The guidance will require: (a) certain equity investments to be measured at fair value with changes recognized in net income; (b) a qualitative assessment to identify impairment of equity investments without readily determinable fair value; (c) elimination of disclosures of the fair value of financial instruments measured at amortized costs and method(s) and significant assumptions used to estimate the fair value; (d) the exit price notion be used when measuring fair value; (e) separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability; (f) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset; and (g) clarification of how to evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This guidance is effective for public entities for fiscal years beginning after December 15, 2017, and for other entities, including not-for-profit entities and employee benefit plans within the scope of Topic 960 through 965 on plan accounting, for fiscal years beginning after December 15, 2018. Public entities include any of the following: (1) a public business entity, (2) a not-for-profit entity 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, or (3) an employee benefit plan that files or furnishes financial statements to the Securities Exchange Commission (SEC). Early adoption is not permitted except for certain exceptions for public entities. Management is currently evaluating the impact, if any, that adoption will have on the System's financial statements.

In February 2016, the FASB issued guidance related to recognition by a lessee of assets and liabilities on leases with terms of more than 12 months on the balance sheet. Consistent with U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease; however, unlike current U.S. GAAP, which requires that only capital leases be recognized on the balance sheet, this ASU requires that both types of leases be recognized on the balance sheet. The ASU also requires disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. Lessor accounting remains largely unchanged from current U.S. GAAP, but the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in May 2014. Transition guidance is provided within the ASU and generally requires a retrospective approach. This guidance is effective for public entities with annual reporting periods beginning after December 15, 2018. Public entities include any of the following: (1) a public business entity, (2) a not-for-profit entity 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, or (3) an employee benefit plan that files or furnishes financial statements to the Securities Exchange Commission (SEC). For all other entities (nonpublic entities), the amendments in these ASUs will be effective for

annual reporting periods beginning after December 15, 2019. Early application of the amendments in this guidance is permitted for all entities. Management is currently evaluating the impact, if any, that adoption will have on the System's financial statements.

In August 2016, the FASB issued guidance to improve certain current financial reporting for not-for-profits (NFPs). The main provisions of this ASU will require an NFP to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. NFPs will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets. This ASU will also require NFPs to present on the face of the statement of activities the amount of change in each of the two classes of net assets noted above. NFPs will continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method, but will no longer require indirect method reconciliation if using the direct method. NFPs will report investment return net of external and direct internal investment expenses and no longer be required to disclose these netted expenses. NFPs will also be required to use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations or restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restriction to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

This ASU will further require an NFP to provide the following enhanced disclosures about: (a) amounts and purposes of governing board designations, appropriations, and similar actions as of the end of the period; (b) composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources; (c) qualitative information that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date; (d) quantitative information, either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary that communicates the availability of an NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date; (e) amounts of expenses by both their natural classification and their functional classification; and (f) method used to allocate costs among program and support functions. This guidance is effective for NFPs with fiscal years beginning after December 15, 2017. Early adoption is permitted. Management is currently evaluating the impact, if any, that adoption will have on the System's financial statements.

In November 2016, the FASB issued guidance on the statement of cash flows: restricted cash. Generally Accepted Accounting Principles currently do not include specific guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents other than limited guidance for not-for-profit entities. The statement of cash flows must explain the change in restricted cash or restricted cash equivalents along with cash and cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Amendments should be applied retrospectively. This guidance is effective for public entities for fiscal years beginning after December 15, 2017, and for all other entities for fiscal years beginning after December 15, 2018. Public entities include any of the following: (1) a public business entity, (2) a not-for-profit entity 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, or (3) an employee benefit plan that files or furnishes financial statements to the Securities Exchange Commission (SEC). Early adoption is permitted. Management is currently evaluating the impact, if any, that adoption will have on the System's financial statements.

In January 2017, the FASB issued guidance to clarify the consolidation guidance for not-for-profits (NFPs) to help avoid diversity in practice. Current GAAP guidance requires an NFP that is a general partner of a for-profit limited partnership to apply the consolidation guidance in Subtopic 810-20, unless that partnership interest is reported at fair value in conformity with certain other guidance. However, once the amendments in Consolidation (Topic 810) (issued in February 2015) are effective, the guidance in

Subtopic 810-20 no longer will exist, creating uncertainty about when an NFP that is a general partner should consolidate a for-profit limited partnership. The amendments in this ASU retain the consolidation guidance that existed in Subtopic 810-20 by including it within Subtopic 958-10. This guidance is effective for NFPs with fiscal years ending after December 15, 2016. Early adoption is permitted. Management is currently evaluating the impact, if any, that adoption will have on the System's financial statements.

In March 2017, the FASB issued guidance relative to compensation for retirement benefits. This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost on the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. This guidance is effective for public entities for fiscal years beginning after December 15, 2017, and for all other entities for fiscal years beginning after December 15, 2018. Public entities include any of the following: (1) a public business entity, (2) a not-for-profit entity 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, or (3) an employee benefit plan that files or furnishes financial statements to the Securities Exchange Commission (SEC). Early adoption is permitted. Management is currently evaluating the impact, if any, that adoption will have on the System's financial statements.

In April 2015, the FASB issued guidance with the purpose of simplifying balance sheet presentation requirements for debt issuance costs. This guidance will require that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by this guidance. This guidance is effective for all entities for fiscal years beginning after December 15, 2015. The System adopted this guidance during the year ended September 30, 2017. Adoption of this guidance did not have a material impact on the System's financial statements.

**Note 2. Cash Concentrations**

The System maintains cash in demand deposit accounts with Federally insured banks. At times the balance in these accounts may be in excess of Federally insured limits. In management's opinion, the amounts in excess of FDIC limits do not pose a significant risk.

**Note 3. Investments**

***Assets Limited as to Use***

The composition of assets limited as to use at September 30, 2017 and 2016, respectively is set forth in the following table. Investments are stated at fair value.

	2017	2016
<b>Under self-insurance program:</b>		
Cash and cash equivalents	\$ 1,001,493	\$ 1,422,564
Mutual funds	8,201,543	8,973,350
<b>Total</b>	<b>9,203,036</b>	<b>10,398,914</b>
<b>Held by Trustee Under Indenture Agreement</b>		
Cash and cash equivalents	7,583,753	6,740,297
Certificate of deposits	2,551,920	1,773,917
Corporate bonds	500,408	505,783
United States government obligations	6,901,209	9,001,694
<b>Total</b>	<b>17,537,290</b>	<b>18,021,691</b>

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	2017	2016
<b>By Board of Directors for future capital expenditures and deferred compensation:</b>		
Cash and cash equivalents	3,193,294	461,711
Mutual funds	10,626,546	12,847,831
United States government obligations	5,819,833	10,512,444
<b>Total</b>	<b>19,639,583</b>	<b>23,821,986</b>
<b>Foundation investments restricted for future support of Thomas Memorial projects:</b>		
Cash and cash equivalents	92,037	93,930
Corporate bonds	1,991,363	2,016,316
Mutual funds	2,115,561	1,806,878
Equity securities	1,769,023	1,498,492
<b>Total</b>	<b>5,967,984</b>	<b>5,415,616</b>
<b>Total assets limited as to use</b>	<b>52,347,893</b>	<b>57,655,207</b>
<b>Less assets limited as to use that are required for current liabilities</b>	<b>13,733,315</b>	<b>14,283,161</b>
<b>Noncurrent assets limited as to use</b>	<b>\$ 38,614,578</b>	<b>\$ 43,372,046</b>

**Investments**

Investments included in current investments, stated at fair value at September 30, 2017 and 2016, is set forth in the following table:

	2017	2016
Cash and cash equivalents	\$ 174,574	\$ 246,633
Mutual funds	4,842,842	8,264,686
	<b>\$ 5,017,416</b>	<b>\$ 8,511,319</b>

**Other Investments**

Other investments at September 30, 2017 and 2016 include:

	2017	2016
Partnership investments – TMH Services, Inc. (Note 17)	\$ 86,564	\$ 72,174
	<b>\$ 86,564</b>	<b>\$ 72,174</b>

Investment income and gains for assets limited as to use, cash equivalents and other investments are comprised of the following for the year ended September 30, 2017 and 2016:

	2017	2016
Investment income included in revenues:		
Interest and dividend income	\$ 1,649,393	\$ 1,814,046
Realized gains	2,020,164	703,067
	<b>\$ 3,669,557</b>	<b>\$ 2,517,113</b>
Other changes in unrestricted net assets:		
Unrealized gains (losses) on investments	<b>\$ (301,634)</b>	<b>\$ 2,070,548</b>

The System has various investments in equity securities and other investment securities. These investment securities are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that the changes in risks in the near-term could materially affect the amounts reported in the balance sheet and the statement of operations and changes in net assets.

The System continually reviews non-trading investments for impairment conditions that indicate that an other-than-temporary decline in market value has occurred. In conducting this review, numerous factors are considered which, individually or in combination, indicate that a decline is other-than-temporary and that a reduction of the carrying value is required. These factors include specific information pertaining to an individual company or a particular industry and general market conditions that reflect prospects for the economy as a whole. Based on this review, the System did not recognize an other-than-temporary loss during the years ended September 30, 2017 and 2016.

The System does not require collateral to secure its investments.

#### **Note 4. Fair Value of Financial Instruments**

The Fair Value Measurements and Disclosures Topic of the FASB Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The Topic defines fair value as the 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. The topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

- Level 1:** Quoted prices for identical assets or liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2:** Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.
- Level 3:** Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

#### **Fair Value Measurements**

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

**Investments and Assets Limited as to Use:** Investment securities and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating. Level 1 securities include those traded on an active exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, mortgage-backed securities and municipal bonds.

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Financial Instruments Measured at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis at September 30, 2017 and 2016.

	Total at September 30, 2017	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
<b>Investment and assets limited as to use</b>				
Cash and cash equivalents	\$ 12,045,271	\$ 12,045,271	\$ -	\$ -
Certificate of deposits (due >3 months)	3,254,215	3,254,215	-	-
Corporate stocks	1,769,023	1,769,023	-	-
Corporate bonds	2,491,770	-	2,491,770	-
<b>Government obligations</b>				
FHLB	5,163,324	-	5,163,324	-
FFCB	2,155,623	-	2,155,623	-
FNMA	5,219,495	-	5,219,495	-
FHLMC	1,544,768	-	1,544,768	-
U.S. Treasury obligation	2,742,250	-	2,742,250	-
	16,825,460	-	16,825,460	-
<b>Mutual funds</b>				
Fixed income funds	6,522,708	6,522,708	-	-
Equity funds	14,457,071	14,457,071	-	-
	20,979,779	20,979,779	-	-
Total investments at fair value	\$ 57,365,518	\$ 38,048,288	\$ 19,317,230	\$ -
<b>Liabilities:</b>				
Derivative financial instruments	\$ (2,460)	\$ -	\$ (2,460)	\$ -

	Total at September 30, 2016	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
<b>Investment and assets limited as to use</b>				
Cash and cash equivalents	\$ 8,965,135	\$ 8,965,135	\$ -	\$ -
Certificate of deposits (due >3 months)	1,773,917	1,773,917	-	-
Corporate stocks	1,498,492	1,498,492	-	-
Corporate bonds	2,522,099	-	2,522,099	-

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	Total at September 30, 2016	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
<b>Government obligations</b>				
FHLB	6,231,058	-	6,231,058	-
FFCB	810,477	-	810,477	-
FNMA	5,698,959	-	5,698,959	-
FHLMC	3,510,154	-	3,510,154	-
U.S. Treasury obligation	3,263,490	-	3,263,490	-
	<u>19,514,138</u>	<u>-</u>	<u>19,514,138</u>	<u>-</u>
<b>Mutual funds</b>				
Fixed income funds	8,360,622	8,360,622	-	-
Equity funds	<u>23,532,123</u>	<u>23,532,123</u>	<u>-</u>	<u>-</u>
	<u>31,892,748</u>	<u>31,892,748</u>	<u>-</u>	<u>-</u>
Total investments at fair value	<u>\$ 66,166,526</u>	<u>\$ 44,130,289</u>	<u>\$ 22,036,237</u>	<u>\$ -</u>
<b>Liabilities:</b>				
Derivative financial instruments	<u>\$ (19,342)</u>	<u>\$ -</u>	<u>\$ (19,342)</u>	<u>\$ -</u>

**Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis**

The System has no assets or liabilities that are recorded on a nonrecurring basis.

**Fair Value of Financial Instruments**

*Cash and cash equivalents:* The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

*Patient accounts receivable:* The carrying amount reported in the balance sheet for patient accounts receivable approximates its fair value.

*Accounts payable and accrued expenses:* The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

*Estimated third-party payor settlements:* The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

*Long-term debt:* Fair values of the System's revenue notes are based on current traded value. The fair value of the System's remaining long-term debt is estimated using discounted cash flow analyses, based on the System's current incremental borrowing rates for similar types of borrowing arrangements. Carrying amount approximates fair value at year end.

The carrying amount and fair values of the System's financial instruments at September 30, 2017 and 2016 are as follows:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 12,112,420	\$ 12,112,420	\$ 8,513,090	\$ 8,513,090
Patient accounts receivable	\$ 28,551,285	\$ 28,551,285	\$ 26,297,174	\$ 26,297,174
Estimated third-party settlements	\$ 3,840,610	\$ 3,840,610	\$ 4,582,851	\$ 4,582,851
Accounts payable and accrued expenses	\$ 37,327,918	\$ 37,327,918	\$ 23,957,923	\$ 23,957,923
Long-term debt	\$ 145,743,140	\$ 145,743,140	\$ 149,369,864	\$ 149,369,864

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**Note 5. Property and Equipment**

A summary of the components of property and equipment at September 30, 2017 and 2016 follows:

	<b>2017</b>	<b>2016</b>
Land	<b>\$ 21,843,316</b>	\$ 21,753,475
Land improvements	<b>3,910,190</b>	3,843,058
Buildings and improvements	<b>191,129,940</b>	190,598,533
Equipment	<b>153,987,055</b>	157,222,864
Construction in progress	<b>-</b>	5,244,492
	<b>370,870,501</b>	378,662,422
Less accumulated depreciation	<b>(222,644,979)</b>	(230,881,346)
Property and equipment, net	<b><u>\$ 148,225,522</u></b>	<b><u>\$ 147,781,076</u></b>

As of September 30, 2016, the System had incurred approximately \$5,000,000 of costs related to a new Information System that was completed and placed into service in 2017.

Capital lease assets at September 30, 2017 and 2016, included in property and equipment are as follows:

	<b>2017</b>	<b>2016</b>
Equipment	<b>\$ 6,352,466</b>	\$ 5,821,061
Less accumulated amortization	<b>(5,226,600)</b>	(4,985,916)
	<b><u>\$ 1,125,866</u></b>	<b><u>\$ 835,145</u></b>

Thomas Memorial leases certain land, buildings and improvements, and equipment from the City of South Charleston for \$100 per annum. The present lease agreement expires in 2048.

The System is lessor of office space under various operating lease arrangements, principally to physicians and medical groups. The total cost of the approximately 200,000 square feet being leased has not been determined and is included in buildings and improvements.

**Note 6. Long-Term Debt**

A summary of long-term debt as of September 30, 2017 and 2016 follows:

	<b>2017</b>	<b>2016</b>
Note payable, bank, due in monthly installments of \$50,953 including interest through February 2019. Note bears interest at a variable rate of LIBOR plus 2.20%, adjusted for interest rate swap arrangement to obtain a fixed rate of 4.00%. Note is secured under Master Indenture of the Series 2008 bond issue.	<b>\$ 830,692</b>	\$ 1,389,403
Note payable, bank, due in monthly installments of \$25,928 including interest at 4.95% through March 2016, adjusted every 60 months to the 5 year FHLB + 2.38% rate, through December 2034, secured by building and an assignment of all leases and rents.	<b>3,975,385</b>	4,079,698
Note payable, bank, due in monthly installments of \$9,851 Including interest at 3.99% through October 2020, adjusted every 60 months to the 5 year FHLB + 2.5% rate, through January 2041, Secured by building and assignment of all leases and rents.	<b>1,777,419</b>	1,831,601
Hospital Revenue Bonds, Series 2008, terms below	<b>141,130,000</b>	142,605,000

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	2017	2016
Capital lease obligations, monthly payments ranging from \$1,912 to \$41,182, including interest ranging from 1% to 5.88% through May 2021, secured by related equipment.	<u>1,140,173</u>	879,303
	<b>148,853,669</b>	150,785,423
Less bond discount	<b>1,336,000</b>	1,415,559
Less deferred financing costs	<b>1,774,529</b>	1,883,144
Less current portion	<u>2,760,776</u>	2,838,761
Long-term debt	<b><u>\$ 142,982,364</u></b>	<b><u>\$ 144,647,959</u></b>

**Hospital Revenue Bonds (Thomas Health System, Inc.) Series 2008 Bonds**

The West Virginia Hospital Finance Authority (WVHFA) issued \$148,920,000 in Hospital Revenue Bonds on June 30, 2008. Pursuant to the loan agreement, the WVHFA loaned the Obligated Group the net proceeds of the Bonds. The Bond proceeds were for the payment of the \$45,000,000 Bridge Loan, used to purchase assets of Saint Francis, to construct a Hospital Pavilion at Thomas Memorial and acquire equipment and other capital expenditures related to such campus, provide for capital expenditures for 2009, fund a debt service reserve fund for Bonds, fund capitalized interest on a portion of the Bonds and to pay the costs of issuance of the Bonds. The Obligated Group is repaying the loan in installment payments, which provides for the payment of principal and interest on the Series 2008 Bonds in accordance with the stated maturity and redemption dates. Under the Master Indenture, the 2008 Notes are secured by the funds created with the Bond proceeds, all gross receipts of the Obligated Group, and any and all other interests in real or personal property.

The Hospital Revenue Bonds, Series 2008, mature in various amounts through 2043. The stated fixed interest rates range from 5.0% to 6.75%.

The loan agreement and trust indenture of the Hospital Revenue Bonds, Series 2008 contain certain financial covenants, which include a debt service coverage ratio; days cash on hand liquidity ratio and certain indebtedness restrictions in any fiscal year. The Obligated Group was not in compliance with the debt service coverage ratio requirement of 1.25 as of September 30, 2017; however the debt service coverage ratio was above 1.00, which requires the Obligated Group to engage a qualified consultant to provide recommendations to improve operating results to remedy the violation. The Obligated Group hired a nationally recognized consultant in August 2017 and is in the process of implementing recommendations to improve operating results to achieve a 1.25 debt service coverage ratio.

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

Year ending September 30:	Long-Term Debt Obligations	Capital Lease Obligations	Total
2018	\$ 2,317,634	\$ 492,238	\$ 2,809,872
2019	2,386,284	283,085	2,669,369
2020	1,921,349	283,085	2,204,434
2021	2,703,109	188,723	2,891,832
2022	2,860,144	-	2,860,144
Thereafter	<u>135,524,976</u>	-	135,524,976
	<b><u>\$ 147,713,496</u></b>	1,247,131	148,960,627
Less amount representing interest under capital lease obligations		<u>(106,958)</u>	<u>(106,958)</u>
		<b><u>\$ 1,140,173</u></b>	<b><u>\$ 148,853,669</u></b>

**Note 7. Interest Rate Risk Management**

The System entered into an interest rate related derivative instrument to manage interest rate exposure on its 2009 note payable with Huntington Bank. The System does not enter into derivative instruments for any purpose other than interest rate management purposes. That is, the System does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counter-party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter-party owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counter-party and, therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions with high-quality counter-parties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The System issued variable-rate debt to pay off an existing line-of-credit. The debt obligation exposes the System to variability in interest payments due to changes in interest rates. Conversely, fixed-rate debt obligations can be more expensive to the System in times of declining interest rates. Management believes it is prudent to monitor and manage its cost of capital on a regular basis. To meet this objective, management from time to time may enter into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk.

In January 2013, the System entered into an interest rate swap agreement in the notional amount of \$3,257,291 related to the 2009 note payable with Huntington Bank. The purpose of the swap was to convert the System's variable-rate cash flow exposure on the debt obligations to fixed rate cash flows. Under the terms of the interest rate swap, the System receives a variable interest rate payment (based on the Bond Rate, or if certain triggering events occur, an alternative floating rate option of USD-LIBOR-BBA) in exchange for making fixed interest rate payments (4.00%) to the swap counter-party, thereby creating the equivalent of fixed-rate debt.

Fair value of derivative instruments designated as hedging instruments are as follows:

Balance Sheet Location	Fair Value	
	2017	2016
<b>Cash Flow Hedges:</b>		
Interest rate contract - Accounts payable and accrued expenses	\$ (2,460)	\$ (19,342)
Total derivative designated as hedging instruments	<u>\$ (2,460)</u>	<u>\$ (19,342)</u>

The following table summarizes the effect of the derivative instrument on the Statement of Changes in Net Assets for the years ended September 30, 2017 and 2016.

Derivatives Designated as Hedging Instruments for the Year Ending September 30	Gain Recognized in Income	Amount of Gain in Net Assets (Effective Portion)	
		2017	2016
<b>Cash Flow Hedges:</b>			
Interest rate contract	Change in value of derivatives	<u>\$ 16,882</u>	<u>\$ 19,811</u>

**Note 8. Net Patient Service Revenue and Supplemental Medicaid Funding**

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. A summary of the payment arrangements with major third-party payors follows:

- **Medicare**

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are paid primarily based on prospectively determined payment classifications.

For cost reimbursement items, the System is reimbursed at a tentative rate, with a final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare administrative contractor. The System's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

- **Medicaid**

Payments for inpatient acute care services rendered to Medicaid program beneficiaries are based primarily upon a prospectively determined rate per discharge based on primary diagnosis. Outpatient services are reimbursed based on a predetermined fee schedule. Payment for inpatient behavioral health services are reimbursed at an interim rate, which is currently forty percent of charges, and are subject to year-end cost based settlement. Reimbursement for inpatient and outpatient services, included behavior health services, provided to Medicaid beneficiaries covered under managed care programs are reimbursed at negotiated rates.

- **Commercial Insurance Carriers**

The System also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the System under these agreements includes various discounts from established charges.

**West Virginia Health Care Authority**

The West Virginia Health Care Authority was empowered, by provisions of the West Virginia Code, to regulate the System's gross patient revenue from non-governmental payors and to evaluate financial performance. During the 2015 legislative session legislation was passed that eliminated rate regulation for West Virginia hospitals. The Health Care Authority may not reduce a hospital's rates for exceeding limits established by their rate orders effective July 1, 2016. Existing rate orders must still be complied with and failure to do so could result in other sanctions or penalties, in particular denial of certificate of need applications. The new law permits the Health Care Authority to impose fines for failure to comply with existing statutes and rules.

**THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES**

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A summary of gross and net patient service revenue for all of the System's payors for the years ended September 30, 2017 and 2016 follows:

	<b>2017</b>	2016
Gross patient service revenue	<b>\$ 814,450,376</b>	\$ 808,135,304
Supplemental Medicaid funding	<b>8,969,316</b>	11,350,671
Less provision for:		
Contractual adjustments	<b>548,342,730</b>	538,851,626
Charity care	<b>1,395,295</b>	1,684,310
Bad debts	<b>20,644,022</b>	14,828,597
Net patient service revenue	<b><u>\$ 253,037,645</u></b>	<b><u>\$ 264,121,442</u></b>

The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided. Thus the System records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the years ended September 30, 2017 and 2016, from these major payor sources, is as follows:

<b>2017</b>	<b>Third-Party Payors</b>	<b>Self-Pay</b>	<b>Total All Payors</b>
Patient service revenue (net of contractual allowances and discounts)	<b><u>\$ 253,922,416</u></b>	<b><u>\$ 19,759,251</u></b>	<b><u>\$273,681,667</u></b>
	Third-Party Payors	Self-Pay	Total All Payors
<b>2016</b>			
Patient service revenue (net of contractual allowances and discounts)	<b><u>\$ 261,399,620</u></b>	<b><u>\$ 17,550,419</u></b>	<b><u>\$278,950,039</u></b>

**Supplemental Medicaid Funding:**

The State of West Virginia's disproportionate share program reimburses hospitals in the state that provide services to Medicaid and indigent patients that meet certain eligibility criteria. The System received approximately \$509,000 in 2017 and \$448,000 in 2016 in disproportionate share reimbursement, which is included in Net Patient Service Revenue in the Consolidated Statement of Operations and Changes in Net Assets.

The State of West Virginia also provides additional reimbursement to qualified hospitals for inpatient and outpatient services provided to Medicaid eligible recipients under an approved Upper Payment Limit (UPL) program. Supplemental payments are based upon the difference between existing Medicaid payment rates and the maximum payment allowed under UPL regulations. The UPL program was expanded effective January 1, 2014 for the expanded portion of the Medicaid population resulting from the State of West Virginia's adoption of new eligibility criteria afforded states as a part of the Affordable Care Act (ACA) that covers the gap in coverage for the poorest Americans. The ACA created a minimum Medicaid income eligibility level that resulted in a substantial increase in Medicaid eligible recipients in West Virginia. Approval was delayed until 2016 as a result of a routine review of this new program by CMS. Because of the uncertainty related to the approval by CMS no revenues related to the expanded Medicaid population were recorded until fiscal 2016.

The System recorded supplemental payment revenues of \$8,969,316 in 2017 and \$11,350,671 in 2016, which is included in Net Patient Service Revenue in the Consolidated Statement of Operations and Changes in Net Assets. Amounts recorded as receivable for the supplemental payment programs at

September 30, 2017 and 2016 were \$4,630,500 and \$5,367,812, respectively. Because of the delays in the approval process by CMS some of the supplemental payment program payments for the expanded population were delayed and are anticipated to be received in early 2018. From August 2016 to the Hospital's September 30, 2017 year end payments for the expanded population were the responsibility of managed care organizations and those payments were received as monthly add-on payments.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

#### **Note 9. Deferred Compensation Arrangements**

The System has an employee deferred compensation plan (Plan) for key employees created in accordance with Internal Revenue Code Section 457(f) and 457(b). The System has established a trust for the funds, and makes periodic elective contributions to the plan. Contributions are charged to salaries and wages expense. The amount held in trust at September 30, 2017 and 2016 was \$436,088 and \$803,069, respectively, and is recorded in assets limited as to use with an equal amount recorded in accrued salaries and benefits.

#### **Note 10. Commitments and Contingencies**

##### **Professional and General Liability Coverage**

Through March 31, 2017, the System was self-insured for medical malpractice and general liability claims up to \$10,000,000 per claim and \$10,000,000 in the aggregate annually. Losses in excess of these limits are insured with a claims-made excess policy with a commercial insurance carrier with limits up to \$10,000,000. The ultimate costs of malpractice claims, which include costs associated with litigating or settling claims, are accrued when the incidents that give rise to the claims occur. Estimated losses from asserted and unasserted claims are accrued based on the best estimates of the ultimate costs of the claims and the relationship of past reported incidents to eventual claims payments. All relevant information, including industry experience, actuarial calculations, historical experience, existing asserted claims, and reported incidents, is used in estimating the expected amount of claims to be paid. Accrued malpractice costs, which are recorded in the current and noncurrent portions of accrued self-insurance liability, under the self-insured plan were \$8,971,000 and \$15,507,000 at September 30, 2017 and 2016, respectively. Accrued malpractice losses have not been discounted and in management's opinion provide an adequate reserve for loss contingencies.

The System established an irrevocable trust for the purpose of setting aside assets based on actuarial funding recommendations for the self-insured plan. Under the trust agreement, the trust assets can only be used for payment of malpractice and general liability losses, related expenses, and the cost of administering the trust. The trust fund is included in assets limited as to use. At September 30, 2017 and 2016, the fund had a balance of \$9,205,239 and \$10,398,914, respectively.

Effective April 1, 2017, the System purchased a claims-made basis insurance coverage for professional liability up to \$1,000,000 for individual claims and aggregate coverage per year of \$5,000,000. Incidents occurring through September 30, 2017 may result in the assertion of a claim or other claims may be asserted arising from past services provided. The self-insurance trust fund was frozen and will be used only to pay claims reported prior to April 1, 2017. The System has estimated the ultimate costs for asserted, unasserted and incurred but not reported claims. Accrued malpractice costs outside of amounts covered by insurance from April 1, 2017 through September 30, 2017 were \$6,147,000 and are included in the current and noncurrent portions of accrued self-insurance liability. Accrued malpractice losses have not been discounted and in management's opinion provide an adequate reserve for loss contingencies.

# THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The ultimate amount of claims incurred and resulting payments is dependent on future developments. Accordingly, there is a reasonable possibility that a change in estimate will occur in the near term. Adjustments, if any, to estimates recorded are reflected in operations in the periods such changes are known.

### Litigation

The System is a defendant in various lawsuits wherein various amounts are claimed. In the opinion of management, the likelihood of an unfavorable outcome in excess of insurance coverage or self-insured malpractice reserves is remote and the judgments, if unfavorable, would not have a material adverse effect on the System's financial statements.

### Voluntary Self-Disclosure to Centers for Medicare and Medicaid Services (CMS)

In 2011, the System made a Voluntary Disclosure Submission to CMS for a technical violation of a Stark II Amendment regulation in failing to obtain the signatures for a limited number of physician practices. If the System is found in violation of the regulation, the System could be subject to repayment and penalties and interest. No amount has been recorded as a liability because the ultimate outcome of the issue is unknown and the settlement amount, if any, cannot be determined at this time. Since making the disclosure, no response has been received from CMS. In the opinion of management, the likelihood of an unfavorable outcome in excess of insurance coverage or self-insured reserves is remote and the judgments, if unfavorable, would not have a material adverse effect on the System's financial statements.

### Note 11. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	2017	2016
Health care services	\$ 272,086,759	\$ 277,481,061
General and administrative	6,283,517	5,878,155
Fundraising	713,738	737,806
<b>Total</b>	<b>\$ 279,084,014</b>	<b>\$ 284,097,022</b>

### Note 12. Concentrations of Credit Risk

Thomas Memorial is located in South Charleston, West Virginia, and Saint Francis is located in Charleston, West Virginia. Together, they grant credit without collateral to their patients, many of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from the third-party payors and patients are as follows:

	2017	2016
Medicare	32%	32%
Medicaid	13%	14%
Private pay	2%	0%
Other payors	53%	54%
	<b>100%</b>	<b>100%</b>

**THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 13. Health Care Legislation and Regulation**

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. If the System is found in violation of these laws, the System could be subject to substantial monetary fines, civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs. Management believes that the System is in compliance with fraud and abuse as well as all other applicable government laws and regulations.

**Note 14. Pension Plans and Other Postretirement Benefit Plans**

**Thomas Memorial Defined Benefit Pension Plan (the Plan):**

Effective January 1, 2012, the Plan was amended such that there were no new participants in the Plan after December 31, 2011. The Plan covers substantially all full-time employees hired prior to January 1, 2012. In 2015, the Plan was amended to freeze future benefit accruals. All employees hired after December 31, 2011 are eligible to participate in the Thomas Health System Defined Contribution Plan described below. Thomas Memorial's funding policy is to contribute such amounts as are necessary on an actuarial basis to provide plan assets sufficient to meet the benefits to be paid to retirees or their beneficiaries.

The following tables set forth the changes in benefit obligations, changes in plan assets and components of net periodic benefit cost as of September 30:

	2017	2016
<b>Change in projected benefit obligation</b>		
Benefit obligation at the beginning of year	\$ 130,253,036	\$ 117,409,712
Interest cost	5,019,760	5,313,961
Actuarial loss (gain)	(2,965,771)	11,406,154
Benefits paid	<u>(4,526,459)</u>	<u>(3,876,791)</u>
Benefit obligation at the end of year	<u>\$ 127,780,566</u>	<u>\$ 130,253,036</u>
<b>Change in plan assets</b>		
Fair value of plan assets at the beginning of year	\$ 89,965,689	\$ 80,019,043
Actual return on plan assets	11,525,816	9,023,437
Employer contributions	2,800,000	4,800,000
Benefits paid	<u>(4,526,459)</u>	<u>(3,876,791)</u>
Fair value of plan assets at the end of year	<u>99,765,046</u>	<u>89,965,689</u>
<b>Funded status at end of year</b>	<u>\$ (28,015,520)</u>	<u>\$ (40,287,347)</u>

**Amounts recognized on balance sheet consist of:**

	2017	2016
Noncurrent liabilities	<u>\$ (28,015,520)</u>	<u>\$ (40,287,347)</u>

**Accumulated amounts recognized in other changes in unrestricted net assets:**

	2017	2016
Net actuarial loss	<u>\$ (37,428,259)</u>	<u>\$ (46,444,787)</u>

**THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The accumulated benefit obligation was \$127,780,566 and \$130,253,036 at September 30, 2017 and 2016, respectively.

**Net periodic benefit cost and other amounts recognized in other changes in net assets:**

	<b>2017</b>	<b>2016</b>
Net periodic benefit cost	\$ (455,299)	\$ (376,735)
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net (gain)/loss for period	(8,052,379)	8,737,062
Amortization of loss	(964,149)	(663,649)
Total amount recognized in other changes in net assets	<u>(9,016,528)</u>	<u>8,073,413</u>
Total recognized in net periodic benefit cost and other changes in net assets	<u>\$ (9,471,827)</u>	<u>\$ 7,696,678</u>

The actuarially computed net periodic pension costs included the following components:

	<b>2017</b>	<b>2016</b>
Interest cost	\$ 5,019,760	\$ 5,313,961
Expected return on plan assets	(6,439,208)	(6,354,345)
Recognized actuarial loss	964,149	663,649
Net periodic benefit cost	<u>\$ (455,299)</u>	<u>\$ (376,735)</u>

**Additional Information**

**Assumptions**

Weighted average assumptions used to determine net periodic benefit cost for the years ended September 30, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Discount rate	4.00%	3.92%
Expected return on plan assets	7.00%	7.50%
Rate of compensation increase		
First year rate	N/A	N/A
Ultimate rate	N/A	N/A

The overall rate of expected return on assets assumption was based on historical returns, with adjustments made to reflect expectations of future returns. The extent to which the future expectations were recognized considered the target rates of return for the future, which have historically not changed.

The SOA RP-2014 Mortality Tables using Scale MP-2017 were utilized to determine the financial disclosure information for the year ended September 30, 2017. The long-term rate of return on plan assets of 7.00% is based upon management's estimate of future long-term rates of return on similar assets and is consistent with historical returns on such assets.

**Plan Assets**

The composition of plan assets at September 30, 2017 and 2016 is as follows:

	<b>2017</b>	<b>2016</b>
Equity securities	72%	72%
Debt Securities	24%	24%
Other	4%	4%
	<u>100%</u>	<u>100%</u>

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tables below present the recorded amount of Plan assets measured at a fair value on a recurring basis at September 30, 2017 and 2016 under the fair value framework as described in Note 4.

Plan Assets	Total at September 30, 2017	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
<b>Cash equivalents</b>	\$ 509,972	\$ 509,972	\$ -	\$ -
<b>Mutual Funds</b>				
Fixed income funds	20,294,514	20,294,514	-	-
Equity funds	73,327,628	73,327,628	-	-
Diversified funds	5,642,807	5,642,807	-	-
	<u>99,264,949</u>	<u>99,264,949</u>	-	-
	<u>\$ 99,774,921</u>	<u>\$ 99,774,921</u>	<u>\$ -</u>	<u>\$ -</u>

Plan Assets	Total at September 30, 2016	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
<b>Cash equivalents</b>	\$ 2,211,342	\$ 2,211,342	\$ -	\$ -
<b>Mutual Funds</b>				
Fixed income funds	21,570,944	21,570,944	-	-
Equity funds	63,906,695	63,906,695	-	-
Diversified funds	2,276,708	2,276,708	-	-
	<u>87,754,347</u>	<u>87,754,347</u>	-	-
	<u>\$ 89,965,689</u>	<u>\$ 89,965,689</u>	<u>\$ -</u>	<u>\$ -</u>

Thomas Memorial's Board of Directors determines the investment policy for the Plan. A strategic allocation within each asset class is employed based on the Plan's time horizon, risk tolerances, performance expectations, and asset class preferences. Investment managers have discretion to invest in any equity or fixed-income asset class, subject to the securities guidelines of the Plan's Investment Policy Statement.

**Cash Flow Information**

Thomas Memorial contributed \$2,800,000 and \$4,800,000 in 2017 and 2016, respectively, and expects to contribute \$0 to its pension plan in 2018. The Board of Directors and management have determined that no payments will be required based on the minimum ERISA funding calculation performed by their actuary.

**Estimated Fixed Benefit Payments**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year	Benefits
2018	\$ 4,910,238
2019	\$ 5,160,563
2020	\$ 5,478,149
2021	\$ 5,756,361
2022	\$ 6,015,962
2023 – 2027	\$ 33,033,298

Thomas Memorial employees were eligible to participate in a defined contribution plan under Section 401(k) of the Internal Revenue Code (IRC) (the Savings Plan). Thomas Memorial sponsors the plan for full-time employees who were hired prior to January 1, 2012 (TMH Plan). Effective with the freeze of the

## THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Defined Benefit Pension Plan in September 2015, the employees participating in the TMH Plan were eligible for the same Employer Match as employees in the THS Plan (described within this paragraph). Thomas Memorial Hospital employees hired on January 1, 2012, and after, are eligible to participate in the Thomas Health System Plan (THS Plan). The System matches contributions at 100% for the first 4% that the employee contributes and matches 50% for the next two percentages up to a total match of 5% on a 6% employee contribution for those employees participating in the THS Plan. Participants are fully vested immediately. All employee elective deferrals and employer contributions made on behalf of each participant are invested in a tax deferred annuity contract or custodial account and vest immediately.

Effective January 1 2016, the THS Plan was restated to merge the TMH Plan into the THS Plan. The TMH Plan terminated effective with the close of business on December 31, 2015. The System's expense relating to the Plans approximated \$3.3 million and \$3.4 million in 2017 and 2016, respectively, which is included in employee benefits in the accompanying consolidated statements of operations.

#### **Note 15. Lease Commitments and Total Rental Expense**

The System leases various equipment under operating leases with various expiration dates through July 2017. Total rental expense in 2017 and 2016 for all operating leases was approximately \$4,553,000 and \$4,307,000, respectively, and is included in supplies and other in the accompanying statement of operations.

The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2017, that have initial or remaining lease terms in excess of one year:

<u>Year ending September 30:</u>	<u>Amount</u>
2018	\$ 1,208,973
2019	876,817
2020	283,670
2021	<u>103,819</u>
Total future minimum rental expense	<u>\$ 2,473,279</u>

#### **Note 16. Lessor Leasing Activities**

The System leases space under operating leases with terms of one to ten years. Rental income recognized from these leases was approximately \$2,541,000 and \$3,096,000 for 2017 and 2016, respectively.

The following is a schedule by year of future minimum rental income as of September 30, 2017 and 2016:

<u>Year ending September 30:</u>	<u>Amount</u>
2018	\$ 2,275,670
2019	1,919,681
2020	1,481,911
2021	869,257
2022	185,333
Thereafter	<u>22,031</u>
Total future minimum rental income	<u>\$ 6,753,883</u>

# THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Note 17. Investments in Subsidiaries and Guarantee

TMH Services is a 50% owner in a partnership which is currently accounted for under the equity method of accounting. Under the equity method, TMH Services recognizes its share of partnership income or loss as income or loss in its statement of operations and such amounts are added to, or subtracted from, its investment in subsidiaries. Dividends or other distributions received, if any, are treated as a reduction of the investment account.

Combined and condensed financial information as of September 30, 2017 and 2016 for TMH Services' unconsolidated subsidiary follows:

	2017	2016
Assets	\$ 1,942,122	\$ 1,963,265
Liabilities	\$ 1,768,994	\$ 1,818,917
Equity	\$ 173,128	\$ 144,348
Net Income	\$ 45,095	\$ 6,891

Total liabilities for the unconsolidated subsidiary at September 30, 2017 and 2016 include various mortgages, notes, and construction loans payable that total \$1,755,225 and \$1,801,564, respectively. TMH Services is a guarantor of these debt instruments. The debts are substantially collateralized by real estate and other assets to which they relate. TMH Services' partners are jointly and severally liable for the debt.

Thomas Memorial acquired a 30% ownership interest in Stonerise Home Health Services, LLC, a home health provider, in exchange for certain assets previously used by the Thomas Memorial's home health department. The net book value of the assets transferred was immaterial. Thomas Memorial will record its investment in Stonerise Home Health Services, LLC using the equity basis of accounting. The equity investment of approximately \$480,000, which equals 30% of Stonerise Home Health Services, LLC's total equity, was not recorded at September 30, 2017. Information to record the investment was not available and the amount was not considered material to the consolidated financial statements of THS.

### Note 18. Related Party Transactions

The System leases medical office space, primarily to physicians on staff, under noncancelable operating leases with terms generally ranging from one to ten years. Rental income under these operating leases was approximately \$841,000 and \$955,000 in 2017 and 2016, respectively, and is included in rental income in the accompanying consolidated statement of operations.

### Note 19. Endowment and Permanently Restricted Net Assets

Topic 958-205 of the FASB Standards Codification (formerly FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations - Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds.

The endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

	<b>2017</b>	<b>2016</b>
Scholarships – Auxiliary	\$ 427,355	\$ 443,149
Scholarships – Laboratory	98,693	98,693
Scholarships – LPN and RN	118,972	118,972
Scholarships – Surgery	32,705	32,705
Scholarships – Other	24,175	24,175
Endowment	<u>429,633</u>	<u>403,839</u>
	<u>\$ 1,131,533</u>	<u>\$ 1,121,533</u>

The Board of Directors of the System has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purpose of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the System must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places a greater emphasis on equity-based to achieve its long-term objective within prudent risk constraints.

Changes in endowment funds for the fiscal year ended September 30, 2017, consisted of the following:

	<b>Permanently Restricted</b>
<b>Net assets, beginning of the year</b>	\$ 1,121,533
Contributions	<u>10,000</u>
<b>Endowment net assets after contributions</b>	<u>\$ 1,131,533</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the System to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no significant deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2017 and 2016.

**Note 20. Electronic Health Records (EHR)**

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology that demonstrate improved quality and effectiveness of care. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. An additional Medicaid incentive payment is available to providers that adopt, implement or upgrade certified EHR technology. However, in order to receive additional Medicaid incentive payments in subsequent years, providers must demonstrate continued meaningful use of EHR technology.

For Medicare and Medicaid EHR incentive payments the System utilizes a contingency based model to recognize these revenues. Under this accounting policy, EHR incentive payments were recognized as revenues when no significant contingencies are left and attestation that the EHR meaningful use criteria for the required period of time was demonstrated. Accordingly, the System did not have any EHR revenues for the year ended September 30, 2017. In 2016, the System recognized approximately \$936,000 of EHR revenues, comprised of \$936,000 of Medicare revenues and \$0 of Medicaid revenues. These amounts are included in Other Revenue in the accompanying consolidated statements of operations.

The System's attestation of compliance with the meaningful use criteria is subject to audit by the Federal government or its designee. The recognition of the income is based on management's best estimate and the amounts recognized are subject to change. Any subsequent changes in the recognition of the income will impact the results of operations in the period in which they occur.



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## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Audit Committee of the Board of Directors  
Thomas Health System, Inc. and Subsidiaries  
South Charleston, West Virginia

We have audited the financial statements of Thomas Health System, Inc. and Subsidiaries as of and for the years ended September 30, 2017 and 2016, and have issued our report thereon which contains an unmodified opinion on those financial statements. See pages 1-2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Arnett Carbis Toothman LLP*

Charleston, West Virginia  
January 24, 2018

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET  
September 30, 2017

	Thomas Health System, Inc.	Thomas Memorial Hospital and Subsidiary	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	THS Physician Partners, Inc.	Eliminations	Thomas Health System Consolidated Balance
<b>ASSETS</b>							
<b>Current Assets</b>							
Cash and cash equivalents	\$ -	\$ 7,054,244	\$ 4,469,304	\$ 430,618	\$ 158,254	\$ -	\$ 12,112,420
Investments	-	-	5,017,625	-	-	-	5,017,625
Assets limited as to use	-	13,733,315	-	-	-	-	13,733,315
Patient accounts receivable, net	-	20,456,878	7,120,231	-	974,176	-	28,551,285
Supplies inventories	-	4,629,337	3,263,012	-	-	-	7,892,349
Prepaid and other currnt assets	-	1,986,154	812,178	52,008	190,288	(52,754)	2,987,874
Estimated third-party payor settlements	-	3,218,445	1,614,415	-	-	-	4,832,860
<b>Total current assets</b>	-	<b>51,078,373</b>	<b>22,296,765</b>	<b>482,626</b>	<b>1,322,718</b>	<b>(52,754)</b>	<b>75,127,728</b>
<b>Assets limited as to use, net</b>	-	<b>32,248,279</b>	<b>398,315</b>	<b>5,967,984</b>	-	-	<b>38,614,578</b>
<b>Property and equipment, net</b>	-	<b>117,766,314</b>	<b>30,221,466</b>	-	<b>237,742</b>	-	<b>148,225,522</b>
<b>Other Assets</b>							
Investments	-	86,564	-	-	-	-	86,564
Pledges receivable, net	-	-	-	118,789	-	-	118,789
Other	-	1,767,637	31,948	-	-	-	1,799,585
<b>Total other assets</b>	-	<b>1,854,201</b>	<b>31,948</b>	<b>118,789</b>	-	-	<b>2,004,938</b>
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 202,947,167</b>	<b>\$ 52,948,494</b>	<b>\$ 6,569,399</b>	<b>\$ 1,560,460</b>	<b>\$ (52,754)</b>	<b>\$ 263,972,766</b>
<b>LIABILITIES AND NET ASSETS</b>							
<b>Current Liabilities</b>							
Current portion of long-term debt	\$ -	\$ 1,356,752	\$ 1,404,024	\$ -	\$ -	\$ -	\$ 2,760,776
Accounts payable and accrued expenses	-	31,418,610	5,255,706	66,960	639,396	(52,754)	37,327,918
Accrued salaries and benefits	-	5,611,395	2,114,291	-	1,180,852	-	8,906,538
Accrued self-insurance liability	-	2,935,465	-	-	-	-	2,935,465
<b>Total current liabilities</b>	-	<b>41,322,222</b>	<b>8,774,021</b>	<b>66,960</b>	<b>1,820,248</b>	<b>(52,754)</b>	<b>51,930,697</b>
<b>Accrued pension and post- retirement benefits</b>	-	<b>28,015,520</b>	-	-	-	-	<b>28,015,520</b>
<b>Accrued self-insurance liability</b>	-	<b>12,182,535</b>	-	-	-	-	<b>12,182,535</b>
<b>Long-term debt, net of current portion</b>	-	<b>102,242,285</b>	<b>40,740,079</b>	-	-	-	<b>142,982,364</b>
<b>Total liabilities</b>	-	<b>183,762,562</b>	<b>49,514,100</b>	<b>66,960</b>	<b>1,820,248</b>	<b>(52,754)</b>	<b>235,111,116</b>
<b>Net assets</b>							
Unrestricted	-	19,184,605	3,434,394	4,567,124	(259,788)	-	26,926,335
Temporarily restricted	-	-	-	803,782	-	-	803,782
Permanently restricted	-	-	-	1,131,533	-	-	1,131,533
<b>Total net assets</b>	-	<b>19,184,605</b>	<b>3,434,394</b>	<b>6,502,439</b>	<b>(259,788)</b>	-	<b>28,861,650</b>
<b>Total liabilities and net assets</b>	<b>\$ -</b>	<b>202,947,167</b>	<b>52,948,494</b>	<b>6,569,399</b>	<b>1,560,460</b>	<b>(52,754)</b>	<b>263,972,766</b>

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET  
September 30, 2016

	Thomas Health System, Inc.	Thomas Memorial Hospital and Subsidiary	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	THS Physician Partners, Inc.	Eliminations	Thomas Health System Consolidated Balance
<b>Current Assets</b>							
Cash and cash equivalents	\$ -	\$ 5,026,452	\$ 2,626,539	\$ 431,847	\$ 428,252	\$ -	\$ 8,513,090
Investments	-	-	8,511,319	-	-	-	8,511,319
Assets limited as to use	-	14,283,161	-	-	-	-	14,283,161
Patient accounts receivable, net	-	19,079,668	6,011,911	-	1,205,595	-	26,297,174
Supplies inventories	-	5,017,987	3,594,386	-	-	-	8,612,373
Prepaid and other current assets	-	3,053,057	1,163,388	58,063	718,902	(423,231)	4,570,179
Estimated third-party payor settlements	-	2,464,995	2,117,856	-	-	-	4,582,851
<b>Total current assets</b>	-	<b>48,925,320</b>	<b>24,025,399</b>	<b>489,910</b>	<b>2,352,749</b>	<b>(423,231)</b>	<b>75,370,147</b>
<b>Assets limited as to use, net</b>	-	<b>37,564,982</b>	<b>391,448</b>	<b>5,415,616</b>	-	-	<b>43,372,046</b>
<b>Property and equipment, net</b>	-	<b>118,484,599</b>	<b>29,015,639</b>	-	<b>280,838</b>	-	<b>147,781,076</b>
<b>Other Assets</b>							
Investments	-	72,174	-	-	-	-	72,174
Pledges receivable, net	-	-	-	212,290	-	-	212,290
Other	-	1,338,669	51,028	-	-	-	1,389,697
<b>Total other assets</b>	-	<b>31,410,843</b>	<b>51,028</b>	<b>212,290</b>	-	-	<b>1,674,161</b>
<b>Total assets</b>	\$ -	\$ <b>206,385,744</b>	\$ <b>53,483,514</b>	\$ <b>6,117,816</b>	\$ <b>2,633,587</b>	\$ <b>(423,231)</b>	\$ <b>268,197,430</b>
<b>LIABILITIES AND NET ASSETS</b>							
<b>Current Liabilities</b>							
Current portion of long-term debt	\$ -	\$ 1,712,919	\$ 1,125,842	\$ -	\$ -	\$ -	\$ 2,838,761
Accounts payable and accrued expenses	-	20,058,468	3,900,697	31,055	390,934	(423,231)	23,957,923
Accrued salaries and benefits	-	5,924,740	3,212,674	-	1,173,683	-	10,311,097
Accrued self-insurance liability	-	3,486,811	-	-	-	-	3,486,811
<b>Total current liabilities</b>	-	<b>31,182,938</b>	<b>8,239,213</b>	<b>31,055</b>	<b>1,564,617</b>	<b>(423,231)</b>	<b>40,594,592</b>
<b>Accrued pension and post-retirement benefits</b>	-	<b>40,287,347</b>	-	-	-	-	<b>40,287,347</b>
<b>Accrued self-insurance liability</b>	-	<b>12,020,189</b>	-	-	-	-	<b>12,020,189</b>
<b>Long-term debt, net of current portion</b>	-	<b>102,526,527</b>	<b>42,121,432</b>	-	-	-	<b>144,647,959</b>
<b>Total liabilities</b>	-	<b>186,017,001</b>	<b>50,360,645</b>	<b>31,055</b>	<b>1,564,617</b>	<b>(423,231)</b>	<b>237,550,087</b>
<b>Net assets</b>							
Unrestricted	-	20,368,743	3,122,869	4,157,988	1,068,970	-	28,718,570
Temporarily restricted	-	-	-	807,240	-	-	807,240
Permanently restricted	-	-	-	1,121,533	-	-	1,121,533
<b>Total net assets</b>	-	<b>20,368,743</b>	<b>3,122,869</b>	<b>6,086,761</b>	<b>1,068,970</b>	-	<b>30,647,343</b>
<b>Total liabilities and net assets</b>	\$ -	\$ <b>206,385,744</b>	\$ <b>53,483,514</b>	\$ <b>6,117,816</b>	\$ <b>2,633,587</b>	\$ <b>(423,231)</b>	\$ <b>268,197,430</b>

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS  
Year Ended September 30, 2017

	Thomas Health System, Inc.	Thomas Memorial Hospital and Subsidiary	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	THS Physician Partners, Inc.	Eliminations	Thomas Health System Consolidated Balance
<b>Unrestricted revenue, gains and other support</b>							
Patient service revenue, net	\$ -	\$ 180,368,123	\$ 75,254,531	\$ -	\$ 18,059,013	\$ -	\$ 273,681,667
Less: Provision for bad debts	-	(15,805,049)	(3,053,820)	-	(1,785,153)	-	(20,644,022)
<b>Net patient service revenue</b>	-	164,563,074	72,200,711	-	16,273,860	-	253,037,645
Investment income	-	2,608,172	505,402	555,983	-	-	3,669,557
Rental income	-	2,359,007	527,163	-	-	(344,723)	2,541,447
Other revenue	-	7,814,368	918,834	-	-	(26,739)	8,706,463
Grant income	-	1,500	1,500	-	-	-	3,000
Public support - donations	-	35,000	-	473,447	-	-	508,447
<b>Total revenue, gains and other support</b>	-	177,381,121	74,153,610	1,029,430	16,273,860	(371,462)	268,466,559
<b>Expenses</b>							
Salaries and wages	-	51,652,381	24,230,813	-	17,876,819	2,642,763	96,402,776
Employee benefits	-	11,951,594	4,087,943	-	2,976,258	942,142	19,957,937
Supplies	-	40,956,855	16,089,156	713,738	4,037,928	(75,950)	61,721,727
Purchased services	-	38,897,410	9,624,277	-	1,437,661	(3,880,417)	46,078,931
Depreciation and amortization	-	9,026,346	3,451,627	-	63,911	-	12,541,884
Taxes	-	5,911,853	1,941,394	-	-	-	7,853,247
Interest	-	6,229,985	3,524,391	-	-	-	9,754,376
Insurance	-	1,664,782	(54,650)	-	-	-	1,610,132
Other	-	14,319,401	8,843,603	-	-	-	23,163,004
<b>Total expenses</b>	-	180,610,607	71,738,554	713,738	26,392,577	(371,462)	279,084,014
<b>Excess (deficiency) of revenues over expenses</b>	-	(3,229,486)	2,415,056	315,692	(10,118,717)	-	(10,617,455)
<b>Other changes in net assets</b>							
Net unrealized gain (loss) on investments	-	(387,350.0)	85,716.0	-	-	-	(301,634.0)
Net assets released from restriction	-	-	-	93,444.0	-	-	93,444.0
Defined benefit pension plan adjustment	-	9,016,528.0	-	-	-	-	9,016,528.0
Change in fair value of derivatives	-	-	16,882.0	-	-	-	16,882.0
Equity transfer	-	(6,583,830.0)	(2,206,129.0)	-	8,789,959.0	-	-
<b>Decrease in unrestricted net assets</b>	\$ -	\$ (1,184,138)	\$ 311,525	\$ 409,136	\$ (1,328,758)	\$ -	\$ (1,792,235)

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended September 30, 2016

	Thomas Health System, Inc.	Thomas Memorial Hospital and Subsidiary	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	THS Physician Partners, Inc.	Eliminations	Thomas Health System Consolidated Balance
<b>Unrestricted revenue, gains and other support</b>							
Patient service revenue, net	\$ -	\$ 175,940,405	\$ 86,481,269	\$ -	\$ 16,528,365	\$ -	\$ 278,950,039
Less: Provision for bad debts	-	(8,952,945)	(4,216,812)	-	(1,658,840)	-	(14,828,597)
<b>Net patient service revenue</b>	-	166,987,460	82,264,457	-	14,869,525	-	264,121,442
Investment income	-	1,768,355	256,970	491,788	-	-	2,517,113
Rental income	-	2,436,419	659,174	-	-	-	3,095,593
Other revenue	-	7,974,810	1,041,404	-	21,959	(61,860)	8,976,313
Grant income	-	1,500	15,552	-	-	-	17,052
Public support – donations	-	41,000	-	547,596	-	(431)	588,165
<b>Total revenue, gains and other support</b>	-	179,209,544	84,237,557	1,039,384	14,891,484	(62,291)	279,315,678
<b>Expenses</b>							
Salaries and wages	-	53,367,372	27,736,380	-	14,753,746	2,290,416	98,147,914
Employee benefits	-	12,836,509	6,312,075	-	2,745,898	817,155	22,711,637
Supplies	-	41,833,703	20,316,657	737,806	3,827,423	104,771	66,820,360
Purchased services	-	26,552,921	11,351,456	-	2,160,638	(3,274,633)	36,790,382
Depreciation and amortization	-	9,251,951	3,228,664	-	121,056	-	12,601,671
Taxes	-	4,591,235	2,297,410	-	-	-	6,888,645
Interest	-	6,244,300	3,547,951	-	-	-	9,792,251
Insurance	-	3,809,385	617,683	-	-	-	4,427,068
Other	-	16,751,412	9,165,682	-	-	-	25,917,094
<b>Total expenses</b>	-	175,238,788	84,573,958	737,806	23,608,761	(62,291)	284,097,022
<b>Excess (deficiency) of revenues over expenses</b>	-	3,970,756	(336,401)	301,578	(8,717,277)	-	(4,781,344)
<b>Other changes in net assets</b>							
Net unrealized gain on investments	-	1,455,428	615,120	-	-	-	2,070,548
Net assets released from restriction	-	-	-	73,237	-	-	73,237
Defined benefit pension plan adjustment	-	(8,073,413)	-	-	-	-	(8,073,413)
Change in fair value of derivatives	-	-	19,811	-	-	-	19,811
Equity transfer	-	(4,457,500)	(4,457,500)	-	8,915,000	-	-
<b>Decrease in unrestricted net assets</b>	\$ -	\$ (7,104,729)	\$ (4,158,970)	\$ 374,815	\$ 197,723	\$ -	\$ (10,691,161)

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS  
Year Ended September 30, 2017

	Thomas Health System, Inc.	Thomas Memorial Hospital and Subsidiary	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	THS Physician Partners, Inc.	Eliminations	Thomas Health System Consolidated Balance
<b>Unrestricted net assets:</b>							
Excess (deficiency) of revenues over expenses	\$ -	\$ (3,229,486)	\$ 2,415,056	\$ 315,692	\$ (10,118,717)	\$ -	\$ (10,617,455)
Net unrealized gain (loss) on investments	-	(387,350)	85,716	-	-	-	(301,634)
Net assets released from restriction	-	-	-	93,444	-	-	93,444
Defined benefit pension plan adjustment	-	9,016,528	-	-	-	-	9,016,528
Change in value of derivatives	-	-	16,882	-	-	-	16,882
Equity transfer	-	(6,583,830)	(2,206,129)	-	8,789,959	-	-
<b>Increase (decrease) in unrestricted net assets</b>	<b>-</b>	<b>(1,184,138)</b>	<b>311,525</b>	<b>409,136</b>	<b>(1,328,758)</b>	<b>-</b>	<b>(1,792,235)</b>
<b>Temporarily restricted net assets</b>							
Public support - donations	-	-	-	89,986	-	-	89,986
Net assets released from restriction	-	-	-	(93,444)	-	-	(93,444)
<b>Decrease in temporarily restricted net assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,458)</b>	<b>-</b>	<b>-</b>	<b>(3,458)</b>
<b>Permanently restricted net assets</b>							
Public support - donations	-	-	-	10,000	-	-	10,000
<b>Increase in permanently restricted net assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,000</b>	<b>-</b>	<b>-</b>	<b>10,000</b>
<b>Decrease in net assets</b>	<b>-</b>	<b>(1,184,138)</b>	<b>311,525</b>	<b>415,678</b>	<b>(1,328,758)</b>	<b>-</b>	<b>(1,785,693)</b>
<b>Net assets, beginning of year</b>	<b>-</b>	<b>20,368,743</b>	<b>3,122,869</b>	<b>6,086,761</b>	<b>1,068,970</b>	<b>-</b>	<b>30,647,343</b>
<b>Net assets, end of year</b>	<b>\$ -</b>	<b>\$ 19,184,605</b>	<b>\$ 3,434,394</b>	<b>\$ 6,502,439</b>	<b>\$ (259,788)</b>	<b>\$ -</b>	<b>\$ 28,861,650</b>

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS  
Year Ended September 30, 2016

	Thomas Health System, Inc.	Thomas Memorial Hospital and Subsidiary	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	THS Physician Partners, Inc.	Eliminations	Thomas Health System Consolidated Balance
<b>Unrestricted net assets</b>							
Excess (deficiency) of revenues over expenses	\$ -	\$ 3,970,756	\$ (336,401)	\$ 301,578	\$ (8,717,277)	\$ -	\$ (4,781,344)
Net unrealized gain on investments	-	1,455,428	615,120	-	-	-	2,070,548
Net assets released from restriction	-	-	-	73,237	-	-	73,237
Defined benefit pension plan adjustment	-	(8,073,413)	-	-	-	-	(8,073,413)
Changes in fair value of derivatives	-	-	19,811	-	-	-	19,811
Equity transfer	-	(4,457,500)	(4,457,500)	-	8,915,000	-	-
<b>Decrease in unrestricted net assets</b>	-	(7,104,729)	(4,158,970)	374,815	197,723	-	(10,691,161)
<b>Temporarily restricted net assets</b>							
Public support – donations	-	-	-	59,833	-	-	59,833
Net assets released from restriction	-	-	-	(73,237)	-	-	(73,237)
<b>Decrease in temporarily restricted net assets</b>	-	-	-	(13,404)	-	-	(13,404)
<b>Permanently restricted net assets</b>							
Public support – donations	-	-	-	20,000	-	-	20,000
<b>Increase in permanently restricted net assets</b>	-	-	-	20,000	-	-	20,000
<b>Decrease in net assets</b>	-	(7,104,729)	(4,158,970)	381,411	197,723	-	(10,684,565)
<b>Net assets, beginning of year</b>	-	27,473,472	7,281,839	5,705,350	871,247	-	41,331,908
<b>Net assets, end of year</b>	\$ -	\$ 20,368,743	\$ 3,122,869	\$ 6,086,761	\$ 1,068,970	\$ -	\$ 30,647,343

THOMAS MEMORIAL HOSPITAL AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET  
September 30, 2017

	Thomas Memorial Memorial	TMH Services, Inc.	Eliminations	Thomas Memorial Hospital Consolidated Balance
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 6,905,885	\$ 148,359	\$ -	\$ 7,054,244
Investments	-	-	-	-
Assets limited as to use	13,733,315	-	-	13,733,315
Patient accounts receivable, net	20,456,878	-	-	20,456,878
Estimated third-party payor settlements	3,218,445	-	-	3,218,445
Supplies inventories	4,629,337	-	-	4,629,337
Prepaid and other current assets	1,967,200	31,336	(12,382)	1,986,154
<b>Total current assets</b>	<b>50,911,060</b>	<b>179,695</b>	<b>(12,382)</b>	<b>51,078,373</b>
<b>Assets limited as to use</b>	<b>32,248,279</b>	<b>-</b>	<b>-</b>	<b>32,248,279</b>
<b>Property and equipment, net</b>	<b>111,274,086</b>	<b>6,492,228</b>	<b>-</b>	<b>117,766,314</b>
<b>Investments</b>	<b>-</b>	<b>86,564</b>	<b>-</b>	<b>86,564</b>
<b>Other Assets</b>				
Pledges receivable, net of current portion	-	-	-	-
Other	2,008,535	-	(240,898)	1,767,637
<b>Total other assets</b>	<b>2,008,535</b>	<b>86,564</b>	<b>(240,898)</b>	<b>1,854,201</b>
<b>Total assets</b>	<b>\$ 196,441,960</b>	<b>\$ 6,758,487</b>	<b>\$ (253,280)</b>	<b>\$ 202,947,167</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Current portion of long-term debt	\$ 1,194,598	\$ 162,154	\$ -	\$ 1,356,752
Accounts payable and accrued expenses	31,346,197	84,795	(12,382)	31,418,610
Accrued salaries and benefits	5,611,395	-	-	5,611,395
Accrued self-insurance liability	2,935,465	-	-	2,935,465
Estimated third-party payor settlements	-	-	-	-
<b>Total current liabilities</b>	<b>41,087,655</b>	<b>246,949</b>	<b>(12,382)</b>	<b>41,322,222</b>
<b>Accrued pension and postretirement benefits</b>	<b>28,015,520</b>	<b>-</b>	<b>-</b>	<b>28,015,520</b>
<b>Accrued self-insurance liability</b>	<b>12,182,535</b>	<b>-</b>	<b>-</b>	<b>12,182,535</b>
<b>Long-term debt, net of current portion</b>	<b>96,651,635</b>	<b>5,590,650</b>	<b>-</b>	<b>102,242,285</b>
<b>Total liabilities</b>	<b>177,937,345</b>	<b>5,837,599</b>	<b>(12,382)</b>	<b>183,762,562</b>
<b>Net assets (deficit):</b>				
Unrestricted	18,504,615	920,888	(240,898)	19,184,605
Temporarily restricted	-	-	-	-
Permanently restricted	-	-	-	-
<b>Total net assets</b>	<b>18,504,615</b>	<b>920,888</b>	<b>(240,898)</b>	<b>19,184,605</b>
<b>Total liabilities and net assets</b>	<b>\$ 196,441,960</b>	<b>\$ 6,758,487</b>	<b>\$ (253,280)</b>	<b>\$ 202,947,167</b>

THOMAS MEMORIAL HOSPITAL AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET  
September 30, 2016

	Thomas Memorial Hospital	TMH Services Inc.	Eliminations	Thomas Memorial Hospital Consolidated Balance
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 4,823,121	\$ 203,331	\$ -	\$ 5,026,452
Assets limited as to use	14,283,161	-	-	14,283,161
Patient accounts receivable, net	19,079,668	-	-	19,079,668
Supplies inventories	5,017,987	-	-	5,017,987
Prepaid and other current assets	3,032,400	31,298	(10,641)	3,053,057
Estimated third-party payor settlements	2,464,995	-	-	2,464,995
<b>Total current assets</b>	<b>48,701,332</b>	<b>234,629</b>	<b>(10,641)</b>	<b>48,925,320</b>
<b>Assets limited as to use, net</b>	<b>37,564,982</b>	<b>-</b>	<b>-</b>	<b>37,564,982</b>
<b>Property and equipment, net</b>	<b>111,785,065</b>	<b>6,699,534</b>	<b>-</b>	<b>118,484,599</b>
<b>Other Assets</b>				
Investments	-	72,174	-	72,174
Other	1,579,567	-	(240,898)	1,338,669
<b>Total other assets</b>	<b>1,579,567</b>	<b>72,174</b>	<b>(240,898)</b>	<b>1,410,843</b>
<b>Total assets</b>	<b>\$ 199,630,946</b>	<b>\$ 7,006,337</b>	<b>\$ (251,539)</b>	<b>\$ 206,385,744</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Current portion of long-term debt	\$ 1,552,643	\$ 160,276	\$ -	\$ 1,712,919
Accounts payable and accrued expenses	19,909,493	159,616	(10,641)	20,058,468
Accrued salaries and benefits	5,924,740	-	-	5,924,740
Accrued self-insurance liability	3,486,811	-	-	3,486,811
Estimated third-party payor settlements	-	-	-	-
<b>Total current liabilities</b>	<b>30,873,687</b>	<b>319,892</b>	<b>(10,641)</b>	<b>31,182,938</b>
<b>Accrued pension and post- retirement benefits</b>	<b>40,287,347</b>	<b>-</b>	<b>-</b>	<b>40,287,347</b>
<b>Accrued self-insurance liability</b>	<b>12,020,189</b>	<b>-</b>	<b>-</b>	<b>12,020,189</b>
<b>Long-term debt, net of current portion</b>	<b>96,775,904</b>	<b>5,751,023</b>	<b>-</b>	<b>102,526,527</b>
<b>Total liabilities</b>	<b>179,956,727</b>	<b>6,070,915</b>	<b>(10,641)</b>	<b>186,017,001</b>
<b>Net assets</b>				
Unrestricted	19,674,219	935,422	(240,898)	20,368,743
Temporarily restricted	-	-	-	-
Permanently restricted	-	-	-	-
<b>Total net assets</b>	<b>19,674,219</b>	<b>935,422</b>	<b>(240,898)</b>	<b>20,368,743</b>
<b>Total liabilities and net assets</b>	<b>\$ 199,630,946</b>	<b>\$ 7,006,337</b>	<b>\$ (251,539)</b>	<b>\$ 206,389,744</b>

THOMAS MEMORIAL HOSPITAL AND SUBSIDIARY

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended September 30, 2017

	Thomas Memorial	TMH Services, Inc.	Eliminations	Thomas Memorial Hospital Consolidated Balance
<b>Unrestricted revenue, gains and other support</b>				
Patient service revenue, net	\$ 180,368,123	\$ -	\$ -	\$ 180,368,123
Less: Provision for bad debts	(15,805,049)	-	-	(15,805,049)
<b>Net patient service revenue</b>	<b>164,563,074</b>	<b>-</b>	<b>-</b>	<b>164,563,074</b>
Investment income	2,573,782	34,390	-	2,608,172
Rental income	1,225,978	1,133,029	-	2,359,007
Other revenue	7,906,958	44,925	(137,515)	7,814,368
Grant income	1,500	-	-	1,500
Public support - donations	35,000	-	-	35,000
<b>Total revenue, gains and other support</b>	<b>176,306,292</b>	<b>1,212,344</b>	<b>(137,515)</b>	<b>177,381,121</b>
<b>Expenses</b>				
Salaries and wages	51,613,443	92,939	(54,001)	51,652,381
Employee benefits	11,951,594	-	-	11,951,594
Supplies	40,381,160	635,669	(59,974)	40,956,855
Purchased services	38,889,045	31,905	(23,540)	38,897,410
Depreciation and amortization	8,819,040	207,306	-	9,026,346
Taxes	5,911,853	-	-	5,911,853
Interest	5,995,756	234,229	-	6,229,985
Insurance	1,639,952	24,830	-	1,664,782
Other	14,319,401	-	-	14,319,401
<b>Total expenses</b>	<b>179,521,244</b>	<b>1,226,878</b>	<b>(137,515)</b>	<b>180,610,607</b>
<b>Deficiency of revenues over expenses</b>	<b>(3,214,952)</b>	<b>(14,534)</b>	<b>-</b>	<b>(3,229,486)</b>
<b>Other changes in net assets</b>				
Net unrealized loss on investments	(387,350)	-	-	(387,350)
Defined benefit pension adjustment	9,016,528	-	-	9,016,528
Dividend check	-	-	-	-
Equity transfer	(6,583,830)	-	-	(6,583,830)
<b>Decrease in unrestricted net assets</b>	<b>\$ (1,169,604)</b>	<b>\$ (14,534)</b>	<b>\$ -</b>	<b>\$ (1,184,138)</b>

**THOMAS MEMORIAL HOSPITAL AND SUBSIDIARY**

**CONSOLIDATING STATEMENT OF OPERATIONS**

**Year Ended September 30, 2016**

	Thomas Memorial Hospital	TMH Services Inc.	Eliminations	Thomas Memorial Hospital Consolidated Balance
<b>Unrestricted revenue, gains and other support</b>				
Patient service revenue, net	\$ 175,940,405	\$ -	\$ -	\$ 175,940,405
Less: Provision for bad debts	(8,952,945)	-	-	(8,952,945)
<b>Net patient service revenue</b>	166,987,460	-	-	166,987,460
Investment income	1,725,120	43,235	-	1,768,355
Rental income	1,365,667	1,070,752	-	2,436,419
Other revenue	8,232,848	44,789	(302,827)	7,974,810
Grant income	1,500	-	-	1,500
Public support – donations	41,000	-	-	41,000
<b>Total revenue, gains and other support</b>	178,353,595	1,158,776	(302,827)	179,209,544
<b>Expenses</b>				
Salaries and wages	53,419,597	87,660	(139,885)	53,367,372
Employee benefits	12,836,509	-	-	12,836,509
Supplies	41,470,973	510,063	(147,333)	41,833,703
Purchased services	26,557,769	10,761	(15,609)	26,552,921
Depreciation and amortization	9,044,848	207,103	-	9,251,951
Taxes	4,591,235	-	-	4,591,235
Interest	6,008,803	235,497	-	6,244,300
Insurance	3,785,099	24,286	-	3,809,385
Other	16,751,412	-	-	16,751,412
<b>Total expenses</b>	174,466,245	1,075,370	(302,827)	175,238,788
<b>Excess (deficiency) of revenues over expenses</b>	3,887,350	83,406	-	3,970,756
<b>Other changes in net assets</b>				
Net unrealized gain on investments	1,455,428	-	-	1,455,428
Defined benefit pension plan adjustment	(8,073,413)	-	-	(8,073,413)
Dividend check	500,000	(500,000)	-	-
Equity transfer	(4,457,500)	-	-	(4,475,500)
<b>Increase in unrestricted net assets</b>	\$ (6,688,135)	\$ (416,594)	\$ -	\$ (7,104,729)

THOMAS MEMORIAL HOSPITAL AND SUBSIDIARY

CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS  
Year Ended September 30, 2017

	Thomas Memorial Hospital	TMH Services Inc.	Eliminations	Thomas Memorial Hospital Consolidated Balance
<b>Unrestricted net assets:</b>				
Deficiency of revenue over expenses	\$ (3,214,952)	\$ (14,534)	\$ -	\$ (3,229,486)
Net unrealized gain on investments	(387,350)	-	-	(387,350)
Defined benefit pension plan adjustment	9,016,528	-	-	9,016,528
Dividend check	-	-	-	-
Equity transfer	(6,583,830)	-	-	(6,583,830)
<b>Decrease in unrestricted net assets</b>	<b>(1,169,604)</b>	<b>(14,534)</b>	<b>-</b>	<b>(1,184,138)</b>
<b>Temporarily restricted net assets</b>				
Public support - donations	-	-	-	-
Investment income	-	-	-	-
Net assets released from restriction	-	-	-	-
<b>Increase in temporarily net assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Permanently restricted net assets</b>				
Public support - donations	-	-	-	-
<b>Increase in permanently restricted net assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Decrease in net assets</b>	<b>(1,169,604)</b>	<b>(14,534)</b>	<b>-</b>	<b>(1,184,138)</b>
<b>Net assets, beginning of year</b>	<b>19,674,219</b>	<b>935,422</b>	<b>(240,898)</b>	<b>20,368,743</b>
<b>Net assets, end of year</b>	<b>\$ 18,504,615</b>	<b>\$ 920,888</b>	<b>\$ (240,898)</b>	<b>\$ 19,184,605</b>

THOMAS MEMORIAL HOSPITAL AND SUBSIDIARY

CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS  
Year Ended September 30, 2016

	Thomas Memorial Hospital	TMH Services Inc.	Eliminations	Thomas Memorial Hospital Consolidated Balance
<b>Unrestricted net assets</b>				
Excess of revenues over expenses	\$ 3,887,350	\$ 83,406	\$ -	\$ 3,970,756
Net unrealized gain on investments	1,455,428	-	-	1,455,428
Defined benefit pension plan adjustment	(8,073,413)	-	-	(8,073,413)
Divided check	500,000	(500,000)	-	-
Equity transfer	(4,457,500)	-	-	(4,457,500)
<b>Decrease in unrestricted net assets</b>	<b>(6,688,135)</b>	<b>(416,594)</b>	<b>-</b>	<b>(7,104,729)</b>
<b>Temporarily restricted net assets</b>				
Public support – donations	-	-	-	-
Investment income	-	-	-	-
Net assets released from restriction	-	-	-	-
<b>Increase in temporarily restricted net assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Permanently restricted net assets</b>				
Public support – donations	-	-	-	-
<b>Increase in permanently restricted net assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Decrease in net assets</b>	<b>(6,688,135)</b>	<b>(416,594)</b>	<b>-</b>	<b>(7,104,729)</b>
<b>Net assets, beginning of year</b>	<b>26,362,354</b>	<b>1,352,016</b>	<b>(240,898)</b>	<b>27,473,472</b>
<b>Net assets, end of year</b>	<b>\$ 19,674,219</b>	<b>\$ 935,422</b>	<b>\$ (240,898)</b>	<b>\$ 20,368,743</b>