Health First, Inc. and Subsidiaries

Consolidated Financial Report
June 30, 2017

Contents

Health First, Inc. and Subsidiaries

Consolidated Balance Sheets (unaudited)
(Dollars in Thousands)

		June 30, 2017		September 30, 2016
Assets				
Current assets:				
Cash and cash equivalents	**$**	**184,451**	$	211,295
Investments		**573,207**		491,596
Current portion of assets limited as to use		**5,437**		13,091
Accounts receivable, less allowances for uncollectible accounts of $53,413 and $90,630		**118,561**		109,629
Inventories		**25,684**		26,003
Prepaid expenses and other current assets		**49,834**		56,756
Total current assets		**957,174**		908,370
Assets limited as to use, less current portion		**31,435**		28,159
Property and equipment, net		**732,613**		732,429
Goodwill		**29,743**		29,743
Other assets		**39,699**		33,837
Total assets	**$**	**1,790,664**	$	1,732,538
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities	**$**	**216,967**	$	262,674
Current portion of long-term debt and capital lease obligation		**22,999**		22,605
Total current liabilities		**239,966**		285,279
Long-term debt and capital lease obligation, less current portion		**633,606**		608,754
Other noncurrent liabilities		**38,012**		42,474
Total liabilities		**911,584**		936,507
Commitments and Contingencies (Note 12)				
Net assets:				
Unrestricted:				
Controlling interest		**872,195**		786,545
Noncontrolling interests in subsidiary		**-**		3,515
		872,195		790,060
Temporarily restricted – controlling interest		**6,885**		5,971
Total net assets		**879,080**		796,031
Total liabilities and net assets	**$**	**1,790,664**	$	1,732,538

See notes to consolidated financial statements.

Health First, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (unaudited)
(Dollars in Thousands)

	Three Months Ended June 30		Nine Months Ended June 30	
	2017	2016	**2017**	2016
Unrestricted revenues and other support:				
Patient service revenue	**$ 233,018**	$ 231,811	**$ 692,273**	$ 685,844
Provision for bad debts	**(4,978)**	(10,664)	(13,538)	(31,711)
Net patient service revenue	**228,040**	221,147	**678,735**	654,133
Premium revenue	**144,836**	133,642	**419,251**	376,890
Income from joint ventures	**549**	656	**847**	1,753
Other revenue	**13,660**	9,570	**32,703**	29,074
Net assets released from restrictions for operations	**212**	83	**445**	539
Total unrestricted revenues and other support	**387,297**	365,098	**1,131,981**	1,062,389
Expenses:				
Salaries and benefits	**153,647**	144,925	**460,701**	431,785
Supplies and other	**127,115**	122,032	**367,507**	355,151
Medical service	**70,971**	59,312	**198,776**	168,994
Depreciation and amortization	**16,318**	15,522	**47,667**	49,242
Interest	**5,925**	5,759	**17,560**	17,395
Total operating expenses	**373,976**	347,550	**1,092,211**	1,022,567
Income from operations	**13,321**	17,548	**39,770**	39,822
Nonoperating gains (losses):				
Investment income	**10,983**	3,541	**16,243**	12,042
Change in value of interest rate swaps	**(298)**	(845)	**1,794**	(2,091)
Other	**-**	(18)	**(1)**	(57)
Total nonoperating gains	**10,685**	2,678	**18,036**	9,894
Excess of revenues, other support, and gains over expenses and losses	**24,006**	20,226	**57,806**	49,716
Less: Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	**11**	(90)	**80**	(88)
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interests	**23,995**	20,316	**$ 57,726**	$ 49,804

(Continued)

Health First, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (unaudited) (continued)
(Dollars in Thousands)

	Three Months Ended June 30		Nine Months Ended June 30	
	2017	2016	**2017**	2016
	(In Thousands)			
Unrestricted net assets:				
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interests	**$ 23,995**	$ 20,316	**$ 57,726**	$ 49,804
Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	**11**	(90)	**80**	(88)
Net unrealized gains on other-than-trading securities	**4,860**	6,021	**25,925**	18,033
Other changes in unrestricted net assets	**(1,057)**	2,312	**(1,355)**	2,271
Increase in unrestricted net assets	**27,809**	28,559	**82,376**	70,020
Temporarily restricted net assets:				
Contributions	**351**	211	**1,063**	732
Investment income	**16**	16	**55**	53
Net assets released from restrictions for operations	**(212)**	(83)	**(445)**	(539)
Increase in temporarily restricted net assets	**155**	144	**673**	246
Increase in net assets	**27,964**	28,703	**83,049**	70,266
Net assets:				
Beginning	**851,116**	787,700	**796,031**	746,137
End	**$ 879,080**	$ 816,403	**$ 879,080**	$ 816,403

See notes to consolidated financial statements.

Health First, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)
(Dollars in Thousands)

	Three Months Ended June 30		Nine Months Ended June 30	
	2017	**2016**	**2017**	2016
Operating activities:				
Increase in net assets	**$ 27,964**	$ 28,703	**$ 83,049**	$ 70,266
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Net unrealized gains on trading and other-than-trading securities	**(5,666)**	(6,852)	**(24,658)**	(19,377)
Realized losses on sales of securities	**(5,976)**	(279)	**(5,514)**	3
Loss on disposal of property and equipment	**8**	45	**429**	68
Change in value of interest rate swaps	**298**	845	**(1,794)**	2,091
Restricted contributions and investment income	**(367)**	(227)	**(1,118)**	(785)
Gain on remeasurement of previously held interest	**-**	(263)	**-**	(263)
Loss (income) from joint ventures	**549**	(656)	**847**	(1,753)
Distributions from joint ventures	**495**	803	**562**	1,902
Depreciation and amortization	**16,318**	15,522	**47,667**	49,242
Provision for bad debts	**4,978**	10,664	**13,538**	31,711
Other	**(326)**	(2,565)	**(1,057)**	(3,182)
Changes in operating assets and liabilities:				
Accounts receivable	**4,892**	(8,518)	**(14,458)**	(45,883)
Inventories	**269**	609	**319**	(813)
Other operating assets	**(4,575)**	(3,570)	**(348)**	(20,617)
Accounts payable and accrued liabilities	**(18,294)**	(330)	**(47,191)**	1,013
Other noncurrent liabilities	**(2,287)**	2,611	**(2,669)**	1,582
Net cash provided by operating activities	**18,280**	36,542	**47,604**	65,205
Investing activities:				
Proceeds from the sale or maturity of investments	**70,758**	26,312	**143,540**	124,136
Purchases of investments	**(75,997)**	(55,431)	**(197,154)**	(134,927)
Increase in assets limited as to use	**11,741**	11,959	**6,552**	9,349
Purchases of property and equipment	**(19,497)**	(20,661)	**(46,795)**	(43,399)
Other Investing Activities	**-**	696	**-**	(1,354)
Net cash (used in) provided by investing activities	**(12,995)**	(37,125)	**(93,857)**	(46,195)
Financing activities:				
Proceeds from CMS Contract Deposits	**6,295**	6,055	**16,388**	23,111
Withdrawals from CMS Contract Deposits	**(8,071)**	(6,063)	**(24,400)**	(17,403)
Proceeds from issuance of long-term debt	**-**	-	**53,000**	-
Repayments of long-term debt and capital lease obligation	**(8,664)**	(8,756)	**(26,697)**	(17,070)
Restricted contributions and investment income	**367**	227	**1,118**	785
Net cash (used in) provided by financing activities	**(10,073)**	(8,537)	**19,409**	(10,577)
Increase (Decrease) in cash and cash equivalents	**(4,788)**	(9,120)	**(26,844)**	8,433
Cash and cash equivalents, beginning of period	**189,239**	170,259	**211,295**	152,706
Cash and cash equivalents, end of period	**$ 184,451**	**$ 161,139**	**$ 184,451**	**$ 161,139**

See notes to consolidated financial statements.

Note 1. Reporting Entity

Health First, Inc. (the Parent) is a not-for-profit parent holding company located in Brevard County, Florida, whose primary purpose is to direct the affairs of a multi-entity health care system, which includes the following affiliates:

- Holmes Regional Medical Center, Inc. (HRMC) – a tax-exempt, 514-bed acute care hospital.

- Palm Bay Hospital (PBH) – a tax-exempt, 120 bed acute care hospital that is a division of HRMC.

- Pro Health Fitness Center (PH) – a tax-exempt division of HRMC with four state-of-the-art health and fitness centers.

- Cape Canaveral Hospital, Inc. (CCH) – a tax-exempt, 150-bed acute care hospital and home health agency.

- Viera Hospital (VH) – a tax-exempt, 84-bed acute care hospital.

- Health First Health Plans, Inc. – a taxable entity providing various health care insurance services to employees of the Parent, other employers, and Medicare Advantage Plans. Effective January 1, 2016, Health First Health Plans, Inc. went through a corporate reorganization and was trifurcated into three separate new entities. The three new entities consist of: Health First Administrative Plans, Inc., Health First Government Plans, Inc. (renamed Health First Health Plans, Inc. on January 7, 2016) and Health First Commercial Plans, Inc.

  All administrative business (including third party) of Health First Health Plans, Inc. was assigned and transferred to the Florida for-profit company, Health First Administrative Plans, Inc. The commercial line of business was transferred to the Florida for-profit company, Health First Commercial Plans, Inc. Subsequent to the divesture of the administrative business and non-marketplace commercial line of business, Health First Health Plans, Inc. novated the residual business into the Florida not-for-profit, Health First Government Plans, Inc. All three entities operate under the fictitious name, “Health First Health Plans.” Health First Health Plans, Inc., Health First Administrative Plans, Inc., and Health First Commercial Plans, Inc. are hereinafter collectively referred to as HFHP.

- Health First Medical Group, LLC (HFMG), Health First Physicians, Inc. (HFPI) and Health First Medical Management, Inc. (HFMM) – taxable entities providing a system of primary care centers, specialty and ancillary services, as well as physician practice management services.

- Hospice of Health First, Inc. (HHF) – a tax-exempt entity that provides care for terminally ill individuals.

- Health First Foundation, Inc. (HFF) – a tax-exempt entity that performs philanthropic activities.

Note 1. Reporting Entity (Continued)

- Other affiliated organizations include Cape Health Properties, Inc. (CHP), a subsidiary of CCH; Health First Holding Corp. (HFHC); Holmes Regional Enterprises, Inc. (HRE); Viera Medical Plaza at Viera Health Park (VMOB); Health First Insurance, Inc. (HFII); Health First Family Pharmacy (HFFP), a division of HRMC; Doctor's GI Partnership, LTD. (DGP), a majority-owned partnership of HRMC; Doctor's Surgical Partnership, LTD. (DSP), a majority-owned partnership of the Parent; and taxable entities that manage health care-related and/or other businesses and professional services.

The Parent is the sole member or owner of each of the above entities except CHP, DGP and DSP, and controls the multi-entity structure through appointment by the Board of Trustees (Board) and approval of all major transactions.

Consolidation: The accompanying consolidated financial statements (collectively the Financial Statements) include the accounts of the Parent and its controlled affiliates (referred to herein collectively as the Corporation). All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2. Significant Accounting Policies

Use of estimates: The preparation of these consolidated financial statements in conformity with generally accepted accounting principles (GAAP) in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Financial statement presentation: The Corporation conforms to the requirements of the *Presentation of the Financial Statements – Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), which establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories (unrestricted, temporarily restricted, and permanently restricted) according to externally (donor) imposed restrictions.

Cash and cash equivalents: The Corporation classifies all highly liquid investments with an original maturity of 90 days or less when purchased as cash and cash equivalents, excluding amounts limited as to use by Board designation or other arrangements under trust agreements. Cash deposits are federally insured in limited amounts.

Investments and investment income: The Corporation conforms to the requirements of the *Investments – Not-for-Profit Entities* Topic of the FASB ASC. In accordance with those requirements, investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value in the consolidated balance sheets. Equity securities are considered other than trading securities. Investment income or loss, including realized gains and losses on investments and interest and dividends, is included in excess of revenues, other support, and gains over expenses and losses unless the income or loss is restricted by donor or law.

Unrealized gains and losses on investments are excluded from excess of revenues, other support, and gains over expenses and losses unless the investments are trading securities. Other-than-temporary impairment of investments represents losses on equity securities for which the decline in the fair value below the cost basis was determined to be other than temporary. There are no material unrealized losses within the Corporation's debt and equity securities.

Note 2. Significant Accounting Policies (Continued)

Assets limited as to use: Assets limited as to use primarily include assets held by trustees under bond indenture agreements and designated assets set aside by the Board for malpractice and other obligations, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Corporation are reported as current assets (see Note 4).

Inventories: Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market value.

Property and equipment: Property and equipment are stated at cost or, if donated, at fair value at the date of the gift. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as are interest costs during the period of construction for such expenditures. Depreciation is computed utilizing the straight-line method at rates estimated by management to amortize the cost of the various assets within the periods of expected use. Amortization of assets recorded under capital leases is included in depreciation and amortization expense and accumulated depreciation and amortization.

Impairment of long-lived assets: The Corporation reviews long-lived assets to be held and used, including intangible assets, for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such evaluation relies on a number of factors, including operating results, future anticipated cash flows, business plans, and certain economic projections. In addition, the Corporation's evaluation considers nonfinancial data, such as changes in operating environment and business relationships. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset, the Corporation recognizes an impairment loss. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Corporation estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset. For the nine months ended June 30, 2017 and 2016, there were no impairments of long lived assets.

Goodwill: Goodwill represents the excess of the purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of the businesses acquired. These amounts are evaluated annually for impairment or when there is an indicator of impairment. In accordance with ASC Topic 350, in performing the annual assessment, the Corporation chose to complete a qualitative assessment to determine whether it is more likely than not that the fair value of its reporting unit is less than the carrying amount. Management has determined that it is not more likely than not that the fair value of the Corporation's reporting unit is less than the carrying amount. Therefore, the two-step impairment test under ASC Topic 350 was not required.

Deferred loan costs: Costs incurred in obtaining long-term debt are being amortized by a method approximating the effective interest method over the life of the loan and are included in the consolidated balance sheets within long-term debt and capital lease obligations.

Note 2. Significant Accounting Policies (Continued)

Collaborative arrangements: The Corporation has a collaborative arrangement with Adventist Health System/Sunbelt, Inc. (Adventist). The agreement is intended to allow Adventist to share in any savings generated through improved efficiencies in the management and coordination of the delivery of health care services rendered to individuals located in counties with Adventist hospitals and covered under a HFHP product. The agreement allows for any deficiency under a CMS awarded contract or health maintenance contract in the central region of Florida to be paid by Adventist to the Corporation. Any overage under a CMS awarded contract or health maintenance contract in the central region of Florida is to be paid by the Corporation to Adventist. For the three months ended June 30, 2017 and 2016, the collaborative arrangement with Adventist resulted in deficiencies of $2,770 and $2,775, respectively, and for the nine months ended June 30, 2017 and 2016, $5,870 and $5,696, respectively, and is included in medical service expense on the consolidated statements of operations and changes in net assets.

Contributions: The Corporation records contributions in accordance with the *Revenue Recognition – Not-for-Profit Entities* Topic of the FASB ASC, which establishes accounting standards for contributions for donees (and donors) and generally requires unconditional promises to give cash and other assets (including multiyear promises) to be recognized at fair value as revenue and expenses in the period made.

Noncash contributions are valued at fair value on the date of the gift. Contributions 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 consolidated statements of operations and changes in net assets as net assets released from restrictions for operations or capital.

Donor-restricted contributions whose restrictions are met within the same year as the contributions received are reflected as unrestricted contributions in the accompanying consolidated financial statements. Temporarily restricted net assets are primarily available for property and equipment purchases and support of specific programs administered by HRMC, CCH, PBH, VH, and HHF.

Excess of revenues, other support, and gains over expenses and losses: The consolidated statements of operations and changes in net assets include excess of revenues, other support, and gains over expenses and losses. Changes in unrestricted net assets that are excluded from excess of revenues, other support, and gains over expenses and losses include changes in unrealized gains and losses on other-than-trading investments, changes in noncontrolling interests, and contributions of long-lived assets, including assets acquired using contributions that, by donor restriction, were to be used for the purpose of acquiring such assets.

Net patient service revenue, accounts receivable, and allowance for uncollectible accounts: Patient service revenue and accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The Corporation recognizes patient service revenue associated with patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, revenue is recognized on the basis of discounted rates in accordance with the Corporation’s policy.

Note 2. Significant Accounting Policies (Continued)

Patient service revenue is reduced by the provision for bad debts, and accounts receivable are reduced by an allowance for uncollectible accounts. The provision for bad debts and allowance for uncollectible accounts are based upon management's assessment of historical and expected net collections and historical write-off experience by payor and aging category, trends in health care coverage, and other collection indicators. Management regularly reviews collections data by major payor sources in evaluating the sufficiency of the allowance for uncollectible accounts. On the basis of historical experience, a significant portion of the amounts owed by the Corporation's self-pay patients for services rendered will not be paid. As such, the Corporation records a significant provision for bad debts in the period services are rendered related to self-pay patients. The Corporation's allowance for uncollectible accounts for self-pay patients was 91% of self-pay accounts receivable as of June 30, 2017 and September 30, 2016. For receivables associated with patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if deemed necessary. Accounts receivable are written off after collection efforts have been followed in accordance with the Corporation's policies. Accounts written off as uncollectible are deducted from the allowance, and subsequent recoveries are added.

The Corporation has determined, based on an assessment at the reporting entity level, that patient service revenue is primarily provided prior to assessing the patient's ability to pay and as such, the entire provision for bad debts is recorded as a deduction from patient service revenue in the accompanying consolidated statements of operations and changes in net assets. The Corporation has not experienced significant changes in write-off trends and has not materially changed its charity care policy.
Patient service revenue is not recognized for those patients who qualify for charity under the Corporation's policies. For all other patients, patient service revenue, net of contractual allowances and self-pay discounts and before the provision for bad debts, recognized from major payor sources is as follows:

	Three Months Ended June 30		Nine Months Ended June 30	
	2017	2016	2017	2016
Gross patient revenue	$ 995,060	$ 919,131	$ 2,944,172	$ 2,729,460
Allowances and discounts	(762,042)	(687,320)	(2,251,899)	(2,043,616)
Total	$ 233,018	$ 231,811	$ 692,273	$ 685,844

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of patient accounts receivable due from third-party payors at June 30, 2017 and September 30, 2016, include 29% and 23% from the Medicare program and 57% and 45% from contracts with other third parties, respectively.

Note 2. Significant Accounting Policies (Continued)

Revenue from the Medicare program represented approximately 41% and 46% of net patient service revenue for the three months ended June 30, 2017 and 2016, respectively, and 44% for the nine months ended June 30, 2017 and 2016. The Corporation is subject to retroactive revenue adjustments due to audits, reviews, and investigations. Included on the consolidated balance sheets are the following amounts in estimated third-party settlements:

	June 30, 2017	September 30, 2016
Prepaid expenses and other current assets	$ 2,059	$ 2,698
Accounts payable and accrued liabilities	9,519	8,506

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. There were no adjustments to revenue related to prior periods as a result of settled cost reports and changes in estimates for the nine months ended June 30, 2017 and 2016.

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. However, management is not aware of any matters that could have a material effect on recorded estimates.

Charity care: The Corporation provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, these amounts are not included in patient service revenue. The Corporation estimates the direct and indirect costs of providing charity care by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients. Funding received to offset or subsidize charity services provided was de minimis for the three and nine months ending June 30, 2017 and 2016. The cost of providing charity care was $12,581 and $10,671 for the three months ended June 30, 2017 and 2016, respectively. The cost of providing charity care was $30,208 and $33,300 for the nine months ended June 30, 2017 and 2016, respectively.

Premium revenue: Commercial membership contracts are written to groups on a yearly basis subject to cancellation by the employer group, HFHP or HFII according to the termination provision of the contract. Medicare membership contracts are written to individuals and may be terminated by the member at any time. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to members. Approximately 62% and 67% of total premium revenue was received under the Medicare program for the three months ended June 30, 2017 and 2016, respectively, and 38% and 33% was received from contracts with other employer groups during the three months ended June 30, 2017 and 2016, respectively. Approximately 64% and 67% of total premium revenue was received under the Medicare program for the nine months ended June 30, 2017 and 2016, respectively, and 36% and 33% was received from contracts with other employer groups during the nine months ended June 30, 2017 and 2016, respectively.

Note 2. Significant Accounting Policies (Continued)

The Medicare program, administered by the Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), uses risk-adjusted rates per member to determine the monthly payments to HFHP and HFII. The CMS risk adjustment model pays more for members with increasing health severity. The monthly risk-adjusted premium per member is determined by CMS based on normalized risk scores of each member from the prior year.

Annually, CMS provides the updated risk scores to HFHP and HFII and revises premium rates prospectively. CMS also calculates the retroactive adjustments to premiums related to the revised risk scores.

HFHP's stand-alone prescription drug plan and Medicare plan offer prescription drug benefits under Part D of the Medicare federal health insurance program to individuals eligible for benefits under Part A and Part B. Premiums for members are subject to risk corridor provisions. Risk corridor payments due to or from CMS are estimated throughout the year and are recognized as adjustments to premium revenue. After the close of the year, CMS reconciles actual experience to a target amount, and any differences are settled between CMS and HFHP.

Payments received from CMS also include low-income subsidy payments and reinsurance payments. Low-income subsidy payments and reinsurance payments are not included in premium revenue, and related claims incurred are excluded from the medical services expenses.

After the close of the year, CMS reconciles actual experience to amounts paid, and any differences are settled between CMS and HFHP.

Because amounts received from CMS are subject to the reconciliation and retroactive adjustment processes described above, it is at least reasonably possible that the premiums and the amounts due from or to CMS in the near term could differ materially from the amounts included in the consolidated financial statements.

Claims payable: Claims payable are recorded in accounts payable and accrued liabilities in the consolidated balance sheets and represent the amount of payments to be made on individual claims that have been reported to HFHP or HFII, as well as estimates of claims incurred that have not yet been reported as of the consolidated balance sheet dates. Claims payable are estimated using various statistical methods that use both historical financial and operating data. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid claims are reasonable. Adjustments to claims payable to reflect actual experience, if any, are reflected in the consolidated statements of operations and changes in net assets in the period in which such adjustments become known to management. Due to uncertainties inherent in the claims estimation process, it is at least reasonably possible that the claims paid in the near term could differ materially from the accrued amounts. Management believes that the recorded liability is adequate.

Note 2. Significant Accounting Policies (Continued)

The following table provides a reconciliation of the beginning and ending balances of unpaid claims liabilities included in accounts payable and accrued liabilities, net of reinsurance recoverables:

	June 30, 2017	September 30, 2016
Unpaid claim liabilities, at beginning of year	$ 34,109	$ 31,630
Incurred losses:		
Current period	290,241	334,802
Prior periods	(1,258)	(1,682)
Payments for claims, net of reinsurance:		
Current period	(244,040)	(301,795)
Prior periods	(31,823)	(28,846)
Unpaid claim liabilities, at end of year	$ 47,229	$ 34,109

Medical service expense: HFHP and HFII contract with various health care providers for the provision of certain medical care services to its members. Medical services consist partially of inpatient and outpatient hospital services and pharmacy. Hospital services are paid on a fee-for-service, capitation, and fixed-rate basis. The provision for medical services includes estimates of payments to be made on health care services reported as of the consolidated balance sheet dates and estimates of health care services rendered but not reported to HFHP and HFII as of the consolidated balance sheet dates. Medical service liabilities are reviewed and adjusted periodically. As adjustments are made, differences are included in current operations.

Medical loss ratio: Under health care reform, the medical loss ratio (MLR) reporting requirements require the Corporation to submit a report concerning the ratio of the incurred loss to earned premiums as adjusted for various items. This regulation is intended to provide consumers with information needed to better understand how much of the premium paid is used to reimburse providers for covered services, to improve health care quality and to pay for administrative expenses. The Corporation is required to provide an annual rebate to enrollees, if the medical loss ratio falls below the minimum requirements of 85% in the large group market and 80% in the small group or individual markets. The Corporation does not anticipate being required to pay a rebate for the nine months ending June 30, 2017 or 2016.

Functional expenses: The expenses reported in the consolidated statements operations and changes in net assets were incurred for the following:

	Three Months Ended June 30		Nine Months Ended June 30	
	2017	2016	2017	2016
Health care services	$ 319,683	$ 293,849	$ 917,097	$ 846,896
General and administrative	48,368	47,941	157,554	158,275
Interest expense	5,925	5,760	17,560	17,396
	$ 373,976	$ 347,550	$ 1,092,211	$ 1,022,567

Note 2. Significant Accounting Policies (Continued)

Estimated malpractice costs: The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, as determined through actuarial analysis.

Income taxes: The Parent and its tax-exempt affiliates are generally exempt from federal and state income taxes applicable under Section 501(a), as organizations described in Section 501(c)(3), of the Internal Revenue Code and Section 220.13 of the Florida Statutes, respectively.

The taxable affiliates, except CHP, file a consolidated income tax return under HFHC for both federal and state income tax purposes. The provision for income taxes and income taxes paid included in these consolidated financial statements is not significant. The consolidated income tax returns for the tax years ended September 30, 2013 through 2015 are still subject to federal and state income tax examination.

ASC Topic 740, *Income Taxes*, prescribes the accounting for uncertainty in income tax positions recognized in financial statements. ASC Topic 740 provides guidance for recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Reclassifications: Certain reclassifications were made to the nine months ended June 30, 2017 consolidated financial statements to conform to the respective 2016 presentation. These reclassifications had no effect on the consolidated change in net assets previously reported.

Recent accounting pronouncements:

In March 2017, the FASB issued Accounting Standards Update No. (ASU) 2017-08 *Receivables – Nonrefundable Fees and Other Costs.* The amendments in ASU 2017-08 reduce the amortization periods for callable debt securities held at a premium only. The amendments of ASU 2017-08 are effective for the annual and interim reporting periods beginning after December 15, 2018 and interim periods beginning after December 15, 2020. Management is currently evaluating the effects of ASU 2017-08 on the Corporation's consolidated financial statements.

In February 2017, the FASB issued Accounting Standards Update No. (ASU) 2017-05 *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets.* The amendments in ASU 2017-05 address issues concerning the scope of nonfinancial assets covered in subtopic 610-20. Additionally, this ASU provides that the accounting for derecognitionin of business and nonprofit activities should follow the guidance provided in Subtopic 810-10. Also ASU 2017-05 eliminates transfers of investments in real estate entities as an exception in the guidance. Additional guidance is also provided by ASU 2017-05 regarding partial sales of nonfinancial assets. The amendments of ASU 2017-05 are effective for the annual reporting periods beginning after December 15, 2018 and interim periods beginning after December 15, 2019. Management is currently evaluating the effects of ASU 2017-05 on the Corporation's consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. (ASU) 2017-04 *Intangibles – Goodwill and Other.* The amendments in ASU 2017-04 provide guidance which simplifies the goodwill impairment test. ASU 2017-04 removes Step 2 from the impairment test as well as the current requirement to perform a qualitative assessment if there is a zero or negative carrying amount. The amendments of ASU 2017-04 are effective for the annual and interim reporting periods beginning after December 15, 2021. Management is currently evaluating the effects of ASU 2017-02 on the Corporation's consolidated financial statements.

Note 2. Significant Accounting Policies (Continued)

In January 2017, the FASB issued Accounting Standards Update No. (ASU) 2017-02 *Not-for-Profit Entities - Consolidation.* The amendments in ASU 2017-02 identify when a not-for-profit entity that is a general partner or a limited partner should consolidate a for-profit limited partnership. The amendments of ASU 2017-02 are effective for the annual reporting periods beginning after December 15, 2016 and interim periods beginning after December 15, 20170. Management is currently evaluating the effects of ASU 2017-02 on the Corporation's consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. (ASU) 2017-01 *Business Combinations.* The amendments in ASU 2017-01 provide clarification on the definition of a business in order to differentiate asset acquisitions from business acquisitions. The amendments of ASU 2017-01 are effective for the annual reporting periods beginning after December 15, 2018 and interim periods beginning after December 15, 2019. Management is currently evaluating the effects of ASU 2017-01 on the Corporation's consolidated financial statements.

In December 2016, the FASB issued Accounting Standards Update No. (ASU) 2016-20 *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.* The amendments provide corrections and updates to various topics, which required additional clarification, within ASU 2014-09 Revenue from Contracts with Customers. The amendments of ASU 2016-18 are effective for the annual reporting periods beginning after December 15, 2017 and interim periods beginning after December 15, 2018. Management is currently evaluating the effects of ASU 2016-20 on the Corporation's consolidated financial statements.

In December 2016, the FASB issued Accounting Standards Update No. (ASU) 2016-19 *Technical Corrections and Improvements.* The amendments in in ASU 2016-19 provide guidance, improvements, simplifications and corrections for various topics in the FASB codification. The ammendments of ASU 2016-18 are effective for the annual reporting periods beginning after December 15, 2017 and interim periods beginning after December 15, 2018. Management is currently evaluating the effects of ASU 2016-19 on the Corporation's consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update No. (ASU) 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash.* The amendments in ASU 2016-18 requires an entity to report, in general, restricted cash and restricted cash equivalents as cash and cash equivalents when reconciling the beginning and ending amounts on the statement of cash flows. The amendments of ASU 2016-18 are effective for the annual reporting periods beginning after December 15, 2018 and for interim periods after December 15, 2019. Management is currently evaluating the effects of ASU 2016-18 on the Corporation's consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update No. (ASU) 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*. The amendments in ASU 2016-15 provides guidance on the classification and presentation of eight cash flow issues: debt prepayment or debt extinguishment costs, settlements of specific debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The amendments of ASU 2016-15 are effective for the annual reporting periods beginning after December 15, 2017 and for interim periods after December 18, 2018. Management is currently evaluating the effects of ASU 2016-15 on the Corporation's consolidated financial statements.

Note 2. Significant Accounting Policies (Continued)

In August 2016, the FASB issued Accounting Standards Update No. (ASU) 2016-14, *Not-For-Profit Entities (Topic 958) Presentation of Financial Statements of Not for Profit Entities*. The amendments in ASU 2016-14 provide for improved reporting on the classes of net assets, amounts and purposes of board designations, composition of net assets with donor restrictions, liquidity measures, classification of expenses (functional and natural classification), methods to allocate costs, underwater endowment funds, and investment returns. The amendments of ASU 2016-14 are effective for the annual reporting periods beginning after December 15, 2017 and for interim periods after December 18, 2018. Management is currently evaluating the effects of ASU 2016-14 on the Corporation's consolidated financial statements

In June 2016, the FASB issued Accounting Standards Update No. (ASU) 2016-10, *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing.* The amendments in ASU 2016-10 clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance. An entity is not required to assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer. An entity determines whether the nature of its promise in the contract is to transfer each of the goods or services or whether the promise is to transfer a combined item (or items) to which the promised goods and/or services are inputs. The amendments of ASU 2016-10 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Management is currently evaluating the effects of ASU 2016-10 on the Corporation's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net).* The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). When an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer. When an entity that is an agent satisfies a performance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party. The amendments of ASU 2016-08 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Management is currently evaluating the effects of ASU 2016-08 on the Corporation's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-07, *Investments-Equity Method and Joint Ventures, Simplifying the Transition to the Equity Method of Accounting.* The amendments in ASU 2016-07 eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The equity method investor is required to add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments of ASU 2016-07 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Corporation adopted the provisions of ASU 2016-07 effective October 1, 2016. The adoption of this guidance did not have an impact on the Corporation's consolidated financial statements

Note 2. Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases.* The amendments in ASU 2016-02 increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements, including for those leases classified as operating leases under previous GAAP. The amendments of ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the effects of ASU 2016-02 on the Corporation's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities.* The amendments in ASU 2016-01 provide guidance on certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The amendments simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The amendments require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. The amendments of ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Management is currently evaluating the effects of ASU 2016-01 on the Corporation's consolidated financial statements.

In September 2015, the FASB issued Accounting Standard Update No. (ASU) 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.* The amendments in ASU 2015-16 require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. In addition, entities are required to present separately on the face of the of the financial statements or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments of ASU 2015-16 are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Corporation adopted the provisions of ASU 2015-16 effective October 1, 2016. The adoption of this guidance did not have an impact on the Corporation's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The amendments in ASU 2014-09 require an entity to 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. To achieve this core principle, an entity should apply the following steps: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. An entity should disclose sufficient information to enable the financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.* The amendments of ASU 2015-14 and ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Management is currently evaluating the effects of ASU 2015-14 and ASU 2014-09 on the Corporation's consolidated financial statements.

Note 3. Investments

The composition of investments and assets limited as to use is presented below:

	June 30, 2017	September 30, 2016
Cash and cash equivalents	$ 7,144	$ 14,128
Equity securities	405,049	355,381
U.S. Treasury and agency obligations	68,540	60,290
U.S. corporate bonds	81,852	61,479
Real estate investment trust	22,342	20,939
Asset-backed securities	10,328	13,705
Municipal bonds	5,594	2,969
Government asset-backed securities	6,497	1,528
Other	2,733	2,427
	$ 610,079	$ 532,846

Unrestricted investment income comprises the following:

	Three Months Ended June 30		Nine Months Ended June 30	
	2017	2016	2017	2016
Interest income	$ 4,201	$ 2,431	$ 11,996	$ 10,701
Realized loss on sales of securities	5,976	279	5,514	(3)
Unrealized loss on trading securities	806	831	(1,267)	1,344
	$ 10,983	$ 3,541	$ 16,243	$ 12,042

Note 4. Assets Limited as to Use

Assets limited as to use are composed of the following:

	June 30, 2017	September 30, 2016
Board designated for malpractice and other obligations	$ 27,127	$ 24,998
Cash and investments held by trustee under bond indenture agreements –debt service and project funds	-	7,654
Board designated for the Foundation	6,885	5,971
Other	2,860	2,627
	36,872	41,250
Less amounts required to meet current obligations	5,437	13,091
	$ 31,435	$ 28,159

Note 5. Other Assets

The composition of other assets is as follows:

	June 30, 2017	September 30, 2016
Collateral assignment split dollar agreement	$ 16,797	$ 16,015
Investment in joint ventures	13,727	12,637
Other	9,175	5,185
	$ 39,699	$ 33,837

The Corporation has entered into a collateral assignment split-dollar arrangement. The Corporation fully funded the premium on the life insurance policies. The split-dollar insurance agreements are stated at fair value. For the three months ending June 30, 2017 and 2016, the Corporation reported $130 and $126 in earnings, respectively, which is included in investment income on the consolidated statements of operations and changes in net assets. For the nine months ending June 30, 2017 and 2016, the Corporation reported $386 and $373 in earnings, respectively, which is included in investment income on the consolidated statements of operations and changes in net assets.

The Corporation accounts for its investments in joint ventures in accordance with the *Investments – Equity Method and Joint Ventures* Topic of the FASB ASC. Accordingly, the Corporation records an investment in the net assets of the joint venture at cost and adjusts the carrying amount of the investment to recognize the Corporation's share of the income or losses of the joint venture after the date of acquisition. The Corporation's share of income from joint ventures for the three months ended June 30, 2017 and 2016 was $549 and $656, respectively. The Corporation's share of income from joint ventures for the nine months ended June 30, 2017 and 2016 was $847 and $1,753, respectively.

HealthSouth of Sea Pines Limited Partnership (HSSP), in which the Corporation has a 25% interest, is the Corporation's significant unconsolidated subsidiary that is accounted for using the equity method of accounting. Summarized financial information for the Corporation's investment in HSSP follows. The balance sheet information is as of and for the nine months ended June 30, 2017 and the year ended September 30, 2016, assuming 100% ownership interest. The statement of operations is as of and for the three and nine months ended June 30, 2017 and 2016.

	June 30, 2017	September 30, 2016
Balance sheets		
Current assets	$ 7,807	$ 5,016
Noncurrent assets	15,836	16,498
Total assets	$ 23,643	$ 21,514
Current liabilities	$ 3,937	$ 1,958
Partners' capital	19,706	19,556
Total liabilities and partners' capital	$ 23,643	$ 21,514

Note 5. Other Assets (Continued)

	Three Months Ended June 30		Nine Months Ended June 30	
	2017	2016	2017	2016
Statements of operations				
Net operating revenues	$ 7,360	$ 6,902	$ 21,742	$ 21,508
Operating expenses	6,264	5,797	18,629	18,669
Income from continuing operations	1,096	1,105	3,113	2,839
Other	-	1	(1)	2
Net income	$ 1,096	$ 1,106	$ 3,112	$ 2,841

Note 6. Property and Equipment

A summary of property and equipment is as follows:

	June 30, 2017	September 30, 2016	Useful Lives (Yrs.)
Land and improvements	$ 92,905	$ 90,577	5-25
Buildings and improvements	865,472	847,054	2-40
Fixed equipment and major movable equipment	713,997	683,221	2-25
	1,672,374	1,620,852	
Less allowances for depreciation and amortization	953,953	912,824	
	718,421	708,028	
Construction-in-progress	14,192	24,401	
	$ 732,613	$ 732,429	

Construction-in-progress at June 30, 2017, represents costs incurred to date related to construction and renovation projects expected to be completed over the next five years. At June 30, 2017, the estimated cost to complete construction and renovation projects in progress is approximately $54,777, which will be funded principally from operations.

The Cape Canaveral Hospital District (District) was created under the laws of the state of Florida on August 18, 1959, and includes a special tax district in Brevard County, Florida. The District was re-created by Chapter 2003-337, Laws of Florida, which codified all special acts related to the District. The District leases the hospital facility and operating assets to CCH. CCH makes payments to the District sufficient to pay the principal and interest on the District's outstanding obligations. The assets and liabilities of CCH revert to the District upon completion of the lease term in 2039. The District may levy taxes upon all real and personal taxable property in the District, not to exceed 2.25 mills annually. The District did not levy taxes for either of the nine months ended June 30, 2017 or 2016.

The future minimum lease payments at June 30, 2017, under the capital lease obligation with the District are de minimis.

Note 6. Property and Equipment (Continued)

A summary of assets under the capital lease with the District included in property and equipment is as follows:

	June 30, 2017	September 30, 2016
Land and improvements	$ 2,646	$ 2,591
Buildings and improvements	103,535	101,713
Fixed equipment and major movable equipment	84,019	81,340
	190,200	185,644
Less allowance for amortization	137,401	132,947
	52,799	52,697
Construction-in-progress	1,393	1,741
	$ 54,192	$ 54,438

Note 7. Goodwill

The changes in the carrying amount of goodwill were as follows:

	June 30, 2017	September 30, 2016
Goodwill, at beginning of period	$ 29,743	$ 23,696
Acquisitions (see Note 9)	-	6,047
Goodwill, at end of period	$ 29,743	$ 29,743

Note 8. Long-Term Debt and Capital Lease Obligation

Long-term debt and capital lease obligation are as follows:

	June 30, 2017	September 30, 2016
Term loan with two lenders, secured by certain assets of the Corporation, interest payable monthly at a fixed rate of 4.49%, due March 2038	$ 129,957	$ 132,774
Term loan with a financial institution, collateralized by revenues of the borrowers, interest payable monthly at a variable rate (2.48% at June 30, 2017), due February 2023	32,605	33,398
Term loan with a financial institution, collateralized by revenues of the borrowers, interest payable monthly at a variable rate (2.83% at June 30, 2017), due September 2017	-	9,553
Term loan with a financial institution, collateralized by revenues of the borrowers, interest payable monthly at a variable rate (2.48% at June 30, 2017), due November 2020	4,404	5,371
Term loan with a financial institution, collateralized by revenues of the borrowers, interest payable monthly at a variable rate (2.48% at June 30, 2017), due November 2020	6,253	7,626
Term loan with a financial institution, secured by certain assets of the corporation, interest payable monthly at a variable rate (2.33% at June 30, 2017), due September 2030	20,000	20,000
Term loan with a financial institution, secured by certain assets of the corporation, interest payable monthly at a variable rate (2.33% at June 30, 2017), due November 2026	53,000	-
Health Facilities Revenue Refunding Bonds, Series 2015, interest payable semi-annually at fixed rates between 3.00% and 5.00%, including a premium of $19,708 and $20,512, due April 2039	274,779	275,742
Health Facilities Revenue Bonds, Series 2013A, interest payable semi-annually at fixed rates between 3.00% and 5.00%, including a premium of $5,836 and $6,291, due April 2031	66,682	68,211
Health Facilities Revenue Bonds, Series 2012A, interest payable monthly at a fixed rate of 2.29%, due December 2021	14,243	16,335
Health First Facilities Revenue Bonds, Series 2009A, interest payable monthly at a fixed rate of 3.79%, due July 2029	47,250	49,875
Health Facilities Revenue Bonds, Series 2005, interest payable semi-annually at a fixed rate of 5.00%, due April 2017	-	3,410
Other	11,631	13,464
Issue costs	(4,199)	(4,400)
Total long-term debt and capital lease obligation	656,605	631,359
Less current maturities	(22,999)	(22,605)
	$ 633,606	$ 608,754

Note 8. Long-Term Debt and Capital Lease Obligation (continued)

Maturities of long-term debt, excluding capital leases, as of June 30, 2017, are as follows for each twelve month period:

2017	$	21,227
2018		21,495
2019		22,207
2020		21,110
2021		24,245
Thereafter		518,367

Future minimum lease payments under the capital leases, together with the present value of net minimum lease payments, as of June 30, 2017, are as follows for each twelve-month period:

2017	$	1,977
2018		1,597
2019		1,629
2020		709
2021		1,752
		7,664
Less amount representing interest		1,055
Present value of net minimum lease payments		6,609
Current portion		1,773
Long-term capital lease obligation	$	4,836

A Master Trust Indenture, dated May 15, 2001, and modified in December 2015, covers all bonds issued and outstanding by the Parent, HRMC, CCH, and VH (collectively, the Obligated Group) at December 31, 2016 and 2015. Under the Master Trust Indenture, all members of the Obligated Group are jointly and severally liable for the obligation covered by the Master Trust Indenture. HRMC has executed a mortgage on a portion of HRMC's property in favor of the Master Trustee to secure the Obligated Group's repayment obligation under the Master Trust Indenture. The mortgaged property has a carrying value of $244,301 at June 30, 2017. In addition, all revenues of HRMC, PBH, CCH, and VH are pledged as security for the payment of the obligations outstanding under the Master Trust Indenture. At June 30, 2017, total debt outstanding related to the Master Trust Indenture is approximately $440,670.

The Master Trust Indenture provides for specific restrictive covenants, including a debt service coverage requirement. The Corporation was in compliance with all such restrictive covenants at June 30, 2017 and 2016.

In November 2016, the Corporation executed a $53,000 term loan with a bank. The loan bears interest at one-month LIBOR plus 1.10% per annum, is due November 2026 and is secured by the revenues of the Obligated Group. The loan proceeds were used by the Corporation to refinance another term loan and to fund capital expenditures.

Note 8. Long-Term Debt and Capital Lease Obligation (continued)

Interest expense approximates interest paid.

Note 9. Business Combinations

In February 2016, the Corporation acquired a small family practice that resulted in goodwill of $1,155.

On April 15, 2016, the Corporation acquired a controlling interest in DSP by acquiring the 1.17% general partner interest. Prior to the acquisition date, the Corporation accounted for its 69.58% limited partner interest as an equity-method investment. The acquisition-date fair value of the previous equity interest was $5,448. The Corporation recognized a gain of $263 as a result of remeasuring its prior equity interest held before the business combination. The gain is included in other revenue in the accompanying consolidated statements of operations and changes in net assets. This transaction resulted in goodwill in the amount of $4,662, which was derived primarily from intangible assets that do not qualify for separate recognition. The fair value of the 29.25% noncontrolling interest was estimated to be $2,252.

Goodwill recognized as part of the transactions described above is expected to be deductible for tax purposes.

Note 10. Employee Benefit Plans

Retirement plan: The Corporation, excluding HFMG, has a defined contribution plan covering substantially all employees. For the three months ending December 31, 2016 and the nine months ending June 30, 2016 the Corporation contributed 1% of the eligible employees' gross wages. In addition, the Corporation matched up to 8% of the employees' contribution at a 30% rate. As a result, the maximum contribution made by the Corporation was 3.4%. Effective 1/1/2017 the Corporation no longer contributes 1% of the eligible employee's gross wages, but matches up to 8% of the employees' contribution at a 40% rate. As a result, the maximum contribution made by the corporation for the six months ending June 30, 2017 Is 3.2%.

Retirement plan expense was $1,485 and $1,551 for the three months ended June 30, 2017 and 2016, respectively. Retirement plan expense was $4,395 and $4,434 for the nine months ended June 30, 2017 and 2016, respectively, and is included in salaries and benefits within the consolidated statements of operations and changes in net assets.

Employee health plan: The Corporation is self-funded for health benefits for substantially all employees. The self-funded benefits are administered by HFHP. Employee health benefits expense was $4,322 and $3,644, for the three months ended June 30, 2017 and 2016, respectively. Employee health benefits expense was $13,054 and $12,159, for the nine months ended June 30, 2017 and 2016, respectively and is included in salaries and benefits within the consolidated statements of operations and changes in net assets.

Note 11. Malpractice Insurance Plan

The Corporation maintained a self-insured revocable trust (Trust) that covers the Corporation's affiliates and their respective employees for claims within a specified level (Self-Insured Retention). Claims above the Self-Insured Retention were insured by claims-made coverage that was placed with a captive insurance company located in the Cayman Islands. A Self-Insured Retention of $10,000 and $30,000 per incidence and in aggregate, respectively, was established prior to August 1, 2016. Effective August 2016, the Corporation replaced its insurance coverage with a domestic insurance company, in which; the Self-Insured Retention was reduced to $5,000 and $15,000 per incidence and in aggregate, respectively.

Management has recorded a liability for estimated losses from reported and unreported claims of the following:

	June 30, 2017	September 30, 2016
Accounts payable and accrued liabilities	$ 2,518	$ 5,237
Other noncurrent liabilities	20,406	20,906
Total liability	$ 22,924	$ 26,143

Management, with the assistance of consulting actuaries, estimates claims liabilities at the present value of future claims payments using a discount rate of 3.74% at June 30, 2017 and September 30, 2016 respectively. Medical malpractice expense of $1,591 and $2,503 for the three months ended June 30, 2017 and 2016, respectively. Medical malpractice expense of $4,470 and $7,397 for the nine months ended June 30, 2017 and 2016, respectively, is included in supplies and other in the accompanying consolidated statements of operations and changes in net assets.

Note 12. Commitments and Contingencies

Litigation: The Corporation is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on the Corporation's future consolidated financial position, results of operations or cash flows.

On or about February 18, 2015, the Health First Group became aware that a "qui tam" action, titled United States of America, The State of Florida, Ex Rel. John Doe v. Health First, Inc., Health First Health Plans, Inc., Health First Medical Group, Melbourne Internal Medicine Associates, P.A., Holmes Regional Medical Center, Palm Bay Hospital, Cape Canaveral Hospital and Viera Hospital, Case No. 6:14-cv-501-orl-37DAB had been unsealed in federal court in Orlando, FL. The federal government has chosen not to intervene in this action. The action alleges Corporation and its affiliates have violated the Federal and Florida False Claims Act, the Anti-Kickback Statute and the Stark Act. On July 20, 2016, the court granted Health First Group's motion to dismiss the complaint, and granted relator 30 days in which to file an amended complaint, if the relator so chooses. Thereafter, the parties announced a settlement as to the monetary terms, and negotiations as to the non-monetary terms are progressing. The Corporation has invoked the agreed upon mediation/arbitration process to resolve the non-monetary terms, and reach final settlement. The Relator has objected to the mediation/arbitration process, and the matter remains pending.

Note 12. Commitments and Contingencies (Continued)

Amounts relating to the above settlement are included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets as of June 30, 2017. The specific terms of the settlement may not be disclosed due to a confidentiality provision in the settlement agreements.

On August 27, 2015, a complaint was filed by the North Brevard County Hospital District (Parrish) against the Corporation and related entities alleging certain underpayments by Health First Health Plans to Parrish for services rendered to Health First Health Plan members, alleging violation of certain antitrust laws by attempting to monopolize the markets for medical oncology and radiology oncology services through the acquisition of Space Coast Cancer Center, and alleging tortuous interference with the contractual relationships between Parrish and Parrish's employed physicians.

The Complaint has nine counts: (1) Breach of Contract; (2) Violation of Section 641.513(5), Florida Statutes (payment for emergency services; (3) Unjust Enrichment (4) Quantum Meruit; (5) Violation of the Florida Antitrust Act Section 542.23, Florida Statutes (Impermissible Merger in Restraint of Trade); (6) Violation of the Florida Antitrust Act Section 542.19, Florida Statutes (Attempted Monopolization of the Medical Oncology Physician Services and Radiation Oncology Physician Services Market); (7) Violation of the Florida Antitrust Act Section 542.18, Florida Statutes (Contract, Combinations, or Conspiracy in Restraint of Trade); (8) Tortious Interference with a Contract; and (9) Tortious Interference with an Advantageous Business Relationship.

The Complaint seeks damages for the breach of contract claims, an injunction prohibiting the acquisition of Space Coast Cancer Center by HFMG, or alternatively order the divestiture of Space Coast Cancer Center from HFMG, treble damages under Count VII, an injunction prohibiting the Corporation from interfering with Parrish's contractual relationship and from disparaging or making false statements regarding Parrish, and attorney fees and costs. Discovery is underway. The Corporation believes the claims to be unfounded and will undertake an aggressive defense. Although it is premature to assess the likely course or outcome of this action, if the outcome of the litigation is adverse to the Health First Group, the Health First Group could incur material liabilities for damages or other adverse financial consequences.

Guarantees: The Corporation has guaranteed the promissory note payments of a certain limited partnership in which the Corporation is a partner. The guaranteed promissory note had a balance as of June 30, 2017 and September 30, 2016, of $1,932 and $2,033, respectively.

Operating leases: The Corporation leases certain property and equipment under operating leases. Lease and rental expense was approximately $2,700 and $3,279 for the three months ended June 30, 2017 and 2016, respectively. Lease and rental expense was approximately $8,565 and $9,321 for the nine months ended June 30, 2017 and 2016, respectively.

Net future minimum lease payments under non-cancelable operating leases as of June 30, 2017, are as follows for each twelve-month period:

2017	$	6,463
2018		5,727
2019		3,197
2020		1,479
2021		1,016

Note 13. Fair Value of Financial Instruments

As defined in ASC Topic 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy defined by ASC Topic 820 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date.

Level 3: Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. The Corporation has no financial assets or financial liabilities with significant Level 3 inputs.

Note 13. Fair Value of Financial Instruments (Continued)

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 presents the fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis at June 30, 2017 and September 30, 2016, respectively:

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 184,451	$ 184,451	$ -	$ -
Investments:				
Domestic equity securities	198,054	198,054	-	-
International equity securities	205,657	205,657	-	-
U.S. Treasury and agency obligations	54,454	16,435	38,019	-
U.S. corporate bonds	70,218	-	70,218	-
Asset-backed securities	10,317	-	10,317	-
Municipal bonds	5,594	-	5,594	-
Government asset-backed securities	6,497	-	6,497	-
Other	74	74	-	-
Total investments	550,865	420,220	130,645	-
Assets limited as to use:				
Cash and cash equivalents	7,144	7,144	-	-
Domestic equity securities	1,338	1,338	-	-
U.S. Treasury and agency obligations	14,086	6,758	7,328	-
U.S. corporate bonds	11,634	-	11,634	-
Asset-backed securities	11	-	11	-
Other	2,659	2,158	501	-
Total assets limited as to use	36,872	17,398	19,474	-
	$ 772,188	$ 622,069	$ 150,119	$ -
Investments measured at net asset value[1]:				
Real estate investment trust	22,342			
Total financial assets	$ 794,530			
Financial liabilities:				
Interest rate swap agreements	$ 3,460		$ 3,477	

[1] In accordance with Subtopic 82 0-10, as amended by ASU 2015-07, certain investments that were measured as net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated balance sheets.

Note 13. Fair Value of Financial Instruments (Continued)

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 211,295	$ 211,295	$ -	$ -
Investments:				
Domestic equity securities	217,231	217,231	-	-
International equity securities	136,580	136,580	-	-
U.S. Treasury and agency obligations	46,294	18,664	27,630	-
U.S. corporate bonds	52,168	-	52,168	-
Asset-backed securities	13,700	-	13,700	-
Municipal bonds	2,969	-	2,969	-
Government asset-backed securities	1,528	-	1,528	-
Other	187	187	-	-
Total investments	470,657	372,662	97,995	-
Assets limited as to use:				
Cash and cash equivalents	14,128	14,128	-	-
Domestic equity securities	1,570	1,570	-	-
U.S. Treasury and agency obligations	13,996	5,181	8,815	-
U.S. corporate bonds	9,311	9,311	-	-
Asset-backed securities	5	-	5	-
Other	2,240	1,751	489	-
Total assets limited as to use	41,250	31,941	9,309	-
	$ 723,202	$ 615,898	$ 107,304	$ -
Investments measured at net asset value[1]:				
Real estate investment trust	20,939			
Total financial assets	$ 744,141			
Financial liabilities:				
Interest rate swap agreements	$ 6,215	$ -	$ 6,215	$ -

Note 13. Fair Value of Financial Instruments (Continued)

Interest rate swap liabilities are included in other noncurrent liabilities in the accompanying consolidated balance sheets.

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 financial assets and financial liabilities were determined as follows:

Interest rate swaps: The fair value of the interest rate swap agreements was determined through the use of widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. The analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, such as interest rate curves. In addition, credit valuation adjustments are included to reflect both the Corporation's nonperformance risk and the respective counterparty's nonperformance risk. The Corporation pays a fixed rate ranging from 2.29% to 4.41% and receives cash flows based on 65% to 100% of one-month LIBOR, plus a fixed spread.

U.S. corporate bonds, U.S. Treasury and agency obligations, municipal bonds, asset-backed securities and government asset-backed securities: These securities were valued through the use of third-party pricing services and use evaluated bid prices adjusted for specific bond characteristics and market sentiment.

The carrying values of accounts receivable and accounts payable and accrued liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The carrying value of the Corporation's variable rate obligations, consisting of term loans and certain other long-term debt, approximates fair value. The fair value of the Corporation's fixed-rate obligations is estimated using Level 2 inputs based on quoted market prices for the same or similar issues. The carrying value and fair value of long-term debt at June 30, 2017, are $660,804 and $694,410, respectively. The carrying value and fair value of long-term debt at September 30, 2016, are $635,756 and $688,403, respectively.

The value of the real estate investment trust is primarily determined using net asset values, which approximate fair value, as determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth, and other business and market sector fundamentals. The real estate investment trust does not have any unfunded commitments and has a redemption notice period of 90 days. The Corporation does not have any commitments to purchase additional shares of the real estate investment trust. The real estate investment trust adds additional diversification to the Corporation's portfolio while allowing for short-term redemption, as needed.

Note 14. Statutory Compliance

Health First Health Plans, Inc. (HFHP) and Health First Commercial Plans, Inc. (HFCP)
In compliance with the Application for a Certificate of Authority and Section 624.4085 of the Florida Statutes, the Health Plan must maintain a surplus over the amount produced by the risk-based capital requirements and formula. In addition, the Health Plan must maintain at all times a ratio of premium and risk revenue to capital and surplus not greater than ten to one. The Health Plan was in compliance with these requirements as of June 30, 2017 and 2016.

Note 14. Statutory Compliance (continued)

The Health Plan is required by Section 641.225(1) of the Florida Statutes to maintain at all times a minimum surplus in an amount that is the greatest of $1,500, 10% of total liabilities, or 2% of total annualized premium revenue.

The Health Plan is required by Section 641.35(9) of the Florida Statutes to maintain an amount equal to its required minimum surplus in coin or currency of the United States on hand or in the deposit in any solvent national or state bank, savings, and loan association, or trust company, or in eligible securities or obligations. The Health Plan was in compliance with this requirement.

The Health Plan is required by Title 690-191.076 of the Florida Administrative Code to ensure that income from operations before federal income taxes is no less than 2% of total revenues. As of June 30, 2017 and 2016 the Health Plan was in compliance with this requirement.

The Office limits distributions of earnings or equity transfers to no more than 10% of statutory surplus from accumulated earnings in any one year unless prior approval is received from the Office. In addition to this payment, and to the extent accumulated statutory surplus exceeds the required amount, the Health Plan may make distributions out of its entire preceding fiscal year's net operating profits. There were no dividends distributed during the nine months ended June 30, 2017 or 2016.

The State of Florida requires the Health Plan to maintain a deposit with the Department for uncovered claims relating to nonparticipating providers. The Health Plan complies with this requirement by maintaining the required deposit of $4,000 and $4,073 as of June 30, 2017 and September 30, 2016, respectively, with the Department, which is included in other assets in the accompanying consolidated balance sheets.

Note 15. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to June 30, 2017 through August 11, 2017, the date the accompanying consolidated financial statements were issued.

Supplementary Information

Health First Inc.
Key Debt Ratios
June 30, 2017

Debt to Capitalization Ratio	44%
Rolling 12-Month Long Term Debt Service Coverage Ratio*	3.81

*If 100% of the Credit Tenant Loan annual debt service guaranteed by Health First, Inc. is included, the long-term debt service coverage ratio would be 3.19x.

HEALTH FIRST, INC.
SYSTEM HOSPITALS
PERFORMANCE DASHBOARD
For the Quarter and YTD Period Ending June 30, 2017

	Three Months Ended June 30		Nine Months Ended June 30	
	2017	2016	2017	2016
REVENUE METRICS				
OUTPATIENT % OF GROSS REVENUE				
CCH	57.0%	55.9%	54.5%	55.3%
HRMC	31.6%	34.3%	31.7%	33.5%
PBH	51.5%	56.7%	52.4%	55.8%
VH	59.3%	55.1%	58.8%	55.6%
CONSOLIDATED	41.2%	43.1%	41.1%	42.5%
NET REVENUE PER ADJUSTED DISCHARGE				
CCH	$8,024	$7,915	$7,588	$7,546
HRMC	$11,697	$12,094	$11,527	$11,551
PBH	$7,303	$7,408	$7,172	$7,212
VH	$8,724	$9,257	$8,951	$9,459
CONSOLIDATED	$10,229	$10,481	$10,063	$10,101
EXPENSE METRICS				
EXPENSE PER ADJUSTED DISCHARGE				
CCH	$7,076	$6,768	$6,883	$6,510
HRMC	$10,709	$10,724	$10,217	$10,376
PBH	$7,490	$7,147	$7,187	$6,825
VH	$7,796	$8,437	$7,869	$8,550
CONSOLIDATED	$9,418	$9,366	$9,075	$9,083
EXPENSE PER ADJUSTED OCCUPIED BED				
CCH	$1,780	$1,618	$1,692	$1,616
HRMC	$2,253	$2,292	$2,196	$2,217
PBH	$1,653	$1,631	$1,578	$1,585
VH	$2,279	$2,116	$2,217	$2,216
CONSOLIDATED	$2,103	$2,085	$2,042	$2,042
OVERALL METRICS				
OCCUPANCY RATES				
CCH	56.1%	60.5%	59.3%	59.8%
HRMC	84.6%	79.1%	83.3%	80.2%
PBH	60.8%	53.2%	61.6%	55.2%
VH	64.6%	68.6%	66.3%	66.2%
CONSOLIDATED	74.0%	70.7%	74.0%	71.3%
AVERAGE LENGTH OF STAY (DAYS)				
CCH	4.0	4.2	4.1	4.0
HRMC	4.8	4.7	4.7	4.7
PBH	4.5	4.4	4.6	4.3
VH	3.4	4.0	3.5	3.9
CONSOLIDATED	4.5	4.5	4.4	4.4