Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Consolidated Financial Statements and Supplemental Data
September 30, 2016 and 2015

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Index
September 30, 2016 and 2015

Page(s)

pwc

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated financial statements of Tallahassee Memorial HealthCare, Inc. and Subsidiaries ("TMH, Inc."), which comprise the consolidated balance sheets as of September 30, 2016 and 2015 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Independent Certified Public Accountants' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to TMH, Inc.'s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TMH, Inc.'s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tallahassee Memorial HealthCare, Inc. and Subsidiaries as of September 30, 2016 and 2015, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

December 14, 2016

PricewaterhouseCoopers LLP, 4040 West Boy Scout Boulevard, Suite 1000, Tampa, FL 33607-5745
T: (813) 229 0221, F: (813) 229 3646, www.pwc.com/us

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 256,926,285	$ 237,123,322
Short-term investments	11,319,327	10,492,082
Assets limited as to use	13,363,214	6,914,410
Patient accounts receivable, net of allowance for doubtful accounts of approximately $78,737,000 and $75,335,000 as of September 30, 2016 and 2015, respectively	77,657,632	74,777,022
Inventories	10,450,091	9,660,502
Due from Medicare	7,149,668	-
Other current assets	19,433,439	14,989,106
Total current assets	396,299,656	353,956,444
Assets limited as to use		
Held by trustee	261,386,228	6,914,410
Less amount required to meet current obligations	(13,363,214)	(6,914,410)
Total assets limited as to use	248,023,014	-
Long-term investments	7,548,614	7,161,385
Property, plant and equipment, net	302,471,801	278,551,754
Other assets	8,933,977	7,523,070
Total assets	$ 963,277,062	$ 647,192,653
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 64,401,126	$ 55,763,803
Due to Medicare	-	9,050,142
Current portion of long-term debt	3,076,809	407,579
Current portion of pension liability	18,242,781	18,956,966
Other current liabilities	9,883,622	9,432,216
Total current liabilities	95,604,338	93,610,706
Long-term debt, net of current portion	398,095,669	131,958,271
Long-term pension liability	79,708,110	87,846,778
Other liabilities	34,743,368	23,472,318
Total liabilities	608,151,485	336,888,073
Commitments and contingencies		
Net assets		
Unrestricted	336,960,134	293,213,258
Temporarily restricted	10,644,129	9,957,237
Permanently restricted	7,521,314	7,134,085
Total net assets	355,125,577	310,304,580
Total liabilities and net assets	$ 963,277,062	$ 647,192,653

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended September 30, 2016 and 2015

	2016	2015
Unrestricted revenues, gains and other support		
Net patient service revenue (net of contractual allowances and discounts)	$ 764,631,140	$ 689,936,782
Provision for bad debts	(112,773,298)	(99,678,985)
Net patient service revenue less provision for bad debts	651,857,842	590,257,797
Other revenue	13,770,344	13,402,432
Total revenues, gains and other support	665,628,186	603,660,229
Expenses		
Salaries, wages and benefits	302,901,812	280,545,123
Supplies and other	227,638,214	199,640,515
Professional fees	51,338,028	45,271,725
Depreciation and amortization	32,063,491	28,806,903
Interest	6,351,262	7,599,500
Total expenses	620,292,807	561,863,766
Operating income	45,335,379	41,796,463
Loss on extinguishment of debt	-	(1,491,492)
Other revenues and expenses, net	(1,465,061)	(1,086,337)
Excess of revenues over expenses	43,870,318	39,218,634
Net assets released from restrictions used for program services and purchase of equipment	1,843,552	1,201,512
Change in pension liability	(1,966,994)	(44,422,567)
Increase (decrease) in unrestricted net assets	$ 43,746,876	$ (4,002,421)

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2016 and 2015

	2016	2015
Unrestricted net assets		
Excess of revenues over expenses	$ 43,870,318	$ 39,218,634
Net assets released from restrictions used for program services and purchase of equipment	1,843,552	1,201,512
Change in pension liability	(1,966,994)	(44,422,567)
Increase (decrease) in unrestricted net assets	43,746,876	(4,002,421)
Temporarily restricted net assets		
Contributions	1,492,786	1,733,825
Provision for bad debts	(61,467)	(500,010)
Contributions for equipment purchases	-	9,975
Income on investments	767,506	584,698
Net unrealized and realized losses on investments	(430,272)	(425,640)
Net assets released from restrictions–used for program services	(965,508)	(1,191,537)
Net assets released from restrictions–used for purchase of equipment	-	(9,975)
Net asset transfers from temporarily restricted net assets to permanently restricted net assets	(116,153)	(71,830)
Increase in temporarily restricted net assets	686,892	129,506
Permanently restricted net assets		
Contributions	78,973	303,505
Provision for bad debts	(6,000)	(2,506,900)
Income on investments	450,861	345,980
Net unrealized and realized losses on investments	(252,758)	(251,861)
Net asset transfers to permanently restricted net assets from temporarily restricted net assets	116,153	71,830
Increase (decrease) in permanently restricted net assets	387,229	(2,037,446)
Increase (decrease) in net assets	44,820,997	(5,910,361)
Net assets		
Beginning of year	310,304,580	316,214,941
End of year	$ 355,125,577	$ 310,304,580

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	$ 44,820,997	$ (5,910,361)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	32,063,491	28,806,903
Depreciation on office space rental property	1,087,456	1,086,452
Amortization of bond (premium) discount and bond issue costs	(226,869)	104,118
Net realized and unrealized losses on trading securities	1,935,814	1,676,827
Change in fair value of derivative	(1,101,162)	(1,423,936)
Provision for bad debts	112,773,298	99,678,985
Provision for bad debts on temporarily and permanently restricted pledges	67,467	3,006,910
Change in pension liability	(8,852,853)	29,831,964
Loss on sale of property, plant and equipment	590,907	362,825
Restricted contributions	(80,748)	(98,982)
Loss on extinguishment of debt	-	1,491,492
(Increase) decrease in		
Patient accounts receivable	(115,653,908)	(98,121,417)
Inventories	(789,588)	(1,214,278)
Due from Medicare	(7,149,668)	-
Other current assets	(4,511,800)	(1,849,594)
Other assets	27,369	4,828
Increase (decrease) in		
Accounts payable and accrued expenses	4,207,483	5,555,545
Due to Medicare	(9,050,142)	2,781,034
Other current liabilities	615,622	30,790
Other liabilities	11,724,277	2,974,690
Net cash provided by operating activities	62,497,443	68,774,795
Cash flows from investing activities		
Purchases of property, plant and equipment	(53,824,584)	(33,288,324)
Proceeds from disposals of equipment	138,133	931,101
Investments		
Purchases of investments	(20,145,216)	(12,736,370)
Proceeds from sales and maturities of investments	17,331,157	10,735,564
Assets limited as to use		
Purchases of investments	(256,338,560)	(700,265)
Proceeds from sales and maturities of investments	1,530,513	19,474,680
Payments for physician guarantee contracts	(409,286)	(585,186)
Proceeds from physician guarantee contracts	81,368	27,000
(Increase) decrease in notes receivable and deposits	(871,709)	685,627
Net cash used in investing activities	(312,508,184)	(15,456,173)
Cash flows from financing activities		
Payments on capital lease obligations	(358,214)	(283,701)
Repayment of Series 1992B Bonds, Series 2000 Bonds, and Series 2015 Notes	-	(123,065,230)
Proceeds from the issuance of Series 2015 Notes	-	21,000,000
Proceeds from the issuance of Series 2015A Bonds	-	111,332,927
Payments on long-term debt	(317,000)	(3,850,000)
Proceeds from the issuance of Series 2016A and 2016 B Bonds	272,001,300	-
Payments for debt issuance costs	(1,593,128)	(1,167,273)
Payments on pledges receivable	80,748	98,982
Net cash provided by financing activities	269,813,706	4,065,705
Net increase in cash and cash equivalents	19,802,965	57,384,327
Cash and cash equivalents		
Beginning of year	237,123,322	179,738,995
End of year	$ 256,926,287	$ 237,123,322

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Supplemental Cash Flow Information		
Cash paid for interest, net of capitalized amounts of $4,689,000 and $0 as of September 30, 2016 and 2015, respectively	$ 5,941,957	$ 7,961,688
Non-Cash Investing Activities		
Capital assets purchased through capital lease obligation	$ 164,216	$ -
Accrued purchases of property, plant and equipment	4,839,126	-

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

1. Summary of Significant Accounting Policies

Organization and Reporting Entity

Tallahassee Memorial HealthCare, Inc. and Subsidiaries ("TMH, Inc.") is a not-for-profit parent holding corporation which manages and operates a health delivery system. Tallahassee Memorial Hospital (the "Hospital"), a not-for-profit health care facility, is the hospital division of TMH, Inc. Through common board control, provision of bylaws and direct stock ownership, TMH, Inc. is the parent corporation of Southeast Community Health Services, Inc. ("SECHS"), Tallahassee Memorial Health Ventures, Inc. ("TMHV"), Tallahassee Memorial HealthCare Foundation, Inc. ("Foundation") and Medicus Select, LLC. SECHS is a not-for-profit property holding company. TMHV is a for-profit corporation which manages activities which are not tax exempt. The Foundation is a not-for-profit organization which promotes the educational training and research programs of TMH, Inc. Medicus is a disregarded entity that provides the Hospital with leased labor.

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

Basis of Presentation

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

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates involve accounting for the allowance for doubtful accounts and contractual allowances, due to/from Medicare, self-insurance liabilities, accrued pension liability and depreciation and amortization expense.

Cash and Cash Equivalents

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

Investments

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

Assets Limited as to Use

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

Inventories

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

Property, Plant and Equipment

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

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

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

Debt Issuance Costs

Debt issuance costs incurred in connection with the bond issuances are being amortized over their respective terms utilizing the straight-line method, which approximates the effective interest method. Debt issuance costs of approximately $3,314,000, net of accumulated amortization of approximately $233,000 at September 30, 2016 remain to be amortized over future periods. Debt issuance costs of approximately $1,531,000, net of accumulated amortization was approximately $144,500 at September 30, 2015. The Series 1992B Health Facilities Revenue Refunding Bonds and Series 2000 Health Facilities Revenue Bonds were refunded during fiscal year 2015 and approximately $728,000 of unamortized debt issuance costs related to the refunded bonds was expensed and included in the loss on extinguishment of debt on the consolidated statements of operations. Net unamortized bond issuance costs are included in long-term debt in the accompanying consolidated balance sheets.

Accrued Self-Insurance Liabilities

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

Net Patient Service Revenue

The components of net patient service revenue for the years ended September 30, 2016 and 2015 are as follows:

	2016	2015
Gross patient service revenue	$ 2,449,564,289	$ 2,198,234,091
Contractual adjustments and other deductions	(1,684,933,149)	(1,508,297,309)
Net patient service revenue	$ 764,631,140	$ 689,936,782

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

Excess of Revenues Over Expenses

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

Charity Care

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

Donations

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

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

During the year ended September 30, 2014, the anticipated due date for a $3,000,000 pledge was extended by the donor. The original pledge due date was September 30, 2014 which was ultimately extended to September 30, 2017. The pledge was anticipated to be paid in three equal annual installments, beginning September 30, 2015. The donor did not make the anticipated payment in accordance with the pledge extension; therefore, the pledge balance of $3,000,000 was fully reserved as of September 30, 2015, and subsequently written off during the year ended September 30, 2016.

Other Revenues and Expenses, Net

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

Derivatives

TMH, Inc. recognizes the asset or liability for the derivative instruments on the consolidated balance sheets at fair value. The fair value of the derivative instruments at September 30, 2016 and 2015 was an asset (liability) of approximately $648,000 and ($453,000), respectively, which is included in other assets and other long-term liabilities (Note 7). Changes in the fair value of the derivative instruments are recorded each period in excess of revenues over expenses or as a change in unrestricted net assets, depending on the type of hedge transaction.

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

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

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

At September 30, 2016, the fair value of the Basis Rate Swap was a liability of approximately $1,188,000 and the fair value of the Total Return Swap was an asset of approximately $1,836,000. The net swap fair value is recorded in other assets in the accompanying consolidated balance sheets. The fair values of the derivatives were estimated using the present value of expected discounted future cash flows based on the maturity date. The changes in the fair value of the swaps required the recording of a gain of approximately $1,101,000 and $1,424,000 in other revenues and expenses, net, in the accompanying consolidated statements of operations for the years ended September 30, 2016 and 2015, respectively.

The Hospital received funds related to the Basis Rate Swap of approximately $59,000 and $97,000 for the years ended September 30, 2016 and 2015, respectively, which is recorded in other revenues and expenses, net in the accompanying consolidated statements of operations. The Hospital received funds related to the Total Return Swap of approximately $1,165,000 and $0 for the years ended September 30, 2016 and 2015, respectively, which is recorded as capitalized interest in the accompanying consolidated balance sheets. Furthermore, the Hospital was required to post collateral in the amount of approximately $939,000 at September 30, 2016 and 2015, respectively, as part of the margin call related to the Basis Rate Swap. The cash collateral is recorded in assets limited as to use in the accompanying consolidated balance sheets.

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

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

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

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

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

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

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

The following tables present the financial instruments carried at fair value as of September 30, 2016 and 2015, by caption on the consolidated balance sheets by the ASC 820 valuation hierarchy defined above:

September 30, 2016	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Net Asset Value***	**Total Fair Value**
Assets				
Cash, investments and assets limited as to use				
Cash and cash equivalents	$ 515,643,723	$ -	$ -	$ 515,643,723
Corporate obligations	2,724,007	1,582,747	-	4,306,754
Mutual funds	1,064,197	901,551	-	1,965,748
U.S. government and agency obligations	-	7,548,751	-	7,548,751
Equities	6,577,171	-	-	6,577,171
Private real estate fund	-	-	1,138,307	1,138,307
Total cash, investments and assets limited as to use	526,009,098	10,033,049	1,138,307	537,180,454
Total return swap receivable	-	1,836,280	-	1,836,280
Charitable remainder annuity trusts	-	139,050	-	139,050
Insurance contract	-	127,806	-	127,806
Total assets at fair value	$ 526,009,098	$ 12,136,185	$ 1,138,307	$ 539,283,590
Liabilities				
Basis rate swap payable	$ -	$ 1,188,345	$ -	$ 1,188,345
Total liabilities at fair value	$ -	$ 1,188,345	$ -	$ 1,188,345

September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value*	Total Fair Value
Assets				
Cash, investments and assets limited as to use				
Cash and cash equivalents	$ 242,090,829	$ -	$ -	$ 242,090,829
Corporate obligations	1,201,210	515,276	-	1,716,486
Mutual funds	931,883	993,501	-	1,925,384
U.S. government and agency obligations	-	8,880,923	-	8,880,923
Equities	6,020,357	-	-	6,020,357
Private real estate fund	-	-	1,057,220	1,057,220
Total cash, investments and assets limited as to use	250,244,279	10,389,700	1,057,220	261,691,199
Charitable remainder annuity trusts	-	125,919	-	125,919
Insurance contract	-	124,539	-	124,539
Total assets at fair value	$ 250,244,279	$ 10,640,158	$ 1,057,220	$ 261,941,657
Liabilities				
Basis rate swap payable	$ -	$ 453,226	$ -	$ 453,226
Total liabilities at fair value	$ -	$ 453,226	$ -	$ 453,226

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

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

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

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

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

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

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

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

Concentrations of Credit Risk

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

TMH, Inc. grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors on a net basis at September 30, 2016 and 2015 was as follows:

	2016	**2015**
Medicare	27%	23%
Medicaid	10%	11%
Managed Care	23%	25%
Blue Cross	14%	16%
Other (principally Commercial)	26%	25%
	100%	100%

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in ASC 606, *Revenue Recognition*. This ASU addresses when an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. TMH, Inc. has not evaluated all of the provisions, which are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years, for public business entities and non-profit entities that have publicly traded debt, and December 15, 2018 for all other entities as amended by ASU 2015-14.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("Subtopic 835-30"), which will require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU update. The amendment is effective for financial statements issued for fiscal years beginning December 15, 2015. Effective September 30, 2016, TMH, Inc. early adopted the provisions of the amendment as disclosed in Note 1.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to record a lease liability that represents the lessee's future lease obligation payments and a right-of-use asset that represents the lessee's right to use or control of a specified asset for the lease term. TMH, Inc. has not evaluated all of the provisions, which are effective for fiscal years beginning after December 15, 2018 and interim periods within those years, for public entities and not-for-profit entities that have issued publicly traded debt, and December 15, 2019 for all other entities.

In April 2016, the FASB issued ASU 2016-10, *Identifying Performances Obligations and Licensing (Topic 606)*. This ASU adds further guidance on identifying performance obligations and also improves the operability of understandability of the licensing implementation guidance. TMH, Inc. has not evaluated all of the provisions, which are effective for fiscal years beginning after December 15, 2017, and interim periods within those years, for public business entities and not-for-profit entities that have issued publicly traded debt, and December 15, 2018 for all other entities.

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients (Topic 606).* This ASU adds further clarification to the revenue recognition standards issued in ASU 2014-09. TMH, Inc. has not evaluated all of the provisions, which are effective for fiscal years beginning after December 15, 2017, and interim periods with those years, for public business entities and not-for profit entities that have issued publicly traded debt, and December 15, 2018 for all other entities.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958).* This ASU requires not-for-profit entities to report two classes of net assets, as well enhances disclosures on board designated funds, liquidity, and functional expenses. TMH, Inc. has not evaluated all of the provision, which are effective for fiscal years beginning after December 15, 2017, and interim periods thereafter.

Reclassifications

Certain reclassifications are reflected in the 2015 consolidated financial statements to conform with the 2016 presentation. These reclassifications had no effect on previously reported operating results and do not have a material impact on the prior year financial statements taken as a whole.

2. Net Patient Service Revenue

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

Net patient service revenue and patient accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. For the years ended September 30, 2016 and 2015, net patient service revenue increased by approximately $11,038,000 and decreased by approximately $5,575,000, respectively, due to such adjustments.

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

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

The Hospital's Medicare cost reports have been audited and settled by Medicare for all years through September 30, 2011. Additionally, the September 30, 2013 Medicare cost report has been audited and settled by Medicare. Medicare cost report audits by the Florida Medicare Administrative Contractor ("MAC") have begun but are not complete for fiscal years 2012 and 2014. Approximately 30% and 32% of net patient service revenue for the years ended September 30, 2016 and 2015, respectively, is subject to the provisions of Medicare agreements.

Medicaid
Inpatient admissions are paid upon a prospectively determined rate based upon diagnostic categories adjusted for severity. Outpatient services (except for laboratory and pathology services) rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Reimbursable cost is determined in accordance with the principles of reimbursement established by the State of Florida Title XIX Hospital Reimbursement Plan supplemented by the Medicare Principles of Reimbursement. The Hospital is reimbursed at a tentative rate with final settlement determined when the prospectively determined rate is adjusted as a result of intermediary audit of the cost report used in the establishment of the prospective rate. Retroactive adjustments for interim rate changes anticipated after the intermediary audit of the cost report are accrued on an estimated basis and adjusted in the period when final settlements are determined.

The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2012; however, the revised audited per diem rates have not been issued by Medicaid. The Hospital does not estimate any repayment due to Medicaid resulting from the completion of these audits. Approximately 4% and 5% of net patient service revenue for the years ended September 30, 2016 and 2015, respectively, is related to services provided to Medicaid patients.

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

Other

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

3. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The direct and in-direct costs estimated by the Hospital related to charity care were approximately $22,483,000 and $21,907,000 as of September 30, 2016 and 2015, respectively. The costs were estimated using the best information available to management using the cost to charge ratio. There were no funds received related to offsetting or subsidizing charity care.

4. Tax Status

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

5. Investments and Assets Limited As To Use

The composition of assets limited as to use at September 30, 2016 and 2015 is set forth in the following table:

	2016	2015
Held by trustee under indenture agreements		
Cash, cash equivalents and short-term investments	$ 255,873,925	$ 1,599,250
	255,873,925	1,599,250
Held by trustee for self-insurance funding arrangements		
Cash, cash equivalents and short-term investments	77,515	839,929
U.S. government and agency obligations	162,239	162,216
Mutual funds	901,551	993,502
Equities	1,848,808	1,864,794
Corporate obligations	1,582,747	515,276
	4,572,860	4,375,717
Held by trustee as swap collateral		
Cash	939,443	939,443
	$ 261,386,228	$ 6,914,410

Short-term and long-term investments, stated at fair value, at September 30, 2016 and 2015 include:

	2016	2015
Cash and cash equivalents	$ 376,256	$ 139,554
Corporate obligations	2,724,007	1,201,210
Certificates of deposit	1,450,299	1,449,330
Private equities	27,300	27,300
U.S. government and agency obligations	7,359,212	8,691,407
Mutual funds	1,064,197	931,883
Equities	4,728,363	4,155,563
Private real estate fund	1,138,307	1,057,220
	18,867,941	17,653,467
Less: Long-term investments	(7,548,614)	(7,161,385)
Short-term investments	$ 11,319,327	$ 10,492,082

Investment income including net realized/unrealized (losses)/gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended September 30, 2016 and 2015:

	2016	2015
Income		
Investment income		
Unrestricted	$ 2,144,296	$ 1,555,101
Temporarily restricted	767,506	584,698
Permanently restricted	450,861	345,980
Net realized losses on sales of trading securities		
Unrestricted	(1,117,009)	(599,612)
Temporarily restricted	(524,375)	(293,981)
Permanently restricted	(308,037)	(173,955)
Net unrealized (losses) gains on trading securities		
Unrestricted	(135,775)	(399,714)
Temporarily restricted	94,103	(131,659)
Permanently restricted	55,279	(77,906)
Total investment income	$ 1,426,849	$ 808,952

6. Property, Plant and Equipment

Property, plant and equipment as of September 30, 2016 and 2015 is summarized as follows:

	2016	2015
Land	$ 25,485,730	$ 24,366,585
Buildings	330,407,441	311,613,035
Equipment	249,129,594	235,058,227
Leasehold improvements	7,287,251	4,022,820
	612,310,016	575,060,667
Less: Accumulated depreciation	(347,206,767)	(317,890,427)
	265,103,249	257,170,240
Construction-in-progress	37,368,552	21,381,514
Property, plant and equipment, net	$ 302,471,801	$ 278,551,754

Depreciation expense for the years ended September 30, 2016 and 2015 was approximately $32,063,000 and $28,807,000, respectively. Depreciation expense on office space rental property for the years ended September 30, 2016 and 2015 was approximately $1,087,000 and $1,086,000, respectively, and was included in other revenues and expenses, net in the accompanying consolidated statements of operations. Construction-in-progress at September 30, 2016 consisted of routine facility renovations, enabling projects and committed costs associated with the hospital addition of the M.T. Mustian Center and various information technology projects. Estimated costs to complete are approximately $225,350,000.

The Hospital leases substantially all of its property, plant and equipment from the City of Tallahassee under the terms of a lease, as amended, which expires in September 2056. The lease is automatically extended one year each September 30 unless the City of Tallahassee or the Hospital elects to nullify that year's extension. Any such election will not affect automatic renewals in future years. Property, plant and equipment acquired by the Hospital becomes a part of the leased properties, but are owned by the City of Tallahassee and are subject to the terms of the lease agreement. Obligations incurred for such acquisitions are the direct responsibility and liability of the Hospital. The Hospital leases the facility for $1 per year and is responsible for payment of related taxes, insurance, operating expenses and capital improvements of the property, plant and equipment.

The Hospital leases a portion of its office and equipment under agreements which expire at various dates through 2020. Rent expense for the years ended September 30, 2016 and 2015 was approximately $4,747,000 and $4,631,000, respectively. As of September 30, 2016, future minimum rental payments required under noncancelable operating leases are:

Years Ending	
2017	$ 257,731
2018	149,783
2019	126,560
2020	2,533
	$ 536,607

The Hospital leases office space to tenants under operating leases. Lease terms range from one to ten years.

7. Other Liabilities

Other liabilities consist of the following at September 30, 2016 and 2015:

	2016	2015
Workers' compensation liability	$ 1,612,545	$ 1,232,412
Self-insured professional liability	22,108,657	11,519,050
Agency for HealthCare Administration statutory liability	3,354,858	3,082,870
Deferred compensation arrangement	2,950,976	2,546,149
Other liability	380,000	380,000
Fair value of interest rate swap	-	453,226
Obligation for supplemental executive retirement benefits	4,314,332	4,225,164
Due to outside organizations	22,000	33,447
	$ 34,743,368	$ 23,472,318

8. Long-Term Debt

A summary of long-term debt and capital lease obligations at September 30, 2016 and 2015 follows:

	2016	2015
Healthcare Facilities Subordinated Revenue Bonds, Series 2008, interest of 9.3% at September 30, 2016 and 2015, final maturity June 2028.	$ 600,000	$ 600,000
Healthcare Facilities Revenue Refunding Bonds, Series 2015A, interest of 4.0% to 5.0% at September 30, 2016, final maturity December 2044.	107,290,000	107,290,000
Healthcare Facilities Revenue Bonds, Series 2016A, interest of 4.0% to 5.0% at September 30, 2016, final maturity December 2055.	150,000,000	-
Healthcare Facilities Revenue Bonds, Series 2016B, interest of 5.25 % at September 30, 2016, final maturity December 2051.	100,000,000	-
Capital lease obligations	21,688,393	21,882,389
	379,578,393	129,772,389
Add: Net amortized bond premium and bond issuance costs	21,594,085	2,593,461
Total long-term debt	401,172,478	132,365,850
Less: Current portion	(3,076,809)	(407,579)
Long-term portion	$ 398,095,669	$ 131,958,271

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

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

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

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

The bond trust indentures require compliance with various restrictive covenants, such as minimum debt service coverage ratios, and include maintenance of certain debt service funds. The Hospital was in compliance with the various restrictive financial covenants at September 30, 2016 and 2015.

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

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

	Long-Term Debt	Capital Lease Obligations
Years Ending		
2017	$ 2,520,000	$ 1,857,208
2018	2,605,000	1,750,678
2019	2,695,000	1,794,445
2020	2,785,000	1,839,306
2021	2,880,000	1,978,798
Thereafter	344,405,000	26,990,479
	$ 357,890,000	36,210,914
Less: Amount representing interest under the capital lease obligations		(14,522,521)
		$ 21,688,393

The following equipment and buildings were financed under capital leases and are included in property, plant and equipment on the consolidated balance sheets at September 30, 2016 and 2015:

	2016	2015
Equipment and buildings	$ 22,872,616	$ 22,872,616
Less: Accumulated depreciation	(5,609,412)	(4,603,789)
	$ 17,263,204	$ 18,268,827

9. Self-Insurance

The Hospital has professional liability insurance coverage through a commercial insurance policy on a claims-made basis. Since May 1, 2005, the Hospital has been and is currently self-insured for the first $3,000,000 of each claim. From May 1, 2003 through April 30, 2005, the Hospital was self-insured for the first $5,000,000 of each claim. From March 28, 2002 through April 30, 2003, the Hospital was self-insured for the first $3,000,000 of each claim. From March 15, 2001 through March 27, 2002, the Hospital was self-insured for the first $1,000,000 of each claim. From January 1, 1989 through March 14, 2001, the Hospital was self-insured for the first $250,000 and prior to January 1, 1989, the Hospital was self-insured for the first $100,000 of each claim. Malpractice claims, including amounts for which the Hospital is self-insured, have been asserted by various claimants, and additional claims may be asserted for known incidents occurring through September 30, 2016. The claims are in various stages of processing and some may ultimately be brought to trial. Moreover, additional claims arising from services provided to patients in the past may be asserted. The Hospital has engaged an independent actuary to assist in the computation of an accrual for self-insurance of professional liability coverage. The actuarial computations were based upon an evaluation of past incidents. A liability of approximately $31,122,000 and $20,056,000 has been recorded at September 30, 2016 and 2015, respectively, representing management's best estimates based upon the actuarial computations.

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

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

HCCR and the Captive are owned by a number of healthcare institutions based in the United States. The owners are all not-for-profit hospitals and healthcare systems. The principal activity of the Captive and HCCR is to provide professional and general liability coverage on a claims made and occurrence basis for the risk associated with the delivery of healthcare services for the shareholders, their employees and medical staff members. The Hospital became a shareholder of the Captive and HCCR on May 1, 2005. As of September 30, 2015, the Hospital is one of eight owners of the Captive, four of which are active and four are inactive and one of five owners of HCCR. TMH, Inc.'s investments in HCCR and the Captive are carried at cost. The investment in HCCR was $100,000 at September 30, 2016 and 2015 and the investment in the Captive was $857,000 at September 30, 2016 and 2015. The Captive's bylaws indicate that no more than 15 organizations can be owners. HCCR maintains a facultative reinsurance agreement with the Captive whereby all of the professional and general liability risk of the Hospital for in force (not expired) policies is effectively transferred to the Captive. Effective from August 1, 2009, the Captive entered into a reinsurance contract with limits reinsured of $14,000,000 per claim and aggregate in excess of $6,000,000 per claim in excess of each insured's retention. Effective August 1, 2006, the Captive entered into a three year reinsurance contract with limits of $14,000,000 per claim and $21,000,000 annual aggregate in excess of $6,000,000 per claim in excess of each insured's retention. Prior to August 1, 2006, the Captive retained $5,000,000 of professional liability risk for each claim and maintained a reinsurance treaty that provided $5,000,000 of excess coverage for each claim. Effective August 1, 2016, the owners of the Captive and HCCR have elected to no longer issue policies of professional liability insurance. The Boards of Directors of the Captive and HCCR are developing a plan of action to wind down the operations of both companies, obtain various regulatory approvals for such actions and provide for payment of any outstanding liabilities.

The Hospital is self-insured for workers' compensation up to $600,000 per occurrence, and has purchased excess coverage from commercial carriers up to the amount allowed by Florida Statutes. A liability of approximately $2,464,000 and $2,083,000 has been recorded at September 30, 2016 and 2015, respectively.

The combined liability for professional liability and workers' compensation self-insurance at September 30, 2016 and 2015 was as follows:

	2016	**2015**
Other current liabilities	$ 9,864,566	$ 9,387,760
Other liabilities	23,721,202	12,751,462
	$ 33,585,768	$ 22,139,222

10. Retirement Plans

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

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

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

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

	2016	2015
Accumulated benefit obligation	$ 480,073,210	$ 460,120,403
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$ 460,120,403	$ 425,276,572
Interest cost	18,583,437	17,120,524
Actuarial loss	19,369,570	35,860,401
Benefits paid	(18,000,200)	(18,137,094)
Projected benefit obligation, end of year	$ 480,073,210	$ 460,120,403
Change in plan assets		
Plan assets at fair value, beginning of year	$ 353,316,659	$ 348,304,791
Employer contributions	14,400,000	14,400,000
Actual return on plan assets	32,405,860	8,748,962
Benefits paid	(18,000,200)	(18,137,094)
Plan assets at fair value, end of year	$ 382,122,319	$ 353,316,659
Funded status	$ (97,950,891)	$ (106,803,744)

	2016	2015
Reconciliation of funded status		
Projected benefit obligation at end of y ear	$ (480,073,210)	$ (460,120,403)
Fair value of assets at end of year	382,122,319	353,316,659
Funded status at end of year	$ (97,950,891)	$ (106,803,744)
Amounts recognized in the Consolidated Balance Sheet		
Other assets		
Current portion of pension liability	$ (18,242,781)	$ (18,956,966)
Long-term pension liability	(79,708,110)	(87,846,778)
Total	$ (97,950,891)	$ (106,803,744)

	2016	2015
Amounts recognized in unrestricted net assets		
Net loss	$ 161,498,978	$ 159,531,984
Total amount recognized	$ 161,498,978	$ 159,531,984
Changes recognized in unrestricted net assets		
Net actuarial loss		
Net actuarial loss from liabilities	$ 19,369,570	$ 35,860,401
Net actuarial (gain) loss from assets	(6,050,582)	18,990,580
Total net actuarial loss	13,318,988	54,850,981
Amortization of actuarial loss	(11,351,994)	(10,428,414)
Net change in unrestricted net assets	$ 1,966,994	$ 44,422,567
Net periodic pension cost (benefit)	$ 3,580,152	$ (190,603)

	2016	2015
Weighted average assumptions for benefit obligations at September 30		
Discount rate	3.80%	4.12%
Rate of increase in future compensation levels	N/A	N/A
Weighted average assumptions for net periodic benefit costs at September 30		
Discount rate	4.12%	4.11%
Expected return on plan assets	7.50%	8.00%
Rate of compensation increase	N/A	N/A
Components of net periodic pension cost		
Interest cost	$ 18,583,437	$ 17,120,524
Expected return on plan assets	(26,355,279)	(27,739,541)
Amortization of loss	11,351,994	10,428,414
Net periodic pension cost (benefit)	$ 3,580,152	$ (190,603)

The Plan assets are administered by a trustee and are invested in the following percentages in various instruments at September 30, 2016 and 2015:

	2016	2015
Mutual funds and short-term investments	10%	10%
Equity securities	67%	65%
Debt securities	23%	25%
	100%	100%

The fair value of the Plan's assets at September 30, 2016 and 2015 are as follows:

September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Short-term investments	$ 37,301,491	$ -	$ -	$ 37,301,491
Corporate bonds and notes	-	50,363,477	-	50,363,477
U.S. government and agency obligations	-	38,328,166	-	38,328,166
Common stocks	256,129,185	-	-	256,129,185
Total investments	$ 293,430,676	$ 88,691,643	$ -	$ 382,122,319

September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Short-term investments	$ 37,494,854	$ -	$ -	$ 37,494,854
Corporate bonds and notes	-	47,812,258	-	47,812,258
U.S. government and agency obligations	-	39,732,889	-	39,732,889
Common stocks	228,276,658	-	-	228,276,658
Total investments	$ 265,771,512	$ 87,545,147	$ -	$ 353,316,659

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

2017	$ 19,098,280
2018	20,136,239
2019	21,067,462
2020	21,900,153
2021	22,649,682
2022 – 2027	151,552,220
	$ 256,404,036

The Hospital expects to contribute approximately $14,400,000 to the Plan for the year ending September 30, 2017. Estimated amounts to be amortized out of unrestricted net assets for the year ending September 30, 2017 are approximately $11,349,000 and the amount will be recorded in pension expense.

Investment Strategy

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

Expected Rate of Return

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

Retirement Savings Plan

During the year ended September 30, 2005, the Hospital established the Tallahassee Memorial HealthCare 401(A) Retirement Savings Plan (the "Savings Plan"), a qualified defined contribution plan covering all employees who are at least 21 years of age and have completed one year of service. TMH, Inc. contributes 4% of eligible income to each eligible employee and an additional matching contribution up to 2% of eligible income. Participants become fully vested after three years of service. The contribution required under the Savings Plan for the years ended September 30, 2016 and 2015 was approximately $8,878,000 and $9,282,000, respectively. These contributions have been included in salaries, wages and benefits expense in the accompanying consolidated statements of operations. Additionally, the amounts due to the Savings Plan as of September 30, 2016 and 2015 were approximately $273,000 and $1,355,000, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2016 and 2015:

	2016	2015
Angie C. Deeb Cancer Research and Treatment Trust (represents earnings on endowment fund)	$ 301,516	$ 282,130
Women's and Children's Center	1,090,861	1,126,161
Cancer Treatment	1,044,101	915,138
Diabetes Center	216,327	212,319
Pediatrics	1,331,398	1,286,446
Heart and Vascular Center	183,849	196,852
Other - multiple designated restrictions	3,455,034	3,175,510
Sharon Ewing Walker	304,377	300,847
Geriatric - Physician and Hospital Training	122,781	122,781
Dansby Trauma Center	422,844	430,254
Cancer Building	1,741,565	1,535,942
Dozier Charitable Remainder Annuity Trust	118,178	97,558
Family Practice Residency	311,298	275,299
Total temporarily restricted net assets	$ 10,644,129	$ 9,957,237

Net assets were released from donor restrictions during the years ended September 30, 2016 and 2015 by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

Purpose restrictions accomplished during the years ended September 30, 2016 and 2015 were as follows:

	2016	2015
Diabetes	$ 16,789	$ 23,811
Angie C. Deeb	95,016	86,569
Give-a-Hand	141,002	146,583
Neurology	104,980	129,424
Woman's Pavilion	42,559	25,078
Cancer Center	95,868	96,618
Arts in Medicine	144,891	149,826
Cancer Building	108,087	162,857
Family Practice	12,079	8,900
Other	204,237	361,871
Total restrictions satisfied	$ 965,508	$ 1,191,537

12. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following programs at September 30, 2016 and 2015:

	2016	2015
General - TMH Endowment	$ 267,377	$ 260,577
General - F Rhodes Sanderson	187,693	183,402
General - Various	34,442	33,677
Nursing Scholarships - Frueauff	484,587	473,509
Nursing Scholarships - Various	162,847	157,217
Nursing - Brady Family Endowment	23,324	22,791
Nursing - Friends of Nursing	18,357	17,937
Cancer Treatment - Deeb	363,436	354,581
Cancer Treatment - Radiation Therapy	184,572	179,190
Cancer - Luca	51,341	48,917
Cancer - Saskia Kindness	5,066	4,950
Cancer-Dixon, S Ewing Breast Center	5,117	-
Arts in Medicine - Akers	91,992	85,957
Arts in Medicine - Bender/Plescia	68,380	66,817
Arts in Medicine - C. Virginia Bert	126,278	123,391
Diabetes Care - Various	88,956	86,922
Diabetes Care - Proctor	1,212,935	1,119,467
Diabetes Youth Camp - Sweat	13,408	13,102
Cardiac Care - Smith	103,788	100,361
Cardiac Care - Owenby	41,359	40,413
Cardiac Intensive Care - Higdon	215,784	210,851
Cardiac - Various	86,286	83,313
Cardiac - Ray B. Munroe Jr. PHD	75,064	-
Cardiac - Jyotsna "Dr. Jo" Dalal	10,336	-
Clinical Medicine - Dozier	755,737	738,461
Laboratory Research - Graham	87,188	85,195
Pediatric Care - Oven	16,982	16,594
Pediatric Care - Various	141,627	138,363
Pediatrics - Cohen	42,926	41,945
Pediatrics - Margaret Mosco	62,656	61,223
Pediatrics - Marco J. Ginaldi	35,499	40,229
Behavioral Health - Geissinger	156,693	153,111
Extended Care - Shelfer	304,909	297,858
Neurointensive Care - Vogter	602,983	573,784
Medical Library - Founding Physicians	58,773	57,429
Neurosciences - Bryan W. Robinson	624,953	589,492
Neurocognitive Rehab - Bender/Plescia	104,654	102,261
Primary Care - Pettit	189,873	175,580
Emergency Services - Bixler	321,477	310,653
Veller Endowment	86,542	84,565
Labor and Delivery - Dixon	5,117	-
Total permanently restricted net assets	$ 7,521,314	$ 7,134,085

13. Financial Instruments

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

The estimated fair value of TMH, Inc.'s bonds and notes payable is estimated based on dealer quotations for hospital debt with similar terms and maturities for the same or similar issues. The aggregate carrying amount and estimated fair value of the bonds and notes payable, exclusive of the capital lease obligations, as of September 30, 2016 and 2015, are as follows:

	2016	2015
Carrying value	$ 357,890,000	$ 107,890,000
Estimated fair value	403,694,968	111,670,326

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

14. Commitments

As of September 30, 2016, future minimum payments required under noncancelable maintenance agreements were as follows:

2017	$ 2,052,708
2018	2,211,852
2019	2,272,770
2020	2,244,899
2021	2,218,909
	$ 11,001,138

15. Contingencies

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

16. Endowment

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

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

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

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

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

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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ -	$ 9,957,237	$ 7,134,085	$ 17,091,322
Board-designated endowment fund	963,065	-	-	963,065
Total endowment funds	$ 963,065	$ 9,957,237	$ 7,134,085	$ 18,054,387
Net assets, October 1, 2014	$ 879,438	$ 9,827,731	$ 9,171,531	$ 19,878,700
Gifts	1,932,485	1,733,825	303,505	3,969,815
Provision for bad debts	-	(500,010)	(2,506,900)	(3,006,910)
Appropriation of endowment assets for expenditure	(2,173,278)	(1,191,537)	-	(3,364,815)
Investment gain allocation	324,420	159,058	94,119	577,597
Net asset transfer to/from other restriction	-	(71,830)	71,830	-
Net assets, September 30, 2015	$ 963,065	$ 9,957,237	$ 7,134,085	$ 18,054,387

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

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

Permanently Restricted

	2016	2015
Permanently restricted for program support	$ 7,521,314	$ 7,134,085

Temporarily Restricted

	2016	2015
Temporarily restricted for program support	$ 10,644,129	$ 9,957,237

17. Subsequent Events

TMH, Inc. has evaluated subsequent events through December 14, 2016, which is the date the consolidated financial statements were issued.

Report of Independent Certified Public Accountants on Accompanying Consolidating Information

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

We have audited the consolidated financial statements of Tallahassee Memorial Healthcare, Inc. and Subsidiaries as of September 30, 2016 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

December 14, 2016

PricewaterhouseCoopers LLP, 4040 West Boy Scout Boulevard, Suite 1000, Tampa, FL 33607-5745
T: (813) 229 0221, F: (813) 229 3646, www.pwc.com/us

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Balance Sheet – By Subsidiary/Division
September 30, 2016 Schedule I

	Hospital	SECHS	TMHV	Foundation	Medicus	Eliminations	2016 TMH, Inc.	2015 TMH, Inc.
Assets								
Current assets								
Cash and cash equivalents	$ 245,077,232	$ 3,345,692	$ 7,547,393	$ 955,968	$ -	$ -	$ 256,926,285	$ 237,123,322
Short-term investments	1,450,299	-	-	9,869,028	-	-	11,319,327	10,492,082
Assets limited as to use	13,363,214	-	-	-	-	-	13,363,214	6,914,410
Patient accounts receivable, net	77,657,632	-	-	-	-	-	77,657,632	74,777,022
Inventories	10,440,976	-	9,115	-	-	-	10,450,091	9,660,502
Due from Medicare	7,149,668	-	-	-	-	-	7,149,668	-
Other current assets	13,753,020	144,122	4,948,529	533,237	54,531	-	19,433,439	14,989,106
Total current assets	368,892,041	3,489,814	12,505,037	11,358,233	54,531	-	396,299,656	353,956,444
Assets limited as to use								
Held by trustee	261,386,228	-	-	-	-	-	261,386,228	6,914,410
Less amount required to meet current obligations	(13,363,214)	-	-	-	-	-	(13,363,214)	(6,914,410)
Total assets limited as to use	248,023,014	-	-	-	-	-	248,023,014	-
Long-term investments	27,300	-	-	7,521,314	-	-	7,548,614	7,161,385
Property, plant and equipment, net	289,807,332	8,101,119	3,780,845	782,505	-	-	302,471,801	278,551,754
Due from TMH, Inc.	5,008,898	-	534,740	-	1,174,386	(6,718,024)	-	-
Other assets	8,897,734	-	-	36,243	-	-	8,933,977	7,523,070
Total assets	$ 920,656,319	$ 11,590,933	$ 16,820,622	$ 19,698,295	$ 1,228,917	$ (6,718,024)	$ 963,277,062	$ 647,192,653

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Balance Sheet – By Subsidiary/Division
September 30, 2016

Schedule I

	Hospital	SECHS	TMHV	Foundation	Medicus	Eliminations	2016 TMH, Inc.	2015 TMH, Inc.
Liabilities and Net Assets								
Current liabilities								
Accounts payable and accrued expenses	$ 62,473,099	$ 252,036	$ 1,605,993	$ 56,656	$ 1,087,390	$ (1,074,048)	$ 64,401,126	$ 55,763,803
Due to Medicare	-	-	-	-	-	-	-	9,050,142
Current portion of long-term debt	3,076,809	410,475	-	-	-	(410,475)	3,076,809	407,579
Current portion of pension liability	18,242,781	-	-	-	-	-	18,242,781	18,956,966
Other current liabilities	9,864,566	-	-	19,056	-	-	9,883,622	9,432,216
Due to TMH, Inc.	-	3,692,324	1,206,614	193,036	141,527	(5,233,501)	-	-
Total current liabilities	93,657,255	4,354,835	2,812,607	268,748	1,228,917	(6,718,024)	95,604,338	93,610,706
Long-term debt, net of current portion	398,095,669	-	-	-	-	-	398,095,669	131,958,271
Long-term pension liability	79,708,110	-	-	-	-	-	79,708,110	87,846,778
Other liabilities	34,721,368	-	-	22,000	-	-	34,743,368	23,472,318
Total liabilities	606,182,402	4,354,835	2,812,607	290,748	1,228,917	(6,718,024)	608,151,485	336,888,073
Commitments and contingencies								
Net assets								
Unrestricted	314,473,917	7,236,098	14,008,015	1,242,104	-	-	336,960,134	293,213,258
Temporarily restricted	-	-	-	10,644,129	-	-	10,644,129	9,957,237
Permanently restricted	-	-	-	7,521,314	-	-	7,521,314	7,134,085
Total net assets	314,473,917	7,236,098	14,008,015	19,407,547	-	-	355,125,577	310,304,580
Total liabilities and net assets	$ 920,656,319	$ 11,590,933	$ 16,820,622	$ 19,698,295	$ 1,228,917	$ (6,718,024)	$ 963,277,062	$ 647,192,653

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Statement of Operations - By Subsidiary/Division
Year Ended September 30, 2016 — Schedule II

	Hospital	SECHS	TMHV	Foundation	Medicus	Eliminations	2016 TMH, Inc.	2015 TMH, Inc.
Unrestricted revenues, gains and other support								
Net patient service revenue (net of contractual allowances and discounts)	$ 764,631,140	$ -	$ -	$ -	$ -	$ -	$ 764,631,140	$ 689,936,782
Provision for bad debts	(112,773,298)	-	-	-	-	-	(112,773,298)	(99,678,985)
Net patient service revenue less provision for bad debts	651,857,842	-	-	-	-	-	651,857,842	590,257,797
Other revenue	3,864,567	659,064	7,942,699	2,824,525	11,892,508	(13,413,019)	13,770,344	13,402,432
Total revenues, gains and other support	655,722,409	659,064	7,942,699	2,824,525	11,892,508	(13,413,019)	665,628,186	603,660,229
Expenses								
Salaries, wages and benefits	300,490,385	52,520	1,553,828	900,175	11,795,510	(11,890,606)	302,901,812	280,545,123
Supplies and other	223,976,669	3,772	4,082,888	2,470,911	96,998	(2,993,024)	227,638,214	199,640,515
Professional fees	51,213,723	2,126	-	122,179	-	-	51,338,028	45,271,725
Depreciation and amortization	31,702,642	122,837	220,283	17,729	-	-	32,063,491	28,806,903
Interest	6,351,262	19,875	-	-	-	(19,875)	6,351,262	7,599,500
Total expenses	613,734,681	201,130	5,856,999	3,510,994	11,892,508	(14,903,505)	620,292,807	561,863,766
Operating income (loss)	41,987,728	457,934	2,085,700	(686,469)	-	1,490,486	45,335,379	41,796,463
Loss on extinguishment of debt	-	-	-	-	-	-	-	(1,491,492)
Other revenues and expenses, net	(113,899)	930,923	18,889	-	-	(2,300,974)	(1,465,061)	(1,086,337)
Excess (deficit) of revenues over expenses	41,873,829	1,388,857	2,104,589	(686,469)	-	(810,488)	43,870,318	39,218,634
Net assets released from restrictions used for program services and purchase of equipment	67,556	-	-	965,508	-	810,488	1,843,552	1,201,512
Change in pension liability	(1,966,994)	-	-	-	-	-	(1,966,994)	(44,422,567)
Increase (decrease) in unrestricted net assets	$ 39,974,391	$ 1,388,857	$ 2,104,589	$ 279,039	$ -	$ -	$ 43,746,876	$ (4,002,421)

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Statement of Changes in Net Assets - By Subsidiary/Division
Year Ended September 30, 2016

Schedule III

	Hospital	SECHS	TMHV	Foundation	Medicus	Eliminations	2016 TMH, Inc.	2015 TMH, Inc.
Unrestricted net assets								
Excess (deficit) of revenues over expenses	$ 41,873,829	$ 1,388,857	$ 2,104,589	$ (686,469)	$ -	$ (810,488)	$ 43,870,318	$ 39,218,634
Net assets released from restrictions used for program services and purchase of equipment	67,556	-	-	965,508	-	810,488	1,843,552	1,201,512
Change in pension liability	(1,966,994)	-	-	-	-	-	(1,966,994)	(44,422,567)
Increase (decrease) in unrestricted net assets	39,974,391	1,388,857	2,104,589	279,039	-	-	43,746,876	(4,002,421)
Temporarily restricted net assets								
Contributions	-	-	-	1,492,786	-	-	1,492,786	1,733,825
Provision for bad debts	-	-	-	(61,467)	-	-	(61,467)	(500,010)
Contributions for equipment purchases	67,556	-	-	-	-	(67,556)	-	9,975
Income on investments	-	-	-	767,506	-	-	767,506	584,698
Net unrealized and realized losses on investments	-	-	-	(430,272)	-	-	(430,272)	(425,640)
Net assets released from restrictions–used for program services	-	-	-	(965,508)	-	-	(965,508)	(1,191,537)
Net assets released from restrictions–used for purchase of equipment	(67,556)	-	-	-	-	67,556	-	(9,975)
Net asset transfers from temporarily restricted net assets to permanently restricted net assets	-	-	-	(116,153)	-	-	(116,153)	(71,830)
Increase in temporarily restricted net assets	-	-	-	686,892	-	-	686,892	129,506
Permanently restricted net assets								
Contributions	-	-	-	78,973	-	-	78,973	303,505
Provision for bad debts	-	-	-	(6,000)	-	-	(6,000)	(2,506,900)
Income on investments	-	-	-	450,861	-	-	450,861	345,980
Net unrealized and realized losses on investments	-	-	-	(252,758)	-	-	(252,758)	(251,861)
Net asset transfers to permanently restricted net assets from temporarily restricted net assets	-	-	-	116,153	-	-	116,153	71,830
Increase (decrease) in permanently restricted net assets	-	-	-	387,229	-	-	387,229	(2,037,446)
Increase (decrease) in net assets	39,974,391	1,388,857	2,104,589	1,353,160	-	-	44,820,997	(5,910,361)
Net assets								
Beginning of year	274,499,526	5,847,241	11,903,426	18,054,387	-	-	310,304,580	316,214,941
End of year	$ 314,473,917	$ 7,236,098	$ 14,008,015	$ 19,407,547	$ -	$ -	$ 355,125,577	$ 310,304,580

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