Flagler Hospital, Inc. and Subsidiaries

Consolidated Financial Report
with Additional Information
September 30, 2018

Contents

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Independent Auditor's Report

To the Board of Trustees
Flagler Hospital, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Flagler Hospital, Inc. and Subsidiaries (the "System"), which comprise the consolidated balance sheet as of September 30, 2018 and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Flagler Hospital, Inc. and Subsidiaries as of September 30, 2018 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 17 to the consolidated financial statements, the 2017 consolidated financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matter

Report on Prior Year Financial Statements and Restatement

The consolidated financial statements of Flagler Hospital, Inc. and Subsidiaries as of September 30, 2017 were audited by other auditors whose report dated January 29, 2018 expressed an unqualified opinion on those statements prior to the restatement described in Note 17.

To the Board of Trustees
Flagler Hospital, Inc. and Subsidiaries

As part of our audit of the 2018 financial statements, we also audited the adjustments described in Note 17 that were applied to restate the 2017 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 consolidated financial statements of the System other than with respect to the adjustments, and, accordingly, we do not express an opinion or any other form of assurance on the 2017 consolidated financial statements as a whole.

Plante & Moran, PLLC

January 24, 2019

Consolidated Balance Sheet

September 30, 2018 and 2017

	2018	2017 (as restated)
Assets		
Current Assets		
Cash and cash equivalents	$ 17,594,905	$ 4,152,448
Patient accounts receivable (Note 5)	30,552,765	27,147,966
Supplies	7,949,704	6,719,765
Third-party payor settlements (Note 6)	-	10,491
Prepaid expenses and other	5,783,564	5,032,621
Total current assets	61,880,938	43,063,291
Assets Limited as to Use (Note 7)	106,191,050	145,828,192
Investments (Note 7)	33,346,891	29,845,126
Property and Equipment - Net (Note 8)	159,198,697	148,112,829
Goodwill (Note 16)	24,895,534	10,019,271
Other Assets	6,811,004	5,774,816
Total assets	**$ 392,324,114**	**$ 382,643,525**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 9,496,263	$ 12,328,284
Current portion of long-term debt (Note 9)	6,545,000	6,675,000
Estimated third-party payor settlements (Note 6)	882,670	-
Accrued expenses and other current liabilities (Note 17)	15,353,755	14,133,277
Total current liabilities	32,277,688	33,136,561
Long-term Debt - Net of current portion (Note 9)	123,302,529	130,148,303
Other Liabilities		
Deferred rent	3,587,819	3,719,080
Other long-term liabilities (Note 17)	13,066,069	10,178,943
Total liabilities	172,234,105	177,182,887
Net Assets		
Unrestricted	213,882,474	199,292,843
Temporarily restricted (Notes 10 and 17)	2,197,908	2,158,168
Permanently restricted (Notes 10 and 17)	4,009,627	4,009,627
Total net assets	220,090,009	205,460,638
Total liabilities and net assets	**$ 392,324,114**	**$ 382,643,525**

See notes to consolidated financial statements.

Consolidated Statement of Operations

Years Ended September 30, 2018 and 2017

	2018	2017 (as restated)
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue (Note 3)	$ 275,940,119	$ 237,913,336
Provision for bad debts	(15,412,732)	(19,152,192)
Net patient service revenue less provision for bad debts	260,527,387	218,761,144
Other	9,224,982	7,493,802
Net assets released from restrictions	81,942	301,381
Total unrestricted revenue, gains, and other support	269,834,311	226,556,327
Expenses		
Salaries	85,589,103	89,222,127
Supplies	53,202,453	51,864,145
Purchased services	38,490,837	30,776,789
Depreciation and amortization (Note 8)	22,984,608	19,509,959
Employee benefits	22,514,325	21,577,235
Professional services	18,691,479	13,452,949
Lease and rental	5,439,892	1,313,080
Interest expense	4,882,020	3,186,166
Insurance	4,616,767	3,938,841
Other	3,801,847	2,432,236
Indigent tax	3,011,992	3,226,032
Utilities	2,794,459	2,695,571
Total expenses	266,019,782	243,195,130
Operating Income (Loss)	3,814,529	(16,638,803)
Nonoperating Income (Expense)		
Gain on acquisition (Note 16)	354,667	-
Investment income (Note 7)	9,951,643	12,528,261
Other nonoperating income (expense)	52,710	(424,627)
Total nonoperating income	10,359,020	12,103,634
Excess of Revenue Over (Under) Expenses	14,173,549	(4,535,169)
Net Assets Released from Restriction	416,082	76,868
Increase (Decrease) in Unrestricted Net Assets	**$ 14,589,631**	**$ (4,458,301)**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Years Ended September 30, 2018 and 2017

	2018	2017 (as restated)
Unrestricted		
Excess of revenue over (under) expenses	$ 14,173,549	$ (4,535,169)
Net assets released from restriction	416,082	76,868
Increase (decrease) in unrestricted	14,589,631	(4,458,301)
Temporarily Restricted		
Restricted contributions	273,811	644,130
Restricted investment income (Note 17)	31,456	148,738
Net realized and unrealized gains on investments (Note 17)	232,497	232,979
Net assets released from restriction	(498,024)	(378,249)
Increase in temporarily restricted	39,740	647,598
Increase (Decrease) in Net Assets	14,629,371	(3,810,703)
Net Assets - Beginning of year	205,460,638	209,271,341
Net Assets - End of year	**$ 220,090,009**	**$ 205,460,638**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 14,629,371	$ (3,810,703)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	22,933,252	19,378,698
Loss on disposal of property and equipment	45,470	77,246
Provision for bad debts	15,412,732	19,152,192
Net realized and unrealized gains on investments and assets limited as to use	(5,400,900)	(9,299,188)
Net realized and unrealized gains and investment income on temporarily restricted investments	(263,953)	(381,717)
Temporarily restricted contributions received	(273,811)	(644,130)
(Gain) loss on joint ventures	(456,336)	1,204,329
Change in fair value of derivative financial instrument	-	(1,675,137)
Gain on acquisition	(354,667)	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(18,817,531)	(15,101,575)
Supplies	(1,229,939)	(333,215)
Prepaid expenses, other current assets, and other assets	(961,128)	2,571,754
Third-party payor settlements	893,161	(11,872)
Accounts payable, accrued expenses, other current liabilities, and other long-term liabilities	69,752	3,648,988
Net cash and cash equivalents provided by operating activities	26,225,473	14,775,670
Cash Flows from Investing Activities		
Purchase of property and equipment	(32,910,115)	(24,130,247)
Other assets	-	229,687
Purchases of investments and assets limited as to use	(8,666,376)	(67,176,990)
Proceeds from sales and maturities of investments and assets limited as to use	50,202,653	34,980,503
Cash paid to joint ventures	(15,000)	(34,000)
Cash received from joint ventures	-	186,848
Cash paid for goodwill	(14,876,263)	-
Net cash and cash equivalents used in investing activities	(6,265,101)	(55,944,199)
Cash Flows from Financing Activities		
Proceeds from the issuance of long-term debt	-	107,858,228
Repayment of long-term debt	(7,005,000)	(59,815,000)
Debt issuance costs	(50,679)	(1,129,779)
Payment of derivative financial instrument	-	(3,609,000)
Temporarily restricted contributions received	273,811	644,130
Net realized and unrealized gains on permanently restricted investments	263,953	381,717
Net cash and cash equivalents (used in) provided by financing activities	(6,517,915)	44,330,296
Net Increase in Cash and Cash Equivalents	13,442,457	3,161,767
Cash and Cash Equivalents - Beginning of year	4,152,448	990,681
Cash and Cash Equivalents - End of year	**$ 17,594,905**	**$ 4,152,448**
Supplemental Cash Flow Information		
Cash paid during the year for interest	$ 4,235,296	$ 3,127,826
Net change in property and equipment additions in accounts payable	1,205,831	(2,713,263)

See notes to consolidated financial statements.

Note 1 - Nature of Business

Flagler Hospital, Inc. (the “Hospital”) operates a 335-bed acute care general hospital from an 80-acre site just south of the city limits of St. Augustine, Florida. Flagler Home Care, LLC (Home Care); Outpatient Surgery Center of St. Augustine, LLC (OSC); and Flagler Professional Health Services, Inc. (Professional Services) provide a variety of outpatient healthcare services to the surrounding community. Flagler Health Network, LLC (Health Network) was established to hold the investment in Home Care, which was formed in 2018, and Flagler Health Enterprise, LLC (Health Enterprise) was established to hold the investment in OSC, which was acquired during 2018 (see Note 16). Following the creation of Professional Services, the Hospital assigned its rights, title, interests, and obligations of the professional services, billing and management agreements, and the master lease with First Coast Heart and Vascular to Professional Services. Additionally, Professional Services acquired Flagler Care Center during 2018. Flagler Health Care Foundation (the “Foundation”) serves as a support organization for the Hospital. Flagler Health Services, Inc. (FHS) and Health Park Owners Association (HPOA) own and operate real property on and around the Hospital campus, including four medical office buildings.

The entities described above are collectively referred to as the "System". All intercompany transactions and balances have been eliminated in the consolidated financial statements.

On September 1, 2015, Flagler Hospital, Inc. entered into an affiliation agreement with Baptist Health System, Inc. (Baptist), a Florida nonprofit corporation, and Southeast Georgia Health System, Inc. (SGHS), a Georgia nonprofit corporation, to form Coastal Community Health, a new Florida nonprofit corporation (Coastal). As a result of the agreement, Coastal became the sole corporate member of Flagler Hospital, Inc. The agreement provided for indefinite six-month withdrawal windows after each three-year period from the agreement closing date. If the Hospital were to withdraw after the first three-year withdrawal period, the Hospital would pay $3,000,000 as liquidated damages and, for a period of 12 months following its withdrawal, would be prohibited from affiliating with any other health system. On September 4, 2018, the Hospital notified Coastal and its other members of its intent to withdraw from the affiliation. The representatives of Baptist and SGHS on the Coastal board of directors accepted the Hospital's proposed withdrawal plan, which included a financial settlement that was not material to the consolidated financial statements. Effective, November 30, 2018, the Hospital legally reorganized and was relieved of all ownership interests from Coastal.

During 2018, Home Care was established as a joint venture, with the System as the 52 percent owner. The System was determined to have a controlling financial interest in Home Care and, accordingly, consolidated the entity into the accompanying consolidated financial statements. As of September 30, 2018, the total noncontrolling interest included within unrestricted net assets in the consolidated balance sheet amounted to approximately $295,000. The System also attributed excess of revenue over expense of approximately $295,000 included within the consolidated statement of operations to the noncontrolling interest.

Note 2 - Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the System and all of its subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use. Cash balances held in the bank exceed the federal depository insurance limit. The System’s cash is only insured up to the federal depository insurance limit.

Patient Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors, taking into consideration current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts in the period the receivables are determined to be uncollectible.

Supplies

Supplies, which consist of medical and surgical supplies and pharmaceutical products, are stated at the lower of cost or net realizable value, determined on a first-in, first-out basis.

Assets Limited as to Use and Investments

The System classifies its partnerships and debt and equity securities as trading. All debt and equity securities are required to be reported at fair value, principally based on quoted market prices, in the consolidated balance sheet. The fair value of partnerships is determined by the general partner using the latest available information at the valuation date. Investment income (including realized gains and losses on investments, unrealized gains and losses on trading securities, interest, and dividends) is included in excess of revenue over expenses unless such earnings are subject to donor-imposed restrictions.

Assets whose use is limited include (i) assets set aside by the board of trustees (the "Board") for future capital expenditures; (ii) assets held from donors, which are temporarily or permanently restricted; and (iii) funds held by the bond trustee.

Note 2 - Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost. The straight-line method is used for computing depreciation. Assets are depreciated over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Impairment of Long-lived Assets

The System reviews the recoverability of long-lived assets when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations. There were no such impairment losses recorded during the years ended September 30, 2018 or 2017.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over the remaining lives.

Goodwill

The recorded amounts of goodwill from business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized, but rather is assessed at least on an annual basis for impairment. The System determined that there was no goodwill impairment for the years ended September 30, 2018 or 2017.

Other Assets

Other assets include long-term notes receivable, investment in joint ventures, deposits, receivables for liability recoveries, and definite-lived intangible assets. The majority of the net balance of definite-lived intangible assets includes a five-year physician noncompete agreement being amortized using the straight-line method.

Professional Liability Contingencies

The System accrues an estimate of the ultimate expense, including litigation and settlement expense, for incidents of potential improper professional service and other liability claims occurring during the year, as well as for those claims that have not been reported at year end.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific purpose, such as capital additions or designated health services. When a donor restriction expires, such as through expenditure for the restricted purpose, temporarily restricted net assets are reclassified as net assets released from restrictions for operating purposes and are included in operating revenue, whereas net assets released from restrictions for long-lived assets are reported as an increase in unrestricted net assets.

Permanently restricted net assets are assets for which the donor has stipulated that the principal remains intact.

Note 2 - Significant Accounting Policies (Continued)

Excess of Revenue Over (Under) Expenses

The consolidated statement of operations includes excess of revenue over (under) expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over (under) expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue

The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the System records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action, including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Charity Care

The System 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 System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

In addition to providing financial assistance, the System also provides other benefits for the community, the cost of which can exceed the revenue sources available. These other benefits include, but are not limited to, donations, education for healthcare professionals, community health improvement services, and subsidized healthcare services. The System also subsidizes the costs in excess of payments received from Medicaid.

Donor-restricted Contributions

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

Income Taxes

The Hospital and the Foundation are not-for-profit organizations and are exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). The remaining members of the System are for-profit subsidiaries and are subject to federal income tax on their earnings.

Note 2 - Significant Accounting Policies (Continued)

At September 30, 2018 and 2017, FHS had available net operating loss carryforwards for tax purposes of approximately $1,302,000 and $1,170,000, respectively, which expire through 2025, and, accordingly, no provision for income taxes has been recognized. Management believes the retained deficit of its other for-profit subsidiaries is not significant.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of 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. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the System's year ending September 30, 2019. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The System has not yet determined which application method it will use. The System does not expect there to be a significant impact on the amounts recognized as revenue based on the effect of the new standard on the consolidated financial statements; however, the System has not completed its analysis on all revenue streams.

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the System's year ending September 30, 2020. The ASU permits application of the new lease guidance using one of two retrospective application methods. The System has not yet determined which application method it will use. The new lease standard is expected to have a significant effect on the System’s financial statements as a result of the System's operating leases, as disclosed in Note 11, which will be reported on the consolidated balance sheet at adoption. Upon adoption, the System will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the System, including required disclosures about the liquidity and availability of resources. The new standard is effective for the System’s year ending September 30, 2019 and thereafter and must be applied on a retrospective basis. The System is currently evaluating the impact this standard will have on the financial statements and has determined the effect of the new standard on the financial statements will include a change in the net asset descriptions, additional disclosures regarding liquidity, and additional information on the natural and functional classifications of expenses.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including January 24, 2019, which is the date the financial statements were available to be issued.

Note 3 - Net Patient Service Revenue

Patient service revenue consists of the following for the years ended September 30, 2018 and 2017:

	2018	2017
Gross patient charges	$ 1,182,601,570	$ 1,072,680,293
Provision for contractual allowances	(906,661,451)	(834,766,957)
Provision for bad debts	(15,412,732)	(19,152,192)
Total	$ 260,527,387	$ 218,761,144

Gross patient charges for the years ended September 30, 2018 and 2017 are composed of the following:

	2018	2017
Medicare	58.00 %	57.00 %
Medicaid	9.00	11.00
Commercial	24.00	22.00
Other	2.00	3.00
Self-pay	7.00	7.00
Total	100.00 %	100.00 %

Net patient service revenue, net of contractual allowance and discounts (but before the provision for bad debts), for the years ended September 30, 2018 and 2017 are composed of the following:

	2018	2017
Medicare	50.30 %	49.60 %
Medicaid	5.70	7.20
Commercial	36.30	36.80
Other	2.80	2.80
Self-pay	4.90	3.60
Total	100.00 %	100.00 %

Note 4 - Charity Care

The System 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 System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its chare care policy. The estimated cost associated with those charity care services provided are estimated using a cost-to-charge ratio to the amount of gross uncompensated charges for the patients receiving charity care. During the years ended September 30, 2018 and 2017, the total charges forgone, based on established rates, were $34,220,408 and $44,784,933, respectively, and the estimated costs and expenses incurred to provide charity care were $7,411,720 and $10,166,180, respectively. The equivalent percentage of charity care patients to all patients during the years ended September 30, 2018 and 2017 was 3.0 percent and 4.2 percent, respectively.

Note 5 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2018	2017
Patient accounts receivable	$ 132,770,895	$ 116,825,596
Less:		
Allowance of uncollectible accounts	15,920,147	17,499,664
Allowance for contractual adjustments	86,297,983	72,177,966
Total accounts receivable	$ 30,552,765	$ 27,147,966

The System grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors is as follows:

	2018	2017
Medicare	39 %	39 %
Medicaid	8	10
Commercial	35	31
Other	8	8
Self-pay	10	12
Total	100 %	100 %

Note 6 - Cost Report Settlements

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. A summary of the basis of reimbursement with these third-party payors is as follows:

- **Medicare** - Inpatient acute-care services and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.

- **Medicaid** - Inpatient acute-care services rendered to Medicaid program beneficiaries are paid using an AP-DRG grouping reimbursement methodology. Outpatient services related to Medicaid beneficiaries are reimbursed on an established fee-for-service methodology. The System was designated a rural provider for Medicaid on July 1, 2017.

- **Other** - The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

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 probability that recorded estimates will change by a material amount in the near term. The impact of prior year third-party settlements in the accompanying consolidated financial statements is not material.

Note 7 - Assets Limited as to Use and Investments

The detail of board-designated assets limited as to use is summarized in the following schedule:

	2018	2017
Cash and cash equivalents	$ 17,292,312	$ 49,249,978
U.S. government obligations	6,945,268	7,667,217
Corporate bonds	16,696,023	20,390,401
Mutual funds	58,017,883	61,707,693
Limited partnerships	7,093,946	6,679,097
Interest receivable	145,618	133,806
Total	$ 106,191,050	$ 145,828,192

The detail of investments is summarized in the following schedule:

	2018	2017
Cash and cash equivalents	$ 100,382	$ 63,810
U.S. government obligations	1,982,330	1,743,279
Corporate bonds	3,754,237	3,965,405
Mutual funds	26,031,980	22,718,629
Limited partnerships	1,438,715	1,326,982
Interest receivable	39,247	27,021
Total	$ 33,346,891	$ 29,845,126

The uses of investments and assets limited as to use are as follows:

	2018	2017
Unrestricted	$ 33,346,891	$ 29,845,126
Assets limited as to use:		
By board for capital expenditures	83,074,311	113,651,822
Assets received from donors	6,207,535	6,167,795
Assets held by bond trustee	16,909,204	26,008,575
Total assets limited as to use	106,191,050	145,828,192
Total	$ 139,537,941	$ 175,673,318

Investment income, reported within nonoperating income in the consolidated statement of operations, for the years ended September 30, 2018 and 2017 is as follows:

	2018	2017
Interest and dividends	$ 4,550,743	$ 3,229,073
Realized gains on sales of investments	2,614,329	5,194,639
Change in net unrealized gains and losses on investments	2,786,571	4,104,549
Total	$ 9,951,643	$ 12,528,261

Note 8 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017	Depreciable Life - Years
Land and land improvements	$ 18,835,779	$ 16,775,751	5-25
Buildings and improvements	184,148,178	171,889,514	10-40
Equipment	203,446,546	208,435,388	3-15
Construction in progress	8,095,163	4,329,734	-
Total cost	414,525,666	401,430,387	
Accumulated depreciation	255,326,969	253,317,558	
Net property and equipment	$ 159,198,697	$ 148,112,829	

Depreciation expense for the years ended September 30, 2018 and 2017 was approximately $22,985,000 and $19,510,000, respectively. Construction in progress at September 30, 2018 and 2017 consists of system renovation projects not yet completed. The System had construction commitments in the amount of approximately $23,000,000 as of September 30, 2018.

Note 9 - Long-term Debt

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

	2018	2017
St. Johns County, Industrial Development Authority Hospital Revenue Bonds, Series 2012A, with a fixed interest rate of 1.869 percent	$ 3,000,000	$ 6,000,000
St. Johns County, Industrial Development Authority Hospital Revenue Bonds, Series 2012B, with a variable interest rate determined monthly through September 30, 2013 then fixed (2.97 percent at October 1, 2013), plus certain fees	12,000,000	12,000,000
2014 bank loan with a fixed interest rate of 3.42 percent	12,085,000	12,575,000
St. Johns County, Industrial Development Authority Hospital Revenue Bonds, Series 2017A, with a fixed rate of interest of 5 percent	32,575,000	32,575,000
St. Johns County, Industrial Development Authority Hospital Revenue and Refunding Bonds, Series 2017B, with a fixed rate of interest of 2.44 percent	67,885,000	71,400,000
2017C bank loan with fixed interest rate of 3.57 percent	3,630,000	3,630,000
Unamortized debt issuance costs	(1,327,471)	(1,356,697)
Long-term debt less unamortized debt issuance costs	129,847,529	136,823,303
Less current portion	6,545,000	6,675,000
Long-term portion	$ 123,302,529	$ 130,148,303

On April 4, 2012, the St. Johns County Industrial Development Authority issued $18,000,000 of Hospital Revenue Bonds (Series 2012A) and $12,000,000 of Hospital Revenue Bonds (Series 2012B). The proceeds of the Series 2012A and 2012B were used to reimburse the System for certain renovation projects; implementation of a new electronic medical record, clinical, and billing system; and other equipment. The Series 2012A and Series 2012B Bonds are "Nonbank Qualified." The Series 2012A Bonds mature in 2019 and the Series 2012B Bonds mature in 2022.

Note 9 - Long-term Debt (Continued)

On October 29, 2014, the System borrowed $14,000,000 from a Bank in the form of a commercial loan. The proceeds of the loan were applied towards the purchase of certain assets of an ambulatory surgery center located in the System's primary service area. The loan bears a fixed interest rate with varying annual principal payments through final maturity on October 1, 2024.

On September 28, 2017, the St. Johns County Industrial Development Authority issued $32,575,000 of Hospital Revenue Bonds (Series 2017A) and $71,400,000 of Hospital Revenue and Refunding Bonds (Series 2017B). The proceeds of the Series 2017A Bonds will be used to reimburse the System for certain hospital facilities, improvements, renovations, equipment, fixtures, furnishings, and other routine capital expenditures. They are also to be used to fund certain outpatient facilities to be developed near World Golf Village, including land, buildings, furniture, fixtures, and equipment. The purpose of the Series 2017B Bonds is financing, refinancing, and reimbursing the cost of the acquisition, renovation, construction, equipping, and installation of certain healthcare facilities. As part of the 2017 bond issuance, both the Series 2010A and Series 2010B Bonds were paid in full on September 28, 2017. There was an early termination penalty and loss on extinguishment of debt of approximately $1,316,000 and $194,000, respectively, on the Series 2010A and Series 2010B Bonds that is included in other nonoperating income (expense) in the consolidated statements of operations and changes in unrestricted net assets. The Series 2017A Bonds mature in 2047, but are subject to mandatory sinking fund redemption beginning in 2033. The Series 2017B mature in 2032, but were subject to mandatory sinking fund redemption beginning in 2018.

On September 28, 2017, the System also borrowed $3,630,000 from a bank in the form of a commercial loan. The proceeds of the loan were applied towards the payoff of the derivative financial instrument. There was a nonoperating gain recognized of approximately $1,675,000 on extinguishment of the derivative. The loan requires varying annual principal repayments from 2019 through final maturity on August 15, 2029.

The System's debt instruments (bonds and loans) are joint and several obligations of the Hospital and the Foundation, the two members of the Obligated Group. Bonds issued by St. Johns Industrial Development Authority and the 2014 and 2017 loans are secured by a security interest in the Obligated Group's gross revenue and a mortgage on the main hospital campus. All such debt instruments are additionally secured by a security interest in certain fixtures and equipment until the maturity of the Series 2012A Bonds in 2019. The primary debt covenant for all debt instruments consists of a maximum annual debt service coverage ratio of 1.20, measured annually, and a minimum of 90 unrestricted days cash and investments on hand, measured semiannually, both as defined in the master indenture.

The balance of the above debt matures as follows:

Years Ending	Amount
2019	$ 6,545,000
2020	7,060,000
2021	7,160,000
2022	7,405,000
2023	7,220,000
Thereafter	95,785,000
Total	$ 131,175,000

Note 10 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of amounts held for future capital acquisitions and designated healthcare services.

Permanently restricted net assets at September 30, 2018 and 2017 are restricted to the following:

	2018	2017
Investments to be held in perpetuity, 6% of the value of the corpus is to be expended annually toward employee scholarships	$ 223,028	$ 223,028
Investments to be held in perpetuity	3,786,599	3,786,599
Total	$ 4,009,627	$ 4,009,627

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*, provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires enhanced disclosures about an organization's endowment funds and donor-restricted and board-designated endowment funds.

Pursuant to ASC 958-205, the System has interpreted UPMIFA, as adopted by Florida on July 1, 2012, as requiring the preservation of fair value of donor-restricted endowment gifts as of the gift date, absent explicit donor stipulations to the contrary. The System's endowment consists of three individual funds established for a variety of purposes. The endowments are all donor restricted and internally controlled. The System has no board-designated endowments. As required by relevant accounting literature, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. There are restrictions on the use of the related income of all endowments. The endowment investments have a target allocation of approximately 47.5 percent domestic equity, 12.5 percent international equity, 10.0 percent other assets, and 30.0 percent fixed-income investments.

The System classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment.

Endowment funds consist of the following at September 30, 2018 and 2017:

	2018	2017
Permanently donor-restricted endowment funds	$ 4,009,627	$ 4,009,627

Note 11 - Commitments and Contingencies

Professional Liability

The System is involved in litigation arising from the ordinary course of business. Claims alleging malpractice have been asserted against the System and are currently in various stages of litigation. The System has maintained coverage during 2018 and 2017 with a self-insured retention and an aggregate limit eroded at the amount of the indemnity payment and has no inner aggregate deductible as follows:

	October 15		
	2017-2018	2016-2017	2015-2016
Self-insured retention per occurrence (SIR)	$ 2,000,000	$ 2,000,000	$ 1,500,000
Aggregate limit	6,000,000	6,000,000	6,000,000

Note 11 - Commitments and Contingencies (Continued)

The System also has secured excess liability coverage for these periods with limits of $20,000,000 per occurrence and $20,000,000 in the aggregate per policy period. Coverage under this, as well as the System's previous policies, is on a claims-made basis. The System has established a liability to estimate losses from reported claims and other incidents not reported during the current coverage period not covered by insurance. In the opinion of management, after consultation with legal counsel, these matters will be resolved within its insurance coverage and accruals without a material adverse effect to the System's financial position.

The estimated accrual for self-insured professional liability risks was approximately $11,665,000 and $8,681,000 at September 30, 2018 and 2017, respectively, and is included within other long-term liabilities in the accompanying consolidated balance sheet. The estimated insurance recovery related to professional liability risks was approximately $1,867,208 and $1,024,087 at September 30, 2018 and 2017, respectively, and is included within other long-term assets in the accompanying consolidated balance sheet. Operating expenses for malpractice insurance premiums and other professional liability expenses for the years ended September 30, 2018 and 2017 were approximately $3,763,000 and $3,059,000, respectively.

The System maintains a line-of-credit agreement in the amount of $2,000,000, which is restricted to the System's self-insurance program pursuant to Section 766.105(2)(c) of the Florida Statutes. There were no draws on the line of credit as of September 30, 2018 or 2017.

Workers' Compensation

The System is self-insured with respect to employee workers' compensation claims at $550,000 self-insured retention per claim for fiscal year 2018 and 2017, with no aggregate limit.

The System has contracted with an insurance carrier to cover those claims in excess of these limits. The System has established a liability for reported incidents and a liability related to loss development based on estimates from its claims administrator. The estimated accrual for self-insured workers' compensation included in accrued expenses and other long-term liabilities is approximately $2,833,000 and $2,531,000 as of September 30, 2018 and 2017, respectively. At September 30, 2018 and 2017, insurance recoveries in the amount of approximately $1,401,000 and $1,501,000, respectively, were recorded in other assets.

Prior to becoming self-insured for workers' compensation, the System was a member of the Florida System Workers' Compensation Self-Insurance Trust Fund (the "Trust Fund"), a self-insurance risk management trust fund in which members jointly and severally agree to pay the obligations of the Trust Fund. As a prior member of the Trust Fund, the System is subject to assessments in the event that the total amount of premiums for a year in which it was a member is not sufficient to satisfy claims. Assessments that have been levied against the System by the Trust Fund have been reflected in the accompanying consolidated financial statements as of September 30, 2018 and 2017. Management is not aware of any potential future assessments as of September 30, 2018.

Health Insurance Claims

The System is self-insured with respect to employee health insurance claims covering up to $200,000 per claim. The System has contracted with an insurance carrier to cover claims in excess of the self-insurance retention amounts. The estimated accrual for self-insured health insurance claims included in accrued expenses and other current liabilities is approximately $1,465,000 and $1,757,000 as of September 30, 2018 and 2017, respectively.

Note 11 - Commitments and Contingencies (Continued)

Operating Leases

The System is obligated under various short-term operating leases for equipment and office space. Rental expense for all operating leases was approximately $1,960,000 and $1,960,000 for the years ended September 30, 2018 and 2017, respectively. Future minimum annual commitments under these operating leases are as follows:

Years Ending	Amount
2019	$ 5,430,281
2020	2,099,811
2021	1,833,465
2022	1,666,272
2023	552,000
Total	$ 11,581,829

Note 12 - Retirement Plan

The System has a noncontributory retirement plan covering substantially all employees. The System contributed a percentage of the employees' total annual compensation plus an additional percentage for excess compensation as follows:

	Base Contribution Percentage of Employees' Eligible Base Annual Compensation	Additional Contribution Percentage of Excess Contribution	Compensation Excess Amount for Additional Contribution
Calendar year 2018	4%	3%	$55,000
Calendar year 2017	4	3	55,000

Total retirement expense for the years ended September 30, 2018 and 2017 was approximately $2,912,000 and $2,816,000, respectively.

Note 13 - Transactions with Affiliated Organizations

On May 1, 2013, the System and certain community physicians formed First Coast Health Alliance, LLC (FCHA). FCHA is a physician hospital organization created to develop and operate a clinically integrated network of providers serving St. Johns County. The System owns 50 percent of FCHA and does have significant influence but not control over the partnership. The System has determined that the equity method of accounting is appropriate. The investment balance was $399,000 and $(72,000) as of September 30, 2018 and 2017, respectively, and is included in other assets in the consolidated balance sheet. Effective June 4, 2013, the System committed to provide FCHA with a working capital line of credit for two years, not to exceed $1,750,000. The working capital line of credit converted to a note payable on July 1, 2015, with a repayment term of seven years, and with an interest rate equivalent to the System's current cost of capital. The outstanding balance on the note payable was approximately $919,000 and $1,154,000 as of September 30, 2018 and 2017, respectively, which is included in other assets in the consolidated balance sheet. Approximately $235,000 and $230,000 of the principal amount was repaid during fiscal years 2018 and 2017, respectively.

Note 14 - Functional Expenses

The System provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended September 30, 2018 and 2017:

	2018	2017
Healthcare services	$ 218,727,818	$ 198,856,860
General and administrative	47,291,964	44,338,270
Total	$ 266,019,782	$ 243,195,130

Note 15 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the System's assets measured at fair value on a recurring basis at September 30, 2018 and 2017 and the valuation techniques used by the System to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the System has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques, taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Note 15 - Fair Value Measurements (Continued)

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2018
Assets				
Investments and assets limited as to use:				
Cash and cash equivalents	$ 17,392,694	$ -	$ -	$ 17,392,694
Interest receivable	184,865	-	-	184,865
U.S. government obligations	-	8,927,598	-	8,927,598
Corporate bonds	-	20,450,260	-	20,450,260
Mutual funds:				
Small/mid U.S. equity	20,161,812	-	-	20,161,812
Global equity	11,968,122	-	-	11,968,122
Global fixed income	11,011,333	-	-	11,011,333
Large U.S. equity	40,908,596	-	-	40,908,596
Total	$ 101,627,422	$ 29,377,858	$ -	131,005,280
Investments measured at NAV - Real estate limited partnership				8,532,661
Total assets				$ 139,537,941

Note 15 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2017
Assets				
Investments and assets limited as to use:				
Cash and cash equivalents	$ 49,313,788	$ -	$ -	$ 49,313,788
Interest receivable	160,827	-	-	160,827
U.S. government obligations	-	9,410,496	-	9,410,496
Corporate bonds	-	24,355,806	-	24,355,806
Mutual funds:				
Small/mid U.S. equity	19,478,063	-	-	19,478,063
Global equity	13,085,062	-	-	13,085,062
Global fixed income	12,452,030	-	-	12,452,030
Large U.S equity	39,411,167	-	-	39,411,167
Total	$ 133,900,937	$ 33,766,302	$ -	167,667,239
Investments measured at NAV - Real estate limited partnership				8,006,079
Total assets				$ 175,673,318

The fair value of U.S. government obligations and corporate bonds at September 30, 2018 and 2017 was determined primarily based on Level 2 inputs. The System estimates the fair value of these investments using quoted prices for similar assets in active markets. The fair value of the assets was determined primarily based on quoted market prices from the investment custodians.

Investments in Entities that Calculate Net Asset Value per Share

The System holds shares in a real estate investment fund (the "Fund") at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the Fund. The Fund's purpose is to actively manage a core portfolio of primarily equity real estate investments located in the United States.

The Fund's fair values are provided by third-party appraisers. Each of the Fund's real property interests generally is appraised every quarter after the investment is made unless certain factors or economic conditions warrant an additional appraisal. Third-party debt not secured by a property is reviewed on a quarterly basis for any impact that debt may have on gross asset value. The Fund employs an independent valuation consultant to administer the Fund's valuation program, including assisting in the engagement and rotation of third-party appraisers, coordinating the quarterly appraisal process, and reviewing appraisals. The independent valuation consultant reviews the independent appraisals for reasonableness of assumptions, consistency of methodology, compliance with the engagement, and confirmation of value.

Note 15 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Investments Held at September 30, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Real estate limited partnership	$ 8,532,661	$ -	Quarterly	60 days

	Investments Held at September 30, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Real estate limited partnership	$ 8,006,079	$ -	Quarterly	60 days

Note 16 - Acquisitions and Goodwill

Flagler Surgery Center

On October 30, 2014, the System acquired 100 percent of an ambulatory surgery center, now referred to as the Flagler Surgery Center (FSC), located in St. Augustine, Florida from St. Augustine Surgery Center, LLC. The results of FSC's operations have been included in the System's consolidated financial statements since that date. The goodwill of $10,019,271 at September 30, 2018 and 2017 arising from the acquisition relates to excess of the purchase price over the fair value of the surgery center assets and liabilities purchased.

Outpatient Surgery Center of St. Augustine, LLC

On December 1, 2017, through a securities purchase agreement, the System acquired the remaining 89.32 percent ownership interest in Outpatient Surgery Center of St. Augustine, LLC (OSC), a for-profit entity in which the System previously held a 10.68 percent ownership stake. Under the terms of the purchase agreement, the System paid $14,775,000 for the remaining interest. As a result of the transaction, the System is the sole corporate member of OSC. The results of OSC's operations have been included in the System's consolidated financial statements since that date. Pursuant to the purchase agreement, the System obtained title to certain components of OSC's working capital as of the acquisition date. The System recorded the acquired working capital at fair value, determining the fair value of assumed supplies to be $195,766 and the fair value of assumed equipment to be $158,901. The goodwill of $14,420,333 at September 30, 2018 arising from the acquisition relates to the excess of the purchase price over the fair value of the assets purchased.

As of the same date, the System entered into a separate purchase agreement to acquire the land and real estate used in OSC's operations from the owners of the property. Under the terms of the agreement, the System paid $9,300,000 for the property. Through the use of a third-party appraisal, the System allocated approximately $7,300,000 of the purchase to building and approximately $2,000,000 to land.

Note 16 - Acquisitions and Goodwill (Continued)

The amount of operating revenue and increase in unrestricted net assets related to OSC included within the accompanying consolidated statement of operations during the year ended September 30, 2018 amounted to approximately $4,114,000 and $1,447,000, respectively. The System is required to disclose the unaudited pro forma financial statement that presents the combined results of operations of the System and the entities for the year ended September 30, 2018 as though the acquisition had occurred on October 1, 2016. The unaudited pro forma financial information for the year ended September 30, 2018 for operating revenue and excess of revenue over expense was approximately $270,795,000 and $14,508,000, respectively. The unaudited pro forma financial information for the year ended September 30, 2017 for operating revenue and excess of expense over revenue was approximately $232,216,000 and $(2,785,000), respectively. This pro forma financial information is not necessarily indicative of the results of the operations that would have occurred had the System and the entity constituted a single entity during those periods, nor is it indicative of future results.

Other

The remaining goodwill of $455,930 at September 30, 2018 arose from additional acquisitions during 2018 that relates to the excess of the purchase price over the fair value of the assets and liabilities purchased.

Note 17 - Prior Period Adjustment

The 2017 amounts in the accompanying financial statements have been restated to correct errors in the classifications of professional liability accruals, net assets and earnings on restricted investments. The effect of the restatement was to decrease accrued expenses and other current liabilities and increase long-term liabilities by $7,653,835, and increase temporarily restricted net assets and decrease permanently restricted net assets by $381,717 in the consolidated balance sheet. The restatement also reclassified restricted investment earnings of $381,717 from permanently restricted net assets to temporarily restricted net assets in the consolidated statement of changes in net assets. The restatements did not change the previously reported amount of unrestricted net assets as of September 30, 2017.

Additional Information

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Independent Auditor's Report on Additional Information

To the Board of Trustees
Flagler Hospital, Inc. and Subsidiaries

We have audited the consolidated financial statements of Flagler Hospital, Inc. and Subsidiaries as of and for the year ended September 30, 2018 and have issued our report thereon dated January 24, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the 2018 consolidated financial statements as a whole. The consolidating balance sheet as of September 30, 2018 and consolidating statement of operations for the year then ended are presented for the purpose of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and are not a required part of the consolidated financial statements. Such information is the responsibility of management are and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2018 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2018 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 2018 consolidated financial statements as a whole.

Plante & Moran, PLLC

January 24, 2019

Consolidating Balance Sheet

September 30, 2018

	Foundation	Hospital	Eliminating Entries	Obligated Group	Flagler Health Services	HPOA	Health Network	Home Care	Health Enterprise	OSC	Professional Services	Eliminating Entries	Total
Assets													
Current Assets													
Cash and cash equivalents	$ 53,889	$ 12,978,655	$ -	$ 13,032,544	$ 1,349,352	$ 7,319	$ -	$ 35,683	$ -	$ 733,386	$ 2,436,621	$ -	$ 17,594,905
Patient accounts receivable	-	27,506,705	-	27,506,705	64,085	-	-	725,171	-	521,926	1,734,878	-	30,552,765
Supplies	-	7,473,942	-	7,473,942	-	-	-	3,015	-	162,106	310,641	-	7,949,704
Due from affiliates	-	25,539,244	(44,146)	25,495,098	-	-	-	-	-	-	-	(25,495,098)	-
Prepaid expenses and other	218,384	4,138,533	-	4,356,917	106,062	(1)	-	427,917	-	41,783	850,886	-	5,783,564
Total current assets	272,273	77,637,079	(44,146)	77,865,206	1,519,499	7,318	-	1,191,786	-	1,459,201	5,333,026	(25,495,098)	61,880,938
Assets Limited as to Use	6,207,536	99,983,514	-	106,191,050	-	-	-	-	-	-	-	-	106,191,050
Investments	33,346,891	-	-	33,346,891	-	-	-	-	-	-	-	-	33,346,891
Property and Equipment - Net	335,233	155,804,322	-	156,139,555	2,301,281	566,339	-	130,170	-	174,056	59,449	(172,153)	159,198,697
Goodwill	-	10,019,271	-	10,019,271	-	-	-	-	14,420,333	-	455,930	-	24,895,534
Other Assets	-	6,437,019	-	6,437,019	18,600	-	319,621	355,385	1,446,872	-	-	(1,766,493)	6,811,004
Total assets	**$ 40,161,933**	**$ 349,881,205**	**$ (44,146)**	**$ 389,998,992**	**$ 3,839,380**	**$ 573,657**	**$ 319,621**	**$ 1,677,341**	**$ 15,867,205**	**$ 1,633,257**	**$ 5,848,405**	**$ (27,433,744)**	**$ 392,324,114**
Liabilities and Net Assets													
Current Liabilities													
Accounts payable	$ -	$ 9,047,453	$ -	$ 9,047,453	$ 82,981	$ -	$ -	$ 31,743	$ -	$ 47,352	$ 286,734	$ -	$ 9,496,263
Current portion of long-term debt	-	6,545,000	-	6,545,000	-	-	-	-	-	-	-	-	6,545,000
Estimated third-party payor settlements	-	882,670	-	882,670	-	-	-	-	-	-	-	-	882,670
Accrued expenses and other current liabilities	317,767	14,689,784	(44,146)	14,963,405	307,458	8,105	385,000	1,030,942	14,775,000	139,033	9,239,910	(25,495,098)	15,353,755
Total current liabilities	317,767	31,164,907	(44,146)	31,438,528	390,439	8,105	385,000	1,062,685	14,775,000	186,385	9,526,644	(25,495,098)	32,277,688
Long-term Debt - Net of current portion	-	123,302,529	-	123,302,529	-	-	-	-	-	-	-	-	123,302,529
Other Liabilities													
Deferred rent	-	3,587,819	-	3,587,819	-	-	-	-	-	-	-	-	3,587,819
Other long-term liabilities	-	13,066,069	-	13,066,069	-	-	-	-	-	-	-	-	13,066,069
Total liabilities	317,767	171,121,324	(44,146)	171,394,945	390,439	8,105	385,000	1,062,685	14,775,000	186,385	9,526,644	(25,495,098)	172,234,105
Net Assets													
Unrestricted	33,636,631	178,759,881	-	212,396,512	3,448,941	565,552	(65,379)	614,656	1,092,205	1,446,872	(3,678,239)	(1,938,646)	213,882,474
Temporarily restricted	2,197,908	-	-	2,197,908	-	-	-	-	-	-	-	-	2,197,908
Permanently restricted	4,009,627	-	-	4,009,627	-	-	-	-	-	-	-	-	4,009,627
Total net assets	39,844,166	178,759,881	-	218,604,047	3,448,941	565,552	(65,379)	614,656	1,092,205	1,446,872	(3,678,239)	(1,938,646)	220,090,009
Total liabilities and net assets	**$ 40,161,933**	**$ 349,881,205**	**$ (44,146)**	**$ 389,998,992**	**$ 3,839,380**	**$ 573,657**	**$ 319,621**	**$ 1,677,341**	**$ 15,867,205**	**$ 1,633,257**	**$ 5,848,405**	**$ (27,433,744)**	**$ 392,324,114**

Consolidating Statement of Operations

Year Ended September 30, 2018

	Foundation	Hospital	Eliminating Entries	Obligated Group	Flagler Health Services	HPOA	Health Network	Home Care	Health Enterprise	OSC	Professional Services	Eliminating Entries	Total
Unrestricted Revenue, Gains, and Other Support													
Net patient service revenue	$ -	$ 258,249,600	$ -	$ 258,249,600	$ -	$ -	$ -	$ 1,121,268	$ -	$ 4,146,859	$ 12,422,392	$ -	$ 275,940,119
Provision for bad debts	-	(15,347,773)	-	(15,347,773)	-	-	-	-	-	(64,959)	-	-	(15,412,732)
Net patient service revenue less provision for bad debts	-	242,901,827	-	242,901,827	-	-	-	1,121,268	-	4,081,900	12,422,392	-	260,527,387
Other	-	7,799,481	(35,891)	7,763,590	1,860,742	43,721	-	-	-	31,877	-	(474,948)	9,224,982
Net assets released from restrictions	81,942	-	-	81,942	-	-	-	-	-	-	-	-	81,942
Total unrestricted revenue, gains, and other support	81,942	250,701,308	(35,891)	250,747,359	1,860,742	43,721	-	1,121,268	-	4,113,777	12,422,392	(474,948)	269,834,311
Expenses													
Salaries	-	82,796,311	-	82,796,311	661,710	-	-	558,379	-	695,815	876,888	-	85,589,103
Supplies	-	49,879,246	-	49,879,246	30,846	-	-	15,373	-	1,235,014	2,041,974	-	53,202,453
Purchased services	-	32,611,880	-	32,611,880	278,569	38,573	-	456,600	-	468,029	4,637,186	-	38,490,837
Depreciation and amortization	-	22,559,807	-	22,559,807	353,377	-	-	11,710	-	42,094	17,620	-	22,984,608
Employee benefits	-	21,924,718	-	21,924,718	146,267	-	-	102,599	-	137,303	203,438	-	22,514,325
Professional services	-	13,183,842	-	13,183,842	-	-	-	23,037	-	-	5,484,600	-	18,691,479
Lease and rental	-	2,797,526	(35,891)	2,761,635	68,211	-	-	26,331	-	317,762	2,739,305	(473,352)	5,439,892
Interest expense	-	4,882,020	-	4,882,020	-	-	-	-	-	-	-	-	4,882,020
Insurance	-	4,534,092	-	4,534,092	67,569	-	-	-	-	15,106	-	-	4,616,767
Other	-	3,528,536	-	3,528,536	105,667	1,797	-	52,250	-	65,643	49,550	(1,596)	3,801,847
Indigent tax	-	3,011,992	-	3,011,992	-	-	-	-	-	-	-	-	3,011,992
Utilities	-	2,530,052	-	2,530,052	219,043	3,015	-	-	-	41,869	480	-	2,794,459
Total expenses	-	244,240,022	(35,891)	244,204,131	1,931,259	43,385	-	1,246,279	-	3,018,635	16,051,041	(474,948)	266,019,782
Operating Income (Loss)	81,942	6,461,286	-	6,543,228	(70,517)	336	-	(125,011)	-	1,095,142	(3,628,649)	-	3,814,529
Other Income (Expense)													
Gain on acquisition	-	-	-	-	-	-	-	739,667	-	354,667	-	(739,667)	354,667
Investment income	3,214,664	6,736,979	-	9,951,643	-	-	(65,379)	-	1,092,205	-	-	(1,026,826)	9,951,643
Other nonoperating (expense) income	(844,652)	949,889	-	105,237	-	-	-	-	-	(2,937)	(49,590)	-	52,710
Total nonoperating income (expense)	2,370,012	7,686,868	-	10,056,880	-	-	(65,379)	739,667	1,092,205	351,730	(49,590)	(1,766,493)	10,359,020
Excess of Revenue Over (Under) Expenses	2,451,954	14,148,154	-	16,600,108	(70,517)	336	(65,379)	614,656	1,092,205	1,446,872	(3,678,239)	(1,766,493)	14,173,549
Net Assets Released from Restriction	416,082	-	-	416,082	-	-	-	-	-	-	-	-	416,082
Increase (Decrease) in Unrestricted Net Assets	**$ 2,868,036**	**$ 14,148,154**	**$ -**	**$ 17,016,190**	**$ (70,517)**	**$ 336**	**$ (65,379)**	**$ 614,656**	**$ 1,092,205**	**$ 1,446,872**	**$ (3,678,239)**	**$ (1,766,493)**	**$ 14,589,631**