

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

**Consolidated Financial Report
September 30, 2018**



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101 Washington Street, East
P.O. Box 2629
Charleston, WV 25329
304.346.0441 | 304.346.8333 fax
800.642.3601

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, 2018 and 2017, 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, 2018 and 2017, 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 29, 2019

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2018 and 2017

ASSETS	2018	2017
Current assets		
Cash and cash equivalents	\$ 8,391,921	\$ 12,113,626
Investments (Note 3)	37,744,307	5,017,625
Assets limited as to use (Note 3)	14,010,184	13,733,315
Patient accounts receivable, net of allowance for doubtful accounts of \$34,736,000 in 2018 and \$39,365,000 in 2017 (Note 1)	24,160,151	27,934,711
Other receivables	1,555,765	1,622,416
Supplies inventories	8,312,903	7,892,349
Prepaid and other current assets	2,225,795	2,063,897
Estimated third-party payor settlements (Note 19)	5,447,296	4,775,908
Total current assets	101,848,322	75,153,847
Assets limited as to use, net of current portion (Note 3)	8,921,593	38,615,644
Property and equipment, net (Note 5)	138,997,177	148,225,522
Other assets		
Other investments (Note 3)	1,844,604	1,854,953
Other	1,083,877	149,531
Total other assets	2,928,481	2,004,484
Total assets	\$ 252,695,573	\$ 263,999,497
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt (Note 6)	\$ 2,437,808	\$ 2,760,776
Accounts payable	31,389,033	33,986,773
Accrued salaries and benefits	5,631,240	6,219,943
Accrued expenses	6,930,322	6,054,471
Accrued self-insurance liability (Note 10)	3,216,234	2,935,465
Total current liabilities	49,604,637	51,957,428
Accrued pension and postretirement benefits (Note 14)	21,143,356	28,015,520
Accrued self-insurance liability (Note 10)	12,882,766	12,182,535
Long-term debt, net of current portion (Note 6)	141,141,530	142,982,364
Total liabilities	224,772,289	235,137,847
Net assets		
Unrestricted	25,925,168	26,926,335
Temporarily restricted	806,483	803,782
Permanently restricted (Note 20)	1,191,633	1,131,533
Total net assets	27,923,284	28,861,650
Total liabilities and net assets	\$ 252,695,573	\$ 263,999,497

See Notes to Consolidated Financial Statements

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended September 30, 2018 and 2017

	2018	2017
Unrestricted revenue, gains and other support		
Patient service revenue (net of contractual allowances and discounts)	\$ 262,963,045	\$ 273,681,667
Less: Provision for bad debts	(16,913,974)	(20,651,909)
Net patient service revenue (Note 8)	246,049,071	253,029,758
Investment income (Note 3)	3,280,574	3,660,984
Rental income (Note 16)	2,544,791	2,541,447
Other revenue	13,228,110	8,718,036
Public support - donations	437,825	508,447
Total revenue, gains and other support	265,540,371	268,458,672
Expenses		
Salaries and wages	99,656,243	102,758,109
Employee benefits	20,386,137	20,184,940
Supplies	59,210,309	64,877,488
Purchased services	34,610,779	31,144,970
Depreciation and amortization	11,746,658	12,541,884
Taxes	9,602,810	7,973,444
Interest and amortization	9,618,361	9,754,376
Insurance	2,586,399	1,635,025
Other	25,283,975	28,205,891
Total expenses	272,701,671	279,076,127
Deficiency of revenues over expenses	(7,161,300)	(10,617,455)
Other changes in net assets		
Net unrealized gains (loss) on investments (Note 3)	73,322	(301,634)
Net assets released from restriction	5,000	93,444
Defined benefit pension plan adjustment (Note 14)	6,079,629	9,016,528
Change in fair value of derivatives (Note 7)	2,182	16,882
Decrease in unrestricted net assets	\$ (1,001,167)	\$ (1,792,235)

See Notes to Consolidated Financial Statements

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended September 30, 2018 and 2017

	2018	2017
Unrestricted net assets		
Deficiency of revenues over expenses	\$ (7,161,300)	\$ (10,617,455)
Net unrealized gain (loss) on investments (Note 3)	73,322	(301,634)
Net assets released from restriction	5,000	93,444
Defined benefit pension plan adjustment (Note 14)	6,079,629	9,016,528
Change in fair value of derivatives (Note 7)	2,182	16,882
Decrease in unrestricted net assets	(1,001,167)	(1,792,235)
Temporarily restricted net assets		
Public support - donations	7,701	89,986
Net assets released from restriction	(5,000)	(93,444)
Increase (decrease) in temporarily restricted net assets	2,701	(3,458)
Permanently restricted net assets		
Public support - donations	60,100	10,000
Increase in permanently restricted net assets	60,100	10,000
Decrease in net assets	(938,366)	(1,785,693)
Net assets, beginning of year	28,861,650	30,647,343
Net assets, end of year	\$ 27,923,284	\$ 28,861,650

See Notes to Consolidated Financial Statements

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Decrease in net assets	\$ (938,366)	\$ (1,785,693)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bond discount and deferred financing amortization	140,504	177,997
Depreciation and amortization	11,746,658	12,541,884
Loss on sale of property and equipment	-	1,807
Provision for doubtful accounts	16,913,974	20,651,909
Net realized and unrealized gains on investments	(2,095,761)	(1,718,530)
Restricted contributions	(67,801)	(99,986)
Defined benefit pension plan adjustment	(6,079,629)	(9,016,528)
Change in working capital components:		
(Increase) decrease in:		
Patient accounts receivable	(13,139,414)	(22,906,020)
Supplies inventories	(420,554)	720,024
Other assets	(1,019,244)	1,241,939
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,721,889)	13,369,995
Accrued salaries and benefits	(588,703)	(1,404,559)
Estimated third-party payor settlements	(671,388)	(250,009)
Other liabilities	188,465	(3,644,299)
Net cash provided by operating activities	2,246,852	7,879,931
Cash Flows From Investing Activities		
Purchase of property and equipment	(2,031,626)	(11,952,790)
Purchases of assets limited as to use and investments	(10,313,348)	(1,496,588)
Sales of assets limited as to use and investments	9,099,609	12,017,332
Net cash used in investing activities	(3,245,365)	(1,432,046)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(2,790,993)	(2,947,335)
Restricted contributions	67,801	99,986
Net cash used in financing activities	(2,723,192)	(2,847,349)
Net increase (decrease) in cash and cash equivalents	(3,721,705)	3,600,536
Cash and cash equivalents, beginning	12,113,626	8,513,090
Cash and cash equivalents, ending	\$ 8,391,921	\$ 12,113,626
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 9,515,219	\$ 9,647,098
Capital lease obligations for new equipment	\$ 486,687	\$ 1,006,678

See Notes to Consolidated Financial Statements

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

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

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% of self-pay accounts receivable both years ended September 30, 2018 and 2017. The System's provision for bad debts, which consist mostly of self-pay write-offs, decreased \$3,738,000 from approximately \$20,652,000 for the fiscal year 2017 to approximately \$16,914,000 for fiscal year 2018. The System has not changed its charity care or uninsured discount policies during 2018 or 2017. 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 \$76,000 and \$171,000 as of September 30, 2018 and 2017, respectively. As of September 30, 2018 and 2017, payments of approximately \$76,000 and \$52,000, respectively, are expected to be received within one year and are included in prepaid and other current assets, and approximately \$0 and \$119,000 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. Net realizable value is the estimated selling price used in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

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

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 \$88,775 and \$108,615 for 2018 and 2017, respectively. Amortization expense is included in the interest and amortization on the Consolidated Statements of Operations. 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 2018 and 2017 were approximately \$568,000 and \$847,000, 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 \$1,246,608 and \$1,395,295 for the years ended September 30, 2018 and 2017, respectively. Of the System's total expenses reported for the years ended September 30, 2018 and 2017, an estimated cost of \$373,000 and \$456,000, 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, 2015.

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 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation. The reclassifications have no impact on previously reported change in net assets.

Subsequent events: The System has evaluated subsequent events through January 29, 2019, the date on which the financial statements were available to be issued.

New or recent accounting pronouncements

Revenue Recognition: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. This ASU attempts to remove inconsistencies and weaknesses in the current revenue recognition requirements, provides a more robust framework for addressing issues, improves comparability across entities and industries, provides more useful information to the users of the financial statements, and simplifies the preparation of financial statements by consolidating the number of requirements required to be referenced. Early adoption is not permitted. The guidance permits the use of either a retrospective or modified retrospective (cumulative effect) transition method. The System is currently evaluating the impact, if any, that adoption will have on its September 30, 2019 consolidated financial statements.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases: In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU No. 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. The System is currently evaluating the impact, if any, that adoption will have on its September 30, 2020 consolidated financial statements.

Financial Instruments In August 2016, the FASB issued ASU 2016-14, (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments of this ASU change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The amendments include qualitative and quantitative requirements in the financial statement presentation and disclosures regarding net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The System is currently evaluating the impact, if any, that adoption will have on its September 30, 2020 consolidated financial statements.

Not-for-Profit Entities: On August 2016, the FASB issued Accounting Standards Update No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments of this ASU change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The amendments include qualitative and quantitative requirements in the financial statement presentation and disclosures regarding net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows. The System is currently evaluating the impact, if any, that adoption will have on its September 30, 2019 consolidated financial statements.

Statement of Cash Flow: In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230), which requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. The System is currently evaluating the impact, if any, that adoption will have on its September 30, 2020 consolidated financial statements.

Intangibles: In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other* (Topic 350): *Simplifying the Test for Goodwill Impairment*, to simplify the subsequent measurement of goodwill. To address concerns over the cost and complexity of the two-step goodwill impairment test, the amendments in this ASU remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. Early adoption is permitted and amendments in this ASU should be applied on a prospective basis. The System is currently evaluating the impact, if any, that adoption will have on its September 30, 2023 consolidated financial statements.

Net Periodic Pension and Postretirement Benefit Cost: In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits* (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost*. 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. Early adoption is permitted. The System is currently evaluating the impact, if any, that adoption will have on its September 30, 2020 consolidated financial statements.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED 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, 2018 and 2017, respectively is set forth in the following table. Investments are stated at fair value.

	2018	2017
Under self-insurance program:		
Cash and cash equivalents	\$ 451,539	\$ 1,001,493
Corporate bonds	-	-
Mutual funds	7,812,305	8,201,543
Total	8,263,844	9,203,036
Held by Trustee Under Indenture Agreement		
Cash and cash equivalents	6,479,594	7,584,819
Certificate of Deposits	1,738,010	2,551,920
Corporate bonds	-	500,408
United States government obligations	3,914,767	6,901,209
Total	12,132,371	17,538,356
By Board of Directors for future capital expenditures and deferred compensation:		
Cash and cash equivalents	-	3,193,294
Mutual funds	537,446	10,626,456
United States government obligations	-	5,819,833
Total	537,446	19,639,583
Foundation investments restricted by Board of Directors and donors for future support of the System:		
Cash and cash equivalents	30,103	92,037
Corporate bonds	658,721	2,115,561
Mutual funds	599,101	1,769,023
Equity securities	710,191	1,991,363
Total	1,998,116	5,967,984
Total assets limited as to use	22,931,777	52,348,959
Less assets limited as to use that are required for current liabilities	14,010,184	13,733,315
Noncurrent assets limited as to use	\$ 8,921,593	\$ 38,615,644

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

Investments

Investments included in current investments, stated at fair value at September 30, 2018 and 2017, is set forth in the following table:

<i>Investments</i>	2018	2017
Cash and cash equivalents	\$ 2,245,529	\$ 174,574
Corporate bonds	1,455,723	-
Equity securities	3,955,887	-
United States government obligations	11,386,317	-
Mutual funds	18,700,851	4,842,842
	\$ 37,744,307	\$ 5,017,416

Other Investments

Other investments at September 30, 2018 and 2017 include:

<i>Other Investments</i>	2018	2017
Partnership investments - Stonerise HomeHealth	\$ 1,158,211	\$ -
Partnership investments - Premier LP	641,409	1,768,389
Partnership investments - TMH Services, Inc. (Note 17)	44,984	86,564
	\$ 1,844,604	\$ 1,854,953

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, 2018 and 2017:

	2018	2017
Investment income included in revenues:		
Interest and dividend income	\$ 1,258,135	\$ 1,640,820
Realized gains	2,022,439	2,020,164
	\$ 3,280,574	\$ 3,660,984
Other changes in unrestricted net assets:		
Unrealized gains (losses) on investments	\$ 73,322	\$ (301,634)

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, 2018 and 2017.

The System does not require collateral to secure its investments.

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
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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.
- 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 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.

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, 2018 and 2017.

	Total at September 30, 2018	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Investment and assets limited as to use				
Cash and cash equivalents	\$ 9,206,764	\$ 9,206,764	\$ -	\$ -
Certificate of Deposits	1,738,010	1,738,010	-	-
Corporate Stocks	4,309,490	4,309,490	-	-

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
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	Total at September 30, 2018	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Corporate bonds	2,279,658	-	2,279,658	-
Government Obligations				
FHLB	4,849,252	-	4,849,252	-
FFCB	3,794,037	-	3,794,037	-
FNMA	4,041,734	-	4,041,734	-
FHLMC	885,717	-	885,717	-
U.S. Treasury obligation	1,730,343	-	1,730,343	-
	15,301,083	-	15,301,083	-
Mutual funds				
Fixed income funds	6,120,443	6,120,443	-	-
Equity funds	21,720,636	21,720,636	-	-
	27,841,079	27,841,079	-	-
Total	\$ 60,676,084	\$ 43,095,343	\$ 17,580,741	\$ -
Liabilities:				
Derivative financial instruments	\$ (278)	\$ -	\$ (278)	\$ -

	Total at September 30, 2017	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Investment and assets limited as to use				
Cash and cash equivalents	\$ 12,046,337	\$ 12,046,337	\$ -	\$ -
Certificate of Deposits	3,254,215	3,254,215	-	-
Corporate Stocks	1,769,023	1,769,023	-	-
Corporate bonds	2,491,770	-	2,491,770	-
Government Obligations				
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	-
Mutual funds				
Fixed income funds	6,522,708	6,522,708	-	-
Equity funds	14,457,071	14,457,071	-	-
	20,979,779	20,979,779	-	-
Total	\$ 57,366,584	\$ 38,049,354	\$ 19,317,230	\$ -
Liabilities:				
Derivative financial instruments	\$ (2,460)	\$ -	\$ (2,460)	\$ -

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

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, 2018 and 2017 are as follows:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 8,391,921	\$ 8,391,921	\$ 12,113,626	\$ 12,113,626
Patient accounts receivable	\$ 24,160,151	\$ 24,160,151	\$ 27,934,711	\$ 27,934,711
Estimated third-party settlements	\$ 5,447,296	\$ 5,447,296	\$ 4,775,908	\$ 4,775,908
Accounts payable and accrued expenses	\$ 38,319,355	\$ 38,319,355	\$ 40,041,244	\$ 40,041,244
Long-term debt	\$ 143,579,338	\$ 143,579,338	\$ 145,743,140	\$ 145,743,140

Note 5. Property and Equipment

A summary of the components of property and equipment at September 30, 2018 and 2017 follows:

	2018	2017
Land	\$ 22,270,554	\$ 21,843,316
Land improvements	3,915,948	3,910,190
Buildings and improvements	191,170,056	191,129,940
Equipment	154,558,532	153,987,055
Construction in progress	543,865	-
	372,458,955	370,870,501
Less accumulated depreciation	(233,461,778)	(222,644,979)
	\$ 138,997,177	\$ 148,225,522

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital lease assets at September 30, 2018 and 2017, included in property and equipment are as follows:

	2018	2017
Equipment	\$ 6,715,763	\$ 6,352,466
Less accumulated amortization	(5,723,423)	(5,226,600)
	\$ 992,340	\$ 1,125,866

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 a 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 and Subsequent Event

A summary of long-term debt as of September 30, 2018 and 2017 follows:

	2018	2017
Note payable, bank, refinanced in January 2013, 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.	249,218	830,692
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.	3,527,927	3,635,623
Note payable, bank, due in monthly installments of \$2,023 including interest at 5.25% through June 2023, adjusted in July 2023 at a rate of 5 YR constant maturity T-Bill plus 2.5%, through June 2043	333,231	339,762
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.	1,730,239	1,777,419
Hospital Revenue Bonds, Series 2008, terms below	139,565,000	141,130,000
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.	1,116,216	1,140,173
	146,521,831	148,853,669
Less bond discount	1,256,739	1,336,000
Less deferred financing costs	1,685,754	1,774,529
Less current portion	2,437,808	2,760,776
Total long-term debt	\$ 141,141,530	\$ 142,982,364

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2018; 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 consulting firm in August 2017 through November 2018. In fiscal year end 2018, management began the process of implementing recommendations to improve operating results to achieve a 1.25 debt service coverage ratio for fiscal year 2019 and beyond. Management believes they have remedied the debt service coverage ratio requirement violation for fiscal year ended 2018.

In October 2018, the Trustee withdrew the semi-annual payment due October 1 from the debt service reserve fund, and the Obligated Group has not made the required monthly installments to replenish the fund. As of the report date, the Obligated Group is considered in default of their loan agreement. The default is curable by replenishing the debt service reserve fund, which the required amount is less than the current value of cash and investments held by the Obligated Group. The Obligated Group is currently in negotiations with the bond holders on a forbearance agreement and is evaluating its options related to replenishing the debt service reserve fund.

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

Year ending September 30:	Long-Term Obligations	Capital Lease Obligations	Total
2019	\$ 2,070,748	\$ 414,203	\$ 2,484,951
2020	1,933,033	426,633	2,359,666
2021	2,715,367	320,850	3,036,217
2022	2,873,003	39,750	2,912,753
2023	3,050,956	29,473	3,080,429
Thereafter	132,762,508	-	132,762,508
	\$ 145,405,615	1,230,909	146,636,524
Less amount representing interest under capital lease obligations		(114,693)	(114,693)
		\$ 1,116,216	\$ 146,521,831

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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:

		Fair Value	
		2018	2017
Balance Sheet Location			
<u>Cash Flow Hedges:</u>			
Interest rate contract	Accounts payable and accrued expenses	\$ (278)	\$ (2,460)
Total derivative designated as hedging instruments		<u>\$ (278)</u>	<u>\$ (2,460)</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, 2018 and 2017.

Derivatives Designated as Hedging Instruments for the Year Ending September 30	Gain Recognized in Income	Amount of Gain in Net Assets (Effective Portion)	
		2018	2017
<u>Cash Flow Hedges:</u>			
Interest rate contract	Change in value of derivatives	<u>\$ 2,182</u>	<u>\$ 16,882</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.

A summary of gross and net patient service revenue for all of the System's payors for the years ended September 30, 2018 and 2017 follows:

	2018	2017
Gross patient service revenue	\$ 839,409,610	\$ 814,450,376
Supplemental Medicaid funding	6,334,432	8,969,316
Less provision for:		
Contractual adjustments	581,534,389	548,342,730
Charity care	1,246,608	1,395,295
Bad debts	16,913,974	20,651,909
Net patient service revenue	<u>\$ 246,049,071</u>	<u>\$ 253,029,758</u>

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

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contractual allowances and discounts (but before the provision for bad debts), recognized during the years ended September 30, 2018 and 2017, from these major payor sources, is as follows:

2018	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 243,203,794	\$ 19,759,251	\$ 262,963,045
2017	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 253,922,416	\$ 19,759,251	\$ 273,681,667

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 \$735,000 in 2018 and \$509,000 in 2017 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) programs. 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. The State of West Virginia implemented the Direct Payment Program (DPP) to continue supplemental payments upon transition to managed care. As of September 30, 2018, the State of West Virginia had outstanding payments under the DPP for the partial state fiscal year 2018 (July 1, 2017 through June 30, 2018).

The System recorded supplemental revenue of \$6,334,432 and \$8,969,316 in 2018 and 2017, respectively, which is included in Net Patient Service Revenue in the Consolidated Statements of Operations and Changes in Net Assets. Amounts recorded as net receivable for the supplemental payment programs at September 30, 2018 and 2017 was \$3,720,844 and \$4,630,500 and were recorded in Estimated Third-Party Settlements.

These supplemental payment programs are subject to audit and retroactive adjustment by CMS and those audits could result in amounts that are materially different than those recorded. Management believes the amounts recorded are reasonable and are based upon an accurate interpretation of current regulations.

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, 2018 and 2017 was \$537,446 and \$436,088, 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 \$4,666,000 and \$8,971,000 at September 30, 2018 and 2017, 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, 2018 and 2017, the fund had a balance of \$8,263,844 and \$9,205,239, 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, 2018 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 as of September 30, 2018 and 2017 were \$11,433,000 and \$6,147,000, respectively, and are included in the current and noncurrent portions of accrued self-insurance liability. A receivable in the amount of \$1,053,000 and \$0 as of September 30, 2018 and 2017, respectively, from insurance was recorded as an asset in other assets on the consolidated balance sheet. Accrued malpractice losses have not been discounted and in management's opinion provide an adequate reserve for loss contingencies.

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.

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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:

	2018	2017
Healthcare services	\$ 264,198,167	\$ 272,086,759
General and Administrative	7,883,370	6,275,630
Fundraising	620,134	713,738
	\$ 272,701,671	\$ 279,076,127

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:

	2018	2017
Medicare	38%	32%
Medicaid	4%	13%
Private pay	2%	2%
Other payors	56%	53%
	100%	100%

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.

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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:

Amounts recognized on balance sheet consist of:

	2018	2017
Change in projected benefit obligation		
Benefit obligation at the beginning of year	\$ 127,780,566	\$ 130,253,036
Interest cost	5,013,981	5,019,760
Actuarial (gain)/loss	(5,952,373)	(2,965,771)
Benefits paid	(4,987,733)	(4,526,459)
Benefit obligation at the end of year	<u>\$ 121,854,441</u>	<u>\$ 127,780,566</u>
Change in plan assets		
Fair value of plan assets at the beginning of year	\$ 99,765,046	\$ 89,965,689
Actual return on plan assets	5,933,772	11,525,816
Employer contributions	-	2,800,000
Benefits paid	(4,987,733)	(4,526,459)
Fair value of plan assets at the end of year	<u>100,711,085</u>	<u>99,765,046</u>
Funded status at end of year	<u>\$ (21,143,356)</u>	<u>\$ (28,015,520)</u>

Amounts recognized on balance sheet consist of:

	2018	2017
Noncurrent liabilities	\$ (21,143,356)	\$ (28,015,520)
	<u>\$ (21,143,356)</u>	<u>\$ (28,015,520)</u>

Accumulated amounts recognized in other changes in unrestricted net assets:

	2018	2017
Net actuarial loss	\$ (31,348,630)	\$ (37,428,259)
	<u>\$ (31,348,630)</u>	<u>\$ (37,428,259)</u>

The accumulated benefit obligation was \$121,854,441 and \$127,780,566 at September 30, 2018 and 2017, respectively.

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

	2018	2017
Net periodic benefit cost	\$ (792,535)	\$ (455,299)
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net (gain)/loss for period	(5,229,312)	(8,052,379)
Amortization of net (loss)/gain	(850,317)	(964,149)
Total amount recognized in other changes in net assets	<u>(6,079,629)</u>	<u>(9,016,528)</u>
Total recognized in net periodic benefit cost and other changes in net assets	<u>\$ (6,872,164)</u>	<u>\$ (9,471,827)</u>

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2018	2017
Interest cost	\$ 5,013,981	\$ 5,019,760
Expected return on plan assets	(6,656,833)	(6,439,208)
Recognized actuarial (gain)/loss	850,317	964,149
Net periodic benefit cost	<u>\$ (792,535)</u>	<u>\$ (455,299)</u>

Additional Information

Assumptions

Weighted average assumptions used to determine net periodic benefit cost for the years ended September 30, 2018 and 2017:

	2018	2017
Discount rate	4.35%	4.00%
Expected return on plan assets	7.00%	7.00%
Rate of compensation income	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, 2018. 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, 2018 and 2017 is as follows:

	2018	2017
Equity securities	68%	72%
Debt securities	28%	24%
Other	4%	4%
	<u>100%</u>	<u>100%</u>

The tables below present the recorded amount of Plan assets measured at a fair value on a recurring basis at September 30, 2018 and 2017 under the fair value framework as described in Note 4.

Plan Assets	Total at September 30, 2018	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Cash Equivalents	\$ 1,003,236	\$ 1,003,236	\$ -	\$ -
Mutual Funds				
Fixed income funds	21,675,018	21,675,018	-	-
Equity funds	70,530,383	70,530,383	-	-
Diversified funds	7,502,448	7,502,448	-	-
	<u>99,707,849</u>	<u>99,707,849</u>	-	-
	<u>\$ 100,711,085</u>	<u>\$ 100,711,085</u>	\$ -	\$ -

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Plan Assets	Total at September 30, 2017	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Cash Equivalents	\$ 500,097	\$ 500,097	\$ -	\$ -
Mutual Funds				
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	-	-
	99,264,949	99,264,949	-	-
	\$ 99,765,046	\$ 99,765,046	\$ -	\$ -

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 \$0 and \$2,800,000 in 2018 and 2017, respectively, and expects to contribute \$0 to its pension plan in 2019. 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
2019	\$ 5,329,962
2020	\$ 5,583,256
2021	\$ 5,813,688
2022	\$ 6,031,702
2023	\$ 6,254,373
2024 - 2028	\$ 33,630,813

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 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 \$2.5 million and \$3.3 million in 2018 and 2017, respectively, which is included in employee benefits in the accompanying consolidated statements of operations.

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

Note 15. Lease Commitments

The System leases various equipment under operating leases with various expiration dates through July 2017. Total rental expense in 2018 and 2017 for equipment operating leases was approximately \$914,323 and \$898,907, 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 equipment operating leases as of September 30, 2018, that have initial or remaining lease terms in excess of one year:

Years Ending September 30,	Amount
2019	\$ 1,004,798
2020	390,028
2021	157,165
	\$ 1,551,991

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 \$2,545,000 and \$2,541,000 for 2018 and 2017, respectively.

The following is a schedule by year of future minimum rental income as of September 30, 2018 and 2017:

Years Ending September 30,	Amount
2019	\$ 1,955,106
2020	1,314,514
2021	628,062
2022	149,961
2023	21,616
	\$ 4,069,259

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, 2018 and 2017 for TMH Services' unconsolidated subsidiary follows:

	2018	2017
Assets	\$ 1,826,193	\$ 1,942,122
Liabilities	\$ 1,736,225	\$ 1,768,994
Equity	\$ 89,968	\$ 173,128
Net Income	\$ (53,804)	\$ 45,095

Total liabilities for the unconsolidated subsidiary at September 30, 2018 and 2017 include various mortgages, notes, and construction loans payable that total \$1,703,200 and \$1,755,225, respectively. TMH Services is a guarantor of these debt instruments. The debts are substantially collateralized by real

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

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 \$1,158,000, which equals 30% of Stonerise Home Health Services, LLC's total equity, was recorded in Other investments at September 30, 2018. 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 \$781,000 and \$841,000 in 2018 and 2017, respectively, and is included in rental income in the accompanying consolidated statement of operations.

Note 19. Estimated Third-Party Settlements

Estimated third-party settlements consist of amounts receivable (payable) to Medicare and Medicaid programs for settlement of current and prior year cost reports and other supplemental payment programs. These estimated settlements by program are as follows:

	2018	2017
Medicare	\$ 1,713,989	\$ 92,750
Medicaid	12,463	(48,157)
Supplemental payment programs	3,720,844	4,731,315
	<u>\$ 5,447,296</u>	<u>\$ 4,775,908</u>

Note 20. 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, 2018 and 2017:

	2018	2017
Scholarships - Auxiliary	\$ 462,733	\$ 436,849
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	454,355	420,139
	<u>\$ 1,191,633</u>	<u>\$ 1,131,533</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.

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

Changes in endowment funds for the fiscal year ended September 30, 2018, consisted of the following:

	Permanently Restricted
Net assets, beginning of year	\$ 1,131,533
Contributions	<u>60,100</u>
Endowment net assets after contributions	<u><u>\$ 1,191,633</u></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, 2018 and 2017.

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 then ended September 30, 2018 and 2017, 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 29, 2019

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEET
September 30, 2018

	Obligated Group (Combined)	THS Physician Partner's, Inc.	TMH Services Inc.	Eliminations	Thomas Health System Consolidated Balance
ASSETS					
Current assets					
Cash and cash equivalents	\$ 8,064,857	\$ 127,057	\$ 200,007	\$ -	\$ 8,391,921
Investments	37,744,307	-	-	-	37,744,307
Assets limited as to use	14,010,184	-	-	-	14,010,184
Patient accounts receivable, net	22,988,021	1,172,130	-	-	24,160,151
Other receivables	1,555,765	-	-	-	1,555,765
Supplies inventories	8,312,903	-	-	-	8,312,903
Prepaid and other current assets	1,912,426	215,525	126,159	(28,315)	2,225,795
Estimated third-party payor settlements	5,447,296	-	-	-	5,447,296
Total current assets	100,035,759	1,514,712	326,166	(28,315)	101,848,322
Assets limited as to use, net	8,921,593	-	-	-	8,921,593
Property and equipment, net	132,574,521	136,049	6,286,607	-	138,997,177
Other assets					
Other investments	2,040,518	-	44,984	(240,898)	1,844,604
Other	1,083,877	-	-	-	1,083,877
Total other assets	3,124,395	-	44,984	(240,898)	2,928,481
Total assets	\$ 244,656,268	\$ 1,650,761	\$ 6,657,757	\$ (269,213)	\$ 252,695,573
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of long-term debt	\$ 2,271,278	\$ -	\$ 166,530	\$ -	\$ 2,437,808
Accounts payable	31,216,882	107,154	93,312	(28,315)	31,389,033
Accrued salaries and benefits	5,539,544	91,696	-	-	5,631,240
Accrued expenses	6,930,322	-	-	-	6,930,322
Accrued self-insurance liability	3,216,234	-	-	-	3,216,234
Total current liabilities	49,174,260	198,850	259,842	(28,315)	49,604,637
Accrued pension and post-retirement benefits	21,143,356	-	-	-	21,143,356
Accrued self-insurance liability	12,882,766	-	-	-	12,882,766
Long-term debt, net of current portion	135,716,663	-	5,424,867	-	141,141,530
Total liabilities	218,917,045	198,850	5,684,709	(28,315)	224,772,289
Net assets					
Unrestricted	23,741,107	1,451,911	973,048	(240,898)	25,925,168
Temporarily restricted	806,483	-	-	-	806,483
Permanently restricted	1,191,633	-	-	-	1,191,633
Total net assets	25,739,223	1,451,911	973,048	(240,898)	27,923,284
Total liabilities and net assets	\$ 244,656,268	\$ 1,650,761	\$ 6,657,757	\$ (269,213)	\$ 252,695,573

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEET
September 30, 2017

	Obligated Group (Combined)	THS Physician Partners, Inc.	TMH Services Inc.	Eliminations	Thomas Health System Consolidated Balance
ASSETS					
Current assets					
Cash and cash equivalents	\$ 11,807,013	\$ 158,254	\$ 148,359	\$ -	\$ 12,113,626
Investments	5,017,625	-	-	-	5,017,625
Assets limited as to use	13,733,315	-	-	-	13,733,315
Patient accounts receivable, net	26,960,535	974,176	-	-	27,934,711
Other receivables	1,622,416	-	-	-	1,622,416
Supplies inventories	7,892,349	-	-	-	7,892,349
Prepaid and other current assets	1,860,553	190,288	31,336	(18,280)	2,063,897
Estimated third-party payor settlements	4,775,908	-	-	-	4,775,908
Total current assets	73,669,714	1,322,718	179,695	(18,280)	75,153,847
Assets limited as to use, net	38,615,644	-	-	-	38,615,644
Property and equipment, net	141,495,552	237,742	6,492,228	-	148,225,522
Other assets					
Other investments	2,009,287	-	86,564	(240,898)	1,854,953
Other	149,531	-	-	-	149,531
Total other assets	2,158,818	-	86,564	(240,898)	2,004,484
Total assets	\$ 255,939,728	\$ 1,560,460	\$ 6,758,487	\$ (259,178)	263,999,497
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of long-term debt	\$ 2,598,622	\$ -	\$ 162,154	\$ -	\$ 2,760,776
Accounts payable	33,280,862	639,396	84,795	(18,280)	33,986,773
Accrued salaries and benefits	5,039,091	1,180,852	-	-	6,219,943
Accrued expenses	6,054,471	-	-	-	6,054,471
Accrued self-insurance liability	2,935,465	-	-	-	2,935,465
Total current liabilities	49,908,511	1,820,248	246,949	(18,280)	51,957,428
Accrued pension and post-retirement benefits	28,015,520	-	-	-	28,015,520
Accrued self-insurance liability	12,182,535	-	-	-	12,182,535
Long-term debt, net of current portion	137,391,714	-	5,590,650	-	142,982,364
Total liabilities	227,498,280	1,820,248	5,837,599	(18,280)	235,137,847
Net assets					
Unrestricted	26,506,133	(259,788)	920,888	(240,898)	26,926,335
Temporarily restricted	803,782	-	-	-	803,782
Permanently restricted	1,131,533	-	-	-	1,131,533
Total net assets	28,441,448	(259,788)	920,888	(240,898)	28,861,650
Total liabilities and net assets	\$ 255,939,728	\$ 1,560,460	\$ 6,758,487	\$ (259,178)	\$ 263,999,497

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

**CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended September 30, 2018**

	Obligated Group (Combined)	THS Physician Partners, Inc.	TMH Services Inc.	Eliminations	Thomas Health System Consolidated Balance
Unrestricted revenue, gains and other support					
Patient service revenue, net	\$ 242,307,349	\$ 20,655,696	\$ -	\$ -	\$ 262,963,045
Less: Provision for bad debts	(14,767,012)	(2,146,962)	-	-	(16,913,974)
Net patient service revenue	227,540,337	18,508,734	-	-	246,049,071
Investment income	3,302,154	-	(21,580)	-	3,280,574
Rental income	1,730,235	-	1,126,727	(312,171)	2,544,791
Other revenue	12,596,836	609,165	39,369	(17,260)	13,228,110
Public support - donations	437,825	-	-	-	437,825
Total revenue, gains and other support	245,607,387	19,117,899	1,144,516	(329,431)	265,540,371
Expenses					
Salaries and wages	81,154,103	18,413,672	82,554	5,914	99,656,243
Employee benefits	18,345,272	2,040,865	-	-	20,386,137
Supplies	58,084,517	961,361	476,236	(311,805)	59,210,309
Purchased services	31,725,405	2,846,069	62,845	(23,540)	34,610,779
Depreciation and amortization	11,450,564	88,788	207,306	-	11,746,658
Taxes	9,602,810	-	-	-	9,602,810
Interest and amortization	9,380,736	-	237,625	-	9,618,361
Insurance	1,680,423	880,186	25,790	-	2,586,399
Other	23,767,283	1,516,692	-	-	25,283,975
Total expenses	245,191,113	26,747,633	1,092,356	(329,431)	272,701,671
Excess (deficiency) of revenues over expenses	416,274	(7,629,734)	52,160	-	(7,161,300)
Other changes in net assets					
Net unrealized gain on investments	73,322	-	-	-	73,322
Net assets released from restriction	5,000	-	-	-	5,000
Defined benefit pension plan adjustment	6,079,629	-	-	-	6,079,629
Change in fair value of derivatives	2,182	-	-	-	2,182
Equity transfer	(9,341,433)	9,341,433	-	-	-
Increase (decrease) in unrestricted net assets	\$ (2,765,026)	\$ 1,711,699	\$ 52,160	\$ -	\$ (1,001,167)

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended September 30, 2017

	Obligated Group (Combined)	THS Physician Partners, Inc.	TMH Services Inc.	Eliminations	Thomas Health System Consolidated Balance
Unrestricted revenue, gains and other support					
Patient service revenue, net	\$ 255,622,654	\$ 18,059,013	\$ -	\$ -	\$ 273,681,667
Less: Provision for bad debts	(18,866,756)	(1,785,153)	-	-	(20,651,909)
Net patient service revenue	236,755,898	16,273,860	-	-	253,029,758
Investment income	3,626,594	-	34,390	-	3,660,984
Rental income	1,753,141	-	1,133,029	(344,723)	2,541,447
Other revenue	8,810,626	-	44,925	(137,515)	8,718,036
Public support - donations	508,447	-	-	-	508,447
Total revenue, gains and other support	251,454,706	16,273,860	1,212,344	(482,238)	268,458,672
Expenses					
Salaries and wages	82,199,589	17,876,819	92,939	2,588,762	102,758,109
Employee benefits	16,266,540	2,976,258	-	942,142	20,184,940
Supplies	60,313,076	4,037,928	635,669	(109,185)	64,877,488
Purchased services	33,579,361	1,437,661	31,905	(3,903,957)	31,144,970
Depreciation and amortization	12,270,667	63,911	207,306	-	12,541,884
Taxes	7,973,444	-	-	-	7,973,444
Interest and amortization	9,520,147	-	234,229	-	9,754,376
Insurance	1,610,195	-	24,830	-	1,635,025
Other	28,205,891	-	-	-	28,205,891
Total expenses	251,938,910	26,392,577	1,226,878	(482,238)	279,076,127
(Deficiency) of revenues over expenses	(484,204)	(10,118,717)	(14,534)	-	(10,617,455)
Other changes in net assets					
Net unrealized (loss) on investments	(301,634)	-	-	-	(301,634.0)
Net assets released from restriction	93,444	-	-	-	93,444
Defined benefit pension plan adjustment	9,016,528	-	-	-	9,016,528
Change in fair value of derivatives	16,882	-	-	-	16,882
Equity transfer	(8,789,959)	8,789,959	-	-	-
(Decrease) in unrestricted net assets	\$ (448,943)	\$ (1,328,758)	\$ (14,534)	\$ -	\$ (1,792,235)

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
Year Ended September 30, 2018

	Obligated Group (Combined)	THS Physician Partners, Inc	TMH Services Inc.	Eliminations	Thomas Health System Consolidated Balance
Unrestricted net assets:					
Excess (deficiency) of revenues over expenses	\$ 416,274	\$ (7,629,734)	\$ 52,160	\$ -	\$ (7,161,300)
Net unrealized gain on investments	73,322	-	-	-	73,322
Net assets released from restriction	5,000	-	-	-	5,000
Defined benefit pension plan adjustment	6,079,629	-	-	-	6,079,629
Change in fair value of derivatives	2,182	-	-	-	2,182
Equity transfer	(9,341,433)	9,341,433	-	-	-
Increase (decrease) in unrestricted net assets	(2,765,026)	1,711,699	52,160	-	(1,001,167)
Temporarily restricted net assets					
Public support - donations	7,701	-	-	-	7,701
Net assets released from restriction	(5,000)	-	-	-	(5,000)
Increase in temporarily restricted net assets	2,701	-	-	-	2,701
Permanently restricted net assets					
Public support - donations	60,100	-	-	-	60,100
Increase in permanently restricted net assets	60,100	-	-	-	60,100
Increase (decrease) in net assets	(2,702,225)	1,711,699	52,160	-	(938,366)
Net assets, beginning of year	28,441,448	(259,788)	920,888	(240,898)	28,861,650
Net assets, end of year	\$ 25,739,223	\$ 1,451,911	\$ 973,048	\$ (240,898)	\$ 27,923,284

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

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

	Obligated Group (Combined)	THS Physician Partners, Inc.	TMH Services Inc.	Eliminations	Thomas Health System Consolidated Balance
Unrestricted net assets:					
(Deficiency) of					
revenues over expenses	\$ (484,204)	\$ (10,118,717)	\$ (14,534)	\$ -	\$ (10,617,455)
Net unrealized (loss)					
on investments	(301,634)	-	-	-	(301,634)
Net assets released					
from restriction	93,444	-	-	-	93,444
Defined benefit pension					
plan adjustment	9,016,528	-	-	-	9,016,528
Change in fair value of					
derivatives	16,882	-	-	-	16,882
Equity transfer	(8,789,959)	8,789,959	-	-	-
(Decrease) in unrestricted net assets	(448,943)	(1,328,758)	(14,534)	-	(1,792,235)
Temporarily restricted net assets					
Public support - donations	89,986	-	-	-	89,986
Net assets released from					
restriction	(93,444)	-	-	-	(93,444)
(Decrease) in temporarily restricted net assets	(3,458)	-	-	-	(3,458)
Permanently restricted net assets					
Public support - donations	10,000	-	-	-	10,000
Increase in permanently restricted net assets	10,000	-	-	-	10,000
(Decrease) in net assets	(442,401)	(1,328,758)	(14,534)	-	(1,785,693)
Net assets, beginning of year	28,883,849	1,068,970	935,422	(240,898)	30,647,343
Net assets, end of year	\$ 28,441,448	\$ (259,788)	\$ 920,888	\$ (240,898)	\$ 28,861,650

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET
September 30, 2018

	Thomas Health System	Thomas Memorial Hospital	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	Eliminations	Obligated Group (Combined)
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 349,862	\$ 6,054,106	\$ 1,279,172	\$ 381,717	\$ -	\$ 8,064,857
Investments	-	26,413,355	6,915,266	4,415,686	-	37,744,307
Assets limited as to use	-	14,010,184	-	-	-	14,010,184
Patient accounts receivable, net	-	16,758,788	6,229,233	-	-	22,988,021
Other receivables	-	1,432,868	122,897	-	-	1,555,765
Supplies inventories	-	5,248,434	3,064,469	-	-	8,312,903
Due from related party	4,476,822	-	2,057,553	-	(6,534,375)	-
Prepaid and other current assets	114,122	1,259,210	495,982	75,735	(32,623)	1,912,426
Estimated third-party payor settlements	-	3,802,416	1,644,880	-	-	5,447,296
Total current assets	4,940,806	74,979,361	21,809,452	4,873,138	(6,566,998)	100,035,759
Assets limited as to use, net	-	6,486,956	436,521	1,998,116	-	8,921,593
Property and equipment, net	-	105,398,460	27,176,061	-	-	132,574,521
Other Assets						
Other investments	-	2,040,518	-	-	-	2,040,518
Other	-	1,053,000	30,877	-	-	1,083,877
Total other assets	-	3,093,518	30,877	-	-	3,124,395
Total assets	\$ 4,940,806	\$ 189,958,295	\$ 49,452,911	\$ 6,871,254	\$ (6,566,998)	\$ 244,656,268
LIABILITIES AND NET ASSETS						
Current Liabilities						
Current portion of long-term debt	\$ -	\$ 1,409,710	\$ 861,568	\$ -	\$ -	\$ 2,271,278
Accounts payable	1,439,513	21,959,298	7,818,022	32,672	(32,623)	31,216,882
Accrued salaries and benefits	2,415,393	1,956,054	1,168,097	-	-	5,539,544
Accrued expenses	1,135,821	5,456,273	338,228	-	-	6,930,322
Accrued self-insurance liability	-	3,216,234	-	-	-	3,216,234
Due to related party	-	6,534,375	-	-	(6,534,375)	-
Total current liabilities	4,990,727	40,531,944	10,185,915	32,672	(6,566,998)	49,174,260
Accrued pension and postretirement benefits	-	21,143,356	-	-	-	21,143,356
Accrued self-insurance liability	-	12,882,766	-	-	-	12,882,766
Long-term debt, net of current portion	-	93,282,704	42,433,959	-	-	135,716,663
Total liabilities	4,990,727	167,840,770	52,619,874	32,672	(6,566,998)	218,917,045
Net assets						
Unrestricted	(49,921)	22,117,525	(3,166,963)	4,840,466	-	23,741,107
Temporarily restricted	-	-	-	806,483	-	806,483
Permanently restricted	-	-	-	1,191,633	-	1,191,633
Total net assets	(49,921)	22,117,525	(3,166,963)	6,838,582	-	25,739,223
Total liabilities and net assets	\$ 4,940,806	\$ 189,958,295	\$ 49,452,911	\$ 6,871,254	\$ (6,566,998)	\$ 244,656,268

THOMAS HEALTH SYSTEM, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET
September 30, 2017

	Thomas Health Systems	Thomas Memorial Hospital	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	Eliminations	Obligated Group (Combined)
ASSETS						
Current Assets						
Cash and cash equivalents	\$ -	\$ 6,905,885	\$ 4,470,510	\$ 430,618	\$ -	\$ 11,807,013
Investments	-	-	5,017,625	-	-	5,017,625
Assets limited as to use	-	13,733,315	-	-	-	13,733,315
Patient accounts receivable, net	-	19,800,717	7,159,818	-	-	26,960,535
Other receivables	-	1,527,169	95,247	-	-	1,622,416
Supplies inventories	-	4,629,337	3,263,012	-	-	7,892,349
Due from related party	-	-	4,090,025	-	(4,090,025)	-
Prepaid and other current assets	-	1,121,105	734,296	52,008	(46,856)	1,860,553
Estimated third-party payor settlements	-	3,218,445	1,557,463	-	-	4,775,908
Total current assets	-	50,935,973	26,387,996	482,626	(4,136,881)	73,669,714
Assets limited as to use, net	-	32,249,345	398,315	5,967,984	-	38,615,644
Property and equipment, net	-	111,274,086	30,221,466	-	-	141,495,552
Other Assets						
Other investments	-	2,009,287	-	-	-	2,009,287
Other	-	-	30,742	118,789	-	149,531
Total other assets	-	2,009,287	30,742	118,789	-	2,158,818
Total assets	\$ -	\$ 196,468,691	\$ 57,038,519	\$ 6,569,399	\$ (4,136,881)	\$ 255,939,728
LIABILITIES AND NET ASSETS						
Current portion of long-term debt	\$ -	\$ 1,194,598	\$ 1,404,024	\$ -	\$ -	\$ 2,598,622
Accounts payable	-	24,112,294	9,148,464	66,960	(46,856)	33,280,862
Accrued salaries and benefits	-	3,365,197	1,673,894	-	-	5,039,091
Accrued expenses	-	5,416,807	637,664	-	-	6,054,471
Accrued self-insurance liability	-	2,935,465	-	-	-	2,935,465
Due to related party	-	4,090,025	-	-	(4,090,025)	-
Total current liabilities	-	41,114,386	12,864,046	66,960	(4,136,881)	49,908,511
Accrued pension and postretirement benefits	-	28,015,520	-	-	-	28,015,520
Accrued self-insurance liability	-	12,182,535	-	-	-	12,182,535
Long-term debt, net of current portion	-	96,651,635	40,740,079	-	-	137,391,714
Total liabilities	-	177,964,076	53,604,125	66,960	(4,136,881)	227,498,280
Net assets						
Unrestricted	-	18,504,615	3,434,394	4,567,124	-	26,506,133
Temporarily restricted	-	-	-	803,782	-	803,782
Permanently restricted	-	-	-	1,131,533	-	1,131,533
Total net assets	-	18,504,615	3,434,394	6,502,439	-	28,441,448
Total liabilities and net assets	-	196,468,691	57,038,519	6,569,399	(4,136,881)	255,939,728

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

**COMBINING STATEMENT OF OPERATIONS
Year Ended September 30, 2018**

	Thomas Health System	Thomas Memorial Hospital	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	Eliminations	Obligated Group (Combined)
Unrestricted revenue, gains and other support						
Patient service revenue, net	\$ -	\$ 177,171,788	\$ 65,135,561	\$ -	\$ -	\$ 242,307,349
Less: Provision for bad debts	-	(11,698,406)	(3,068,606)	-	-	(14,767,012)
Net patient service revenue	-	165,473,382	62,066,955	-	-	227,540,337
Investment income	-	2,607,709	243,794	450,651	-	3,302,154
Rental income	-	1,116,893	613,342	-	-	1,730,235
Other revenue	-	11,928,196	684,098	-	(15,458)	12,596,836
Public support - donations	-	-	-	437,825	-	437,825
Total revenue, gains and other support	-	181,126,180	63,608,189	888,476	(15,458)	245,607,387
Expenses						
Salaries and wages	-	60,902,238	19,961,541	290,324	-	81,154,103
Employee benefits	-	13,067,916	5,277,356	-	-	18,345,272
Supplies	-	41,311,632	16,785,252	3,091	(15,458)	58,084,517
Purchased services	13,793	23,103,739	8,544,005	63,868	-	31,725,405
Depreciation and amortization	-	7,819,579	3,630,985	-	-	11,450,564
Taxes	-	7,377,782	2,225,028	-	-	9,602,810
Interest and amortization	-	5,914,926	3,465,810	-	-	9,380,736
Insurance	-	585,199	1,095,224	-	-	1,680,423
Other	36,128	16,406,232	7,062,072	262,851	-	23,767,283
Total expenses	49,921	176,489,243	68,047,273	620,134	(15,458)	245,191,113
Excess (deficiency) of revenues over expenses	(49,921)	4,636,937	(4,439,084)	268,342	-	416,274
Other changes in net assets						
Net unrealized loss on investments	-	(161,806)	235,128	-	-	73,322
Net assets released from restriction	-	-	-	5,000	-	5,000
Defined benefit pension adjustment	-	6,079,629	-	-	-	6,079,629
Change in the fair value of derivatives	-	-	2,182	-	-	2,182
Equity transfer	-	(6,941,850)	(2,399,583)	-	-	(9,341,433)
Increase (decrease) in unrestricted net assets	\$ (49,921)	\$ 3,612,910	\$ (6,601,357)	\$ 273,342	\$ -	\$ (2,765,026)

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

**COMBINING STATEMENT OF OPERATIONS
Year Ended September 30, 2017**

	Thomas Health System	Thomas Memorial Hospital	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	Eliminations	Obligated Group (Combined)
Unrestricted revenue, gains and other support						
Patient service revenue, net	\$ -	\$ 180,368,123	\$ 75,254,531	\$ -	\$ -	\$ 255,622,654
Less: Provision for bad debts	-	(15,812,936)	(3,053,820)	-	-	(18,866,756)
Net patient service revenue	-	164,555,187	72,200,711	-	-	236,755,898
Investment income	-	2,565,209	505,402	555,983	-	3,626,594
Rental income	-	1,225,978	527,163	-	-	1,753,141
Other revenue	-	7,917,031	920,334	-	(26,739)	8,810,626
Public support - donations	-	35,000	-	473,447	-	508,447
Total revenue, gains and other support	-	176,298,405	74,153,610	1,029,430	(26,739)	251,454,706
Expenses						
Salaries and wages	-	62,721,169	19,160,112	318,308	-	82,199,589
Employee benefits	-	12,063,747	4,202,793	-	-	16,266,540
Supplies	-	40,937,908	19,394,255	7,652	(26,739)	60,313,076
Purchased services	-	21,799,171	11,733,199	46,991	-	33,579,361
Depreciation and amortization	-	8,819,040	3,451,627	-	-	12,270,667
Taxes	-	5,925,241	2,048,203	-	-	7,973,444
Interest and amortization	-	5,995,756	3,524,391	-	-	9,520,147
Insurance	-	1,639,952	(29,757)	-	-	1,610,195
Other	-	19,611,373	8,253,731	340,787	-	28,205,891
Total expenses	-	179,513,357	71,738,554	713,738	(26,739)	251,938,910
Excess (deficiency) of revenues over expenses	-	(3,214,952)	2,415,056	315,692	-	(484,204)
Other changes in net assets						
Net unrealized loss on investments	-	(387,350)	85,716	-	-	(301,634)
Net assets released from restriction	-	-	-	93,444	-	93,444
Defined benefit pension adjustment	-	9,016,528	-	-	-	9,016,528
Change in the fair value of derivatives	-	-	16,882	-	-	16,882
Equity transfer	-	(6,583,830)	(2,206,129)	-	-	(8,789,959)
Increase (decrease) in unrestricted net assets	\$ -	\$ (1,169,604)	\$ 311,525	\$ 409,136	\$ -	\$ (448,943)

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

**COMBINING STATEMENT OF CHANGES IN NET ASSETS
Year Ended September 30, 2018**

	Thomas Health System	Thomas Memorial Hospital	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	Eliminations	Obligated Group (Combined)
Unrestricted net assets:						
Excess (deficiency) revenues over expenses	\$ (49,921)	\$ 4,636,937	\$ (4,439,084)	\$ 268,342	\$ -	\$ 416,274
Net unrealized gain (loss) on investments	-	(161,806)	235,128	-	-	73,322
Net assets released from restriction	-	-	-	5,000	-	5,000
Defined benefit pension plan adjustment	-	6,079,629	-	-	-	6,079,629
Change in fair value of derivatives	-	-	2,182	-	-	2,182
Equity transfer	-	(6,941,850)	(2,399,583)	-	-	(9,341,433)
Increase (decrease) in unrestricted net assets	(49,921)	3,612,910	(6,601,357)	273,342	-	(2,765,026)
Temporarily restricted net assets						
Public support - donations	-	-	-	7,701	-	7,701
Net assets released from restriction	-	-	-	(5,000)	-	(5,000)
Increase in temporarily restricted net assets	-	-	-	2,701	-	2,701
Permanently restricted net assets						
Public support - donations	-	-	-	60,100	-	60,100
Increase in permanently restricted net assets	-	-	-	60,100	-	60,100
Increase (decrease) in net assets	(49,921)	3,612,910	(6,601,357)	336,143	-	(2,702,225)
Net assets, beginning of year	-	18,504,615	3,434,394	6,502,439	-	28,441,448
Net assets, end of year	\$ (49,921)	\$ 22,117,525	\$ (3,166,963)	\$ 6,838,582	\$ -	\$ 25,739,223

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

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

	Thomas Health System	Thomas Memorial Hospital	Saint Francis Hospital	Foundation For the Thomas Memorial and St. Francis Hospitals, Inc.	Eliminations	Obligated Group (Combined)
Unrestricted net assets:						
Excess (deficiency) revenues over expenses	\$ -	\$ (3,214,952)	\$ 2,415,056	\$ 315,692	\$ -	\$ (484,204)
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 fair value of derivatives	-	-	16,882	-	-	16,882
Equity transfer	-	(6,583,830)	(2,206,129)	-	-	(8,789,959)
Increase (decrease) in unrestricted net assets	-	(1,169,604)	311,525	409,136	-	(448,943)
Temporarily restricted net assets						
Public support - donations	-	-	-	89,986	-	89,986
Net assets released from restriction	-	-	-	(93,444)	-	(93,444)
(Decrease) in temporarily restricted net assets	-	-	-	(3,458)	-	(3,458)
Permanently restricted net assets						
Public support - donations	-	-	-	10,000	-	10,000
Increase in permanently restricted net assets	-	-	-	10,000	-	10,000
Increase (decrease) in net assets	-	(1,169,604)	311,525	415,678	-	(442,401)
Net assets, beginning of year	-	19,674,219	3,122,869	6,086,761	-	28,883,849
Net assets, end of year	-	18,504,615	3,434,394	6,502,439	-	28,441,448