

**Tallahassee Memorial
HealthCare, Inc.
and Subsidiaries**

**Consolidated Financial Statements and
Supplemental Schedules
September 30, 2022 and 2021**

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

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September 30, 2022 and 2021

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Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated financial statements of Tallahassee Memorial HealthCare, Inc. and its subsidiaries (the “Company”), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2021. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Pricewaterhouse Coopers LLP

Charlotte, North Carolina
December 19, 2022

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 317,430,070	\$ 399,777,309
Short-term investments	23,540,308	27,190,829
Assets limited as to use	14,998,577	14,639,461
Accounts receivable, net	112,694,326	91,935,351
Inventories	14,682,769	13,396,442
Estimated third-party payor settlement receivable	8,418,973	-
Other current assets	51,168,633	39,706,440
Total current assets	<u>542,933,656</u>	<u>586,645,832</u>
Assets limited as to use		
Held by trustee	28,355,869	27,996,753
Less: Amount required to meet current obligations	<u>(14,998,577)</u>	<u>(14,639,461)</u>
Total assets limited as to use	13,357,292	13,357,292
Long-term investments	27,300	27,300
Property and equipment, net	481,121,657	495,547,718
Operating lease right-of-use assets, net	8,424,179	7,882,023
Pension assets, net	107,575,505	80,880,318
Other assets	8,262,665	12,973,039
Total assets	<u>\$ 1,161,702,254</u>	<u>\$ 1,197,313,522</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 104,528,153	\$ 96,380,168
Current portion of long-term debt	3,998,529	3,792,954
Current portion of operating lease liabilities	2,562,779	2,586,481
Estimated third-party payor settlement liability	-	49,975,516
Other current liabilities	9,761,828	13,094,936
Total current liabilities	<u>120,851,289</u>	<u>165,830,055</u>
Long-term debt, net of current portion	363,639,754	369,540,393
Operating lease liabilities, net of current portion	5,925,830	5,375,050
Other liabilities	45,737,833	43,333,211
Total liabilities	<u>536,154,706</u>	<u>584,078,709</u>
Net assets		
Without donor restrictions	603,022,926	589,036,747
With donor restrictions	22,524,622	24,198,066
Total net assets	<u>625,547,548</u>	<u>613,234,813</u>

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended September 30, 2022 and 2021

	2022	2021
Operating revenues		
Net patient service revenues	\$ 894,515,193	\$ 843,562,920
Other revenue	<u>15,899,383</u>	<u>18,620,782</u>
Total operating revenues	<u>910,414,576</u>	<u>862,183,702</u>
Operating expenses		
Salaries, wages and benefits	445,287,053	397,925,892
Supplies and other	338,188,955	307,654,981
Professional fees	83,952,125	80,872,805
Depreciation and amortization	39,239,528	40,834,832
Interest expense	<u>13,339,968</u>	<u>12,916,004</u>
Total operating expenses	<u>920,007,629</u>	<u>840,204,514</u>
Operating (loss) income	(9,593,053)	21,979,188
Other revenues and (expenses), net	<u>175,128</u>	<u>(217,431)</u>
(Deficit) excess of revenues over expenses	(9,417,925)	21,761,757
Net assets released from restrictions used for program services and purchase of equipment	2,025,742	1,432,535
Change in pension liability	<u>21,378,363</u>	<u>58,564,498</u>
Change in net assets without donor restrictions	<u>\$ 13,986,180</u>	<u>\$ 81,758,790</u>

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2022 and 2021

	2022	2021
Net assets without donor restrictions		
(Deficit) excess of revenues over expenses	\$ (9,417,925)	\$ 21,761,757
Net assets released from restrictions used for program services and purchase of equipment	2,025,742	1,432,535
Change in pension liability	<u>21,378,363</u>	<u>58,564,498</u>
Change in net assets without donor restrictions	<u>13,986,180</u>	<u>81,758,790</u>
Net assets with donor restrictions		
Contributions	1,575,952	2,091,656
Investment return, net	(1,223,654)	1,124,148
Net assets released from restrictions used for program services and purchases of equipment	<u>(2,025,742)</u>	<u>(1,432,535)</u>
Change in net assets with donor restrictions	<u>(1,673,444)</u>	<u>1,783,269</u>
Change in net assets	12,312,736	83,542,059
Net assets		
Beginning of year	<u>613,234,812</u>	<u>529,692,753</u>
End of year	<u>\$ 625,547,548</u>	<u>\$ 613,234,812</u>

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended September 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 12,312,736	\$ 83,542,060
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	39,239,528	40,834,832
Depreciation on office space rental property	1,056,010	1,056,010
Amortization of right-of-use asset	2,953,378	3,204,508
Amortization of bond premium and bond issue costs	(820,110)	(904,750)
Net realized and unrealized loss (gain) on trading securities	4,288,559	(1,528,865)
Change in fair value of derivatives	3,740,113	(463,879)
Change in pension assets	(26,695,187)	(58,759,416)
(Gain) loss on sale of property and equipment	(115,677)	332,237
Endowment contributions	(288,614)	-
(Increase) decrease in		
Patient accounts receivable	(20,758,975)	(15,746,809)
Inventories	(1,286,327)	(237,577)
Estimated third-party payor settlement receivable	(8,418,973)	-
Other current assets	(10,193,579)	(7,791,542)
Other assets	(1,302,319)	(249,084)
Increase (decrease) in		
Accounts payable and accrued expenses	8,766,134	17,397,310
Estimated third-party payor settlement liability	(49,975,516)	(6,823,224)
Other current liabilities	(3,333,108)	3,389,079
Other liabilities	(563,835)	(7,833,229)
Net cash (used in) provided by operating activities	<u>(51,395,762)</u>	<u>49,417,661</u>
Cash flows from investing activities		
Purchases of property and equipment	(27,001,518)	(18,877,997)
Proceeds from disposals of equipment	629,569	192,307
Investments		
Purchases of investments	(22,037,269)	(13,406,486)
Proceeds from sales and maturities of investments	19,763,426	14,132,235
Assets limited as to use		
Purchases of investments	(2,457,925)	-
Proceeds from sales and maturities of investments	2,480,602	15,260
Payments for physician guarantee contracts	(793,204)	(122,377)
Proceeds from physician guarantee contracts	27,283	43,859
Decrease (increase) in notes receivable and deposits	<u>1,769,887</u>	<u>(1,955,375)</u>
Net cash used in investing activities	<u>(27,619,149)</u>	<u>(19,978,574)</u>

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Statement of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from financing activities		
Payments on finance lease obligations	(812,954)	(719,444)
Payments on long-term debt	(4,062,000)	(4,003,000)
Receipts of endowment contributions	288,614	-
Net cash used in financing activities	<u>(4,586,340)</u>	<u>(4,722,444)</u>
Change in cash, cash equivalents and restricted cash	(83,601,251)	24,716,643
Cash, cash equivalents and restricted cash		
Beginning of year	425,821,883	401,105,240
End of year	<u>\$ 342,220,632</u>	<u>\$ 425,821,883</u>
Supplemental cash flow information		
Cash paid for interest	\$ 18,062,367	\$ 18,255,244
Noncash investing activities		
Accrued purchases of property and equipment	542,707	\$ 1,160,856

The following table reconciles cash and cash equivalents on the consolidated balance sheets to cash, cash equivalents and restricted cash on the consolidated statements of cash flows:

	2022	2021
Cash and cash equivalents	\$ 317,430,070	\$ 399,777,309
Restricted cash included in assets limited as to use - current portion		
Held by trustee under bond indenture	9,338,327	8,220,494
Self-insured arrangements	157,055	134,377
Restricted cash included in assets limited as to use - noncurrent portion		
Held by trustee under bond indenture	13,357,292	13,357,292
Cash, cash equivalents and certificates of deposit included in short-term investments	<u>1,937,888</u>	<u>4,332,411</u>
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	<u>\$ 342,220,632</u>	<u>\$ 425,821,883</u>

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

1. Summary of Significant Accounting Policies

Organization and Reporting Entity

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

In 2021, TMH, Inc. entered into a master agreement with The St. Joe Company to develop a health care campus in Panama City Beach, Florida in cooperation with the Florida State University College of Medicine. The intent of the agreement is to jointly plan and develop the campus to initially include an ambulatory and urgent care center, and professional office building. Future development plans include the construction of an emergency center and inpatient hospital facility.

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include, but are not limited to, accounts receivable price concessions, payables/receivables from third-party payor settlements, self-insurance liabilities, accrued pension liability and depreciation and amortization expense.

Cash and Cash Equivalents

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

Restricted Cash

TMH, Inc. holds cash that is restricted to purchase investments, fund certain self-insurance claims and fund expenditures which were financed by the issuance of the Series 2015A, 2016A and 2016B bonds. Restricted cash balances were \$24,790,563 and \$26,044,573 as of September 30, 2022 and 2021, respectively.

Accounts Receivable

Accounts receivable consist primarily of amounts owed by various governmental agencies, insurance companies and patients. TMH, Inc. manages these receivables by regularly reviewing the accounts and contracts and by recording appropriate price concessions. Amounts TMH, Inc. receives for treatment of patients covered by governmental programs and third-party payors as well as directly from patients are subject to both explicit and implicit price concessions. TMH, Inc. estimates these price concessions using contractual agreements, discount policies, and historical experience. TMH, Inc. records price concessions in the period of service based on the analysis and consideration of these factors.

Investments

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

Assets Limited as to Use

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

Inventories

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

Property and Equipment

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

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

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

Lease Accounting

Effective October 1, 2021, TMH, Inc. adopted ASU 2016-02, Leases (Topic 842). TMH, Inc. leases property and equipment under finance and operating leases and determines if an arrangement is a lease at the inception of the contract. Right-of-use (“ROU”) assets represent the right to use an underlying asset for the term of the agreement and lease liabilities represent our obligation to make lease payments arising from the agreement. For leases with terms greater than 12 months, ROU assets and liabilities are recognized at the commencement date at the present value of periodic payments over the lease term. Pursuant to ASU 2021-09, TMH, Inc. has made a policy election to use a risk-free discount rate (the rate of a zero-coupon U.S. Treasury instrument) for the measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term. The ROU asset includes periodic payments and excludes incentives. The term of the agreement may include renewal or termination options when it is reasonably certain such options will be exercised. As part of the adoption of ASC 842 in the prior year, TMH, Inc. elected the package of practical expedients permitted under the transition guidance within the standard, which allows the carry forward of the historical lease classification. TMH, Inc. also adopted the hindsight practical expedient which resulted in the shortening of lease terms for certain existing leases and the useful lives of corresponding leasehold improvements.

Debt Issuance Costs

Debt issuance costs incurred in connection with the bond issuances are amortized over their respective terms utilizing the straight-line method, which approximates the effective interest method. Debt issuance costs of approximately \$2,938,000, net of accumulated amortization of approximately \$591,000 and \$506,000 at September 30, 2022 and 2021, respectively, remain to be amortized over future periods and are included in long-term debt in the accompanying consolidated balance sheets.

Accrued Self-Insurance Liabilities

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

Net Assets

Net assets without donor restrictions include undesignated amounts as well as amounts designated by the board for a specific purpose. Net assets with donor restrictions are held by the Foundation and consist primarily of amounts contributed to the Foundation by donors with purpose and/or time restrictions. The Company also has net assets with donor restrictions that are perpetual in nature. Earnings on these assets are available for use as specified by the donors.

Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(Deficit) Excess of Revenues Over Expenses

The consolidated statements of operations include the (deficit) excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from (deficit) excess of revenues over expenses, consistent with industry practice, include net assets released from restrictions used for program services and purchases of equipment and the change in pension liability.

Charity Care

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

Contributions Received

The Foundation reports gifts of cash and other assets as net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions, other than for equipment, whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

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

Other Revenues and Expenses, Net

Other revenues and expenses, net consist primarily of interest income, components of net periodic pension benefits other than the service cost component, rental income and the related rental expenses incurred to maintain rental property and the total change in the fair value of the derivative instruments and self-insurance trust fund.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

Derivatives

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

On January 7, 2016, the Hospital entered into a "Total Return Swap" agreement with a financial institution, to pay a floating rate amount defined as 70% of the one month maturity USD-LIBOR-BBA plus the Spread and receive a fixed amount of 5.25% on the notional amount based on the Series 2016B Health Facilities Revenue Bonds. Effective July 25, 2019, the Hospital and the financial institution amended the terms of Total Return Swap agreement to extend the termination date to July 25, 2024 from February 2, 2021 and change the floating rate to the weighted average USD-SIFMA Municipal Swap Index plus the Spread.

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

TMH, Inc. recognizes the asset or liability for the derivative instruments on the consolidated balance sheets at fair value. At September 30, 2022 and 2021, the fair value of the Basis Rate Swap was a liability of approximately \$246,000 and \$147,000, respectively, and the fair value of the Total Return Swap was an asset of approximately \$333,000 and \$3,973,000, respectively. The net fair value of the derivative instruments at September 30, 2022 and 2021 was an asset of approximately \$87,000 and \$3,826,000, respectively, which is included in other assets in the accompanying consolidated balance sheets. The fair values of the derivatives were estimated using the present value of expected discounted future cash flows based on the maturity date. The changes in the fair value of the derivative instruments required the recording of a (loss) gain of approximately (\$3,740,000) and \$464,000 in other revenues and expenses, net, in the accompanying consolidated statements of operations for the years ended September 30, 2022 and 2021, respectively.

The Hospital received funds related to the Basis Rate Swap of approximately \$36,000 and \$28,000 for the years ended September 30, 2022 and 2021, respectively, which is recorded in other revenues and expenses, net in the accompanying consolidated statements of operations. The Hospital received funds related to the Total Return Swap of approximately \$4,312,000 and \$4,341,000 for the years ended September 30, 2022 and 2021, respectively, which is recorded as a reduction to net interest expense in the accompanying consolidated statements of operations. Furthermore, the Hospital was required to post collateral in the amount of approximately \$1,130,000 and \$50,000 at September 30, 2022 and 2021, respectively, as part of the margin call related to the Basis Rate Swap. The cash collateral is recorded in assets limited as to use in the accompanying consolidated balance sheets.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

Fair Value Measurements

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

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

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

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

The following tables present the financial instruments carried at fair value as of September 30, 2022 and 2021, by caption on the consolidated balance sheets by the ASC 820 valuation hierarchy defined above:

September 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value*	Total Fair Value
Assets				
Cash, investments and assets limited as to use				
Cash and cash equivalents	\$ 342,220,632	\$ -	\$ -	\$ 342,220,632
Corporate obligations	2,116,810	1,512,907	-	3,629,717
Mutual funds	8,227,060	1,232,017	-	9,459,077
U.S. government and agency obligations	-	10,985,594	-	10,985,594
Equities	917,518	-	-	917,518
Private real estate fund	-	-	2,141,009	2,141,009
Total cash, investments and assets limited as to use	353,482,020	13,730,518	2,141,009	369,353,547
Swap receivable	-	86,759	-	86,759
Charitable trusts, net	-	1,239,445	-	1,239,445
Insurance contracts	-	130,643	-	130,643
Total assets at fair value	<u>\$ 353,482,020</u>	<u>\$ 15,187,365</u>	<u>\$ 2,141,009</u>	<u>\$ 370,810,394</u>

September 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value*	Total Fair Value
Assets				
Cash, investments and assets limited as to use				
Cash and cash equivalents	\$ 425,821,883	\$ -	\$ -	\$ 425,821,883
Corporate obligations	2,320,412	2,720,766	-	5,041,178
Mutual funds	9,951,617	1,707,707	-	11,659,324
U.S. government and agency obligations	-	9,085,375	-	9,085,375
Equities	1,883,417	-	-	1,883,417
Private real estate fund	-	-	1,501,014	1,501,014
Total cash, investments and assets limited as to use	439,977,329	13,513,848	1,501,014	454,992,191
Swap receivable	-	3,826,872	-	3,826,872
Charitable trusts, net	-	1,464,671	-	1,464,671
Insurance contracts	-	140,113	-	140,113
Total assets at fair value	<u>\$ 439,977,329</u>	<u>\$ 18,945,504</u>	<u>\$ 1,501,014</u>	<u>\$ 460,423,847</u>

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

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

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

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

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

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

Investments in the private real estate fund are reported at NAV as a practical expedient to estimate fair value, which generally is the Foundation's pro rata interest in the net assets of the fund. The Foundation believes the NAV reported at the end of the period is representative of the price we would receive if we sold the investment. Investments carried at NAV may be redeemed or liquidated only after giving notice to the fund manager. Written notice must be given at least 90 days prior to calendar quarter with redemption occurring at the calendar quarter's ending strike price. The Foundation has the ability to redeem its interests within 155 days from the financial statement date.

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

Concentrations of Credit Risk

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

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TMH, Inc. grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors on a net basis at September 30, 2022 and 2021 was as follows:

	2022	2021
Medicare	33 %	27 %
Medicaid	6	7
Managed care	25	23
Blue cross	17	23
Other	19	20
	<u>100 %</u>	<u>100 %</u>

COVID-19 Pandemic

TMH Inc.'s operations and financial condition have been significantly impacted by the emergence of a novel coronavirus ("COVID-19"), which has evolved into a global pandemic. On March 20, 2020, Florida Governor DeSantis issued an Executive Order prohibiting medically unnecessary, non-urgent or nonemergency procedures or surgeries which, if delayed, would not place a patient's immediate health, safety, or well-being at risk. The Executive Order was subsequently lifted effective May 4, 2020, however, while the Executive Order was in effect, patient volumes and related revenues for most of TMH Inc's services were significantly and adversely impacted.

In response to COVID-19 and its effects on the U.S. economy and the health care delivery system, the Federal Government passed various stimulus bills which have provided certain financial benefits to TMH Inc. Principal among these, on March 27, 2020, the Federal Government passed the Coronavirus Aid, Relief, and Economic Security Act ("the CARES Act"), which allotted \$175 billion dollars to healthcare providers and suppliers through Medicare reimbursements, grants and other direct federal payments. Under the CARES Act, TMH, Inc. received approximately \$2,282,000 and \$4,511,000 as part of general and skilled nursing facility distributions from the Provider Relief Fund, which is reported as other revenue in the accompanying consolidated statements of operations for the years ended September 30, 2022 and 2021, respectively. TMH Inc. recognized revenue related to the CARES Act Provider Relief Fund based on information contained in laws and regulations, as well as interpretations issued by the Department of Health and Human Services, governing the funding that was publicly available at September 30, 2022.

In addition, TMH Inc. also received approximately \$62,472,000 in advanced payments from the Centers for Medicare and Medicaid Services Accelerated and Advanced Payments Program under the CARES Act during the year ended September 30, 2020. These advances have been repaid as of September 30, 2022. As of September 30, 2021 there was an unrecouped balance of \$45,026,000 which was recorded as a current liability due to Medicare on the accompanying consolidated balance sheet.

Furthermore, the CARES Act allowed employers to defer the deposits and payments of the employer's share of the Social Security taxes incurred between March 27, 2020 and December 31, 2020. TMH Inc. had deferred payment of approximately \$4,794,000 and \$9,588,000 of employer taxes as of September 30, 2022 and September 30, 2021, respectively. Fifty percent of eligible deferrals were due by December 31, 2021 and the remaining amounts of eligible deferrals are due by December 31, 2022. Accordingly, these payroll tax deferrals are included in other current liabilities on the accompanying consolidated balance sheet.

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Recent Accounting Pronouncements

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires non-profits to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. TMH, Inc, adopted this ASU in the current fiscal year noting no material impact on the consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. The amendments in ASU 2018-14 remove certain disclosure requirements related to the amount and timing of plan assets expected to be returned to the employer, related party disclosures, and disclosures related to plan assets measured in Level 3 of the fair value hierarchy. Additionally, ASU 2014-18 requires certain new disclosures including disclosure of the weighted-average interest crediting rate for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. TMH, Inc. has adopted this standard for the current year. See Note 12, Retirement Plans.

In November 2021, the FASB issued ASU 2021-09, *Discount Rate for Lessees That Are Not Public Business Entities*. This ASU permits lessees who are not public business entities to use a risk-free discount rate instead of its incremental borrowing rate, determined using a period comparable with that of the lease term. TMH, Inc, adopted this ASU in the current fiscal year noting no material impact on the consolidated financial statements and related disclosures.

Reclassification

Certain comparative figures have been reclassified to conform to the current year presentation.

2. Revenue Recognition and Accounts Receivable

Net Patient Service Revenue

The components of net patient service revenue for the years ended September 30, 2022 and 2021 are as follows:

	2022	2021
Gross patient service revenue	\$ 4,004,276,511	\$ 3,696,075,786
Contractual adjustments and other deductions	<u>(3,109,761,318)</u>	<u>(2,852,512,866)</u>
Net patient service revenue	<u>\$ 894,515,193</u>	<u>\$ 843,562,920</u>

Net patient service revenue is reported at the amount that reflects the consideration to which TMH, Inc. expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. Generally, TMH, Inc. bills the patient and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

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Performance obligations are determined based on the nature of the services provided by TMH, Inc. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. TMH, Inc. believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospital receiving inpatient acute care services. TMH, Inc. measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and TMH, Inc. does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, TMH, Inc. has elected to apply the practical expedient provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amounts of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. These performance obligations are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

TMH, Inc. determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with TMH, Inc.'s policies, and/or implicit price concessions provided to uninsured patients. TMH, Inc. determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. TMH, Inc. determines its estimate of implicit price concessions based on historical collection experience.

Agreements with third-party payors typically provide for payment at amounts less than established charges. For services provided under Medicare and Medicaid programs, inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per diagnosis. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services rendered to Medicare beneficiaries, and direct graduate medical education costs are paid based upon a cost reimbursement methodology. Outpatient services are paid at a prospectively determined rate. Physician services are paid based upon established fee schedules. TMH, Inc. is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by TMH, Inc. and audits thereof by the fiscal intermediary. Payment arrangements with commercial insurance carriers included prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare, Medicaid and Provider Relief Funds, are complex and subject to interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and potential exclusion from related programs. There can be no assurance that regulatory authorities will not challenge TMH, Inc.'s compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon TMH, Inc. In addition, the contracts TMH, Inc. has with the commercial payors also provide for retroactive audit and review of claims.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
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Cost report settlements under reimbursement agreements with Medicare and Medicaid for retroactive adjustments due to audits, reviews or investigations are variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and TMH, Inc.'s historical experience. Estimated settlements are adjusted in future periods as final settlements are determined. There is a reasonable possibility that recorded estimates could change by a material amount in the near term. Adjustments arising from a change in the transaction price were not significant in 2022 and 2021.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. TMH, Inc. also provides services to uninsured patients. The transaction price for both uninsured patients and as well as insured patients with deductibles and coinsurance is estimated based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense is reported as reduction of Net patient service revenues in the consolidated statements of operations and was not significant for the years ended September 30, 2022 and 2021.

The composition of net patient service revenues by payor is as follows:

	2022	2021
Medicare	\$ 329,751,593	\$ 316,035,492
Medicaid	86,518,728	58,569,469
Managed care	242,097,905	246,904,076
Blue cross	162,807,202	167,249,429
Other	73,339,765	54,804,454
	<u>\$ 894,515,193</u>	<u>\$ 843,562,920</u>

TMH, Inc. has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to TMH, Inc.'s expectation that the period between the time the service is provided to a patient and the time that the patient or third-party payor pays for that service will be one year or less. However, TMH, Inc. does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

In addition to patient service revenues, TMH, Inc. also recognizes revenue related to other, non-patient related transactions. These transactions primarily include rental income, parking deck revenue, donations, grants, investment income from subsidiaries and CARES Act Provider Relief Funding. Revenue from these transactions is recognized when obligations under the terms of the respective contract are satisfied. Revenue from these transactions is measured as the amount of consideration TMH, Inc. expects to receive from those services. TMH, Inc. recognizes rental income in accordance with GAAP on a straight-line basis over the lease term.

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Medicare

The Hospital's Medicare cost reports have been audited and settled by Medicare for all years through September 30, 2016. Approximately 37% and 38% of net patient service revenues for the years ended September 30, 2022 and 2021, respectively, is subject to the provisions of Medicare agreements.

Medicaid

The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2015 (2015 cost report used for 2017 rates). During fiscal year 2019, the Agency for Health Care Administration finalized the Medicaid rate settlements for the years 2015 through 2017 (cost reports 2013-2015). The fiscal year 2015 cost report is the last cost report used for cost-based rates.

3. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The direct and in-direct costs estimated by the Hospital related to charity care were approximately \$20,699,000 and \$22,013,000 as of September 30, 2022 and 2021, respectively. The costs were estimated using the best information available to management using the cost to charge ratio. There were no funds received related to offsetting or subsidizing charity care.

4. Tax Status

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

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5. Investments and Assets Limited as to Use

The composition of assets limited as to use at September 30, 2022 and 2021 is set forth in the following table:

	2022	2021
Held by trustee under indenture agreements		
Cash, cash equivalents and short-term investments	\$ 21,565,619	\$ 21,527,786
	<u>21,565,619</u>	<u>21,527,786</u>
Held by trustee for self-insurance funding arrangements		
Cash, cash equivalents and short-term investments	157,055	134,377
U.S. government and agency obligations	1,868,052	-
Mutual funds	1,232,017	1,707,707
Equities	890,218	1,856,117
Corporate obligations	1,512,908	2,720,766
	<u>5,660,250</u>	<u>6,418,966</u>
Held by trustee as swap collateral		
Cash	1,130,000	50,000
	<u>\$ 28,355,869</u>	<u>\$ 27,996,753</u>

Short-term and long-term investments, stated at fair value, at September 30, 2022 and 2021 include

	2022	2021
Cash and cash equivalents	\$ 482,479	\$ 2,877,245
Corporate obligations	2,116,809	2,320,412
Certificates of deposit	1,455,409	1,455,166
Private equities	27,300	27,300
U.S. government and agency obligations	9,117,542	9,085,375
Mutual funds	8,227,060	9,951,617
Private real estate fund	2,141,009	1,501,014
	<u>23,567,608</u>	<u>27,218,129</u>
Less: Long-term investments	<u>(27,300)</u>	<u>(27,300)</u>
Short-term investments	<u>\$ 23,540,308</u>	<u>\$ 27,190,829</u>

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Investment return including net realized/unrealized (losses)/gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended September 30, 2022 and 2021:

	2022	2021
Investment return		
Investment income		
Without donor restrictions	\$ 1,658,810	\$ 1,216,407
With donor restrictions	485,258	781,986
Net realized losses on sales of trading securities		
Without donor restrictions	(268,305)	(227,964)
With donor restrictions	(251,799)	(168,630)
Net unrealized (losses) gains on trading securities		
Without donor restrictions	(2,311,342)	1,414,667
With donor restrictions	(1,457,113)	510,792
Total investment return	<u>(2,144,491)</u>	<u>3,527,259</u>

6. Liquidity and Availability of Resources

As of September 30, 2022, TMH, Inc. has working capital of \$421,992,000 and average days cash on hand of 141 days.

Financial assets available within one year to cover general expenditures are comprised of:

	2022	2021
Cash and cash equivalents	\$ 317,430,070	\$ 399,777,309
Accounts receivable, net	112,694,326	91,935,351
Short-term investments	23,540,308	27,190,829
Estimated third-party payor settlement receivable	8,418,973	-
Total current financial assets	<u>462,083,677</u>	<u>518,903,489</u>
Less: Amounts not available		
Donor restricted funds	<u>22,524,622</u>	<u>24,198,066</u>
Financial assets available to be used within one year	<u>\$ 439,559,055</u>	<u>\$ 494,705,423</u>

As part of TMH, Inc.'s liquidity management plan, cash in excess of daily requirements is invested in either money market funds, short-term investments or long-term investments. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities, and other obligations come due.

As of September 30, 2022, TMH, Inc. was in compliance with financial covenants as discussed in Note 10, Long-Term Debt.

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7. Property and Equipment

Property and equipment as of September 30, 2022 and 2021 is summarized as follows:

	2022	2021
Land	\$ 33,848,805	\$ 33,301,187
Buildings	627,178,378	615,772,718
Equipment	354,151,625	351,090,744
Leasehold improvements	9,050,148	9,029,075
	<u>1,024,228,956</u>	<u>1,009,193,724</u>
Less: Accumulated depreciation	(556,871,499)	(524,473,917)
	<u>467,357,457</u>	<u>484,719,807</u>
Construction-in-progress	10,096,408	6,738,568
Projects-in-progress	3,667,792	4,089,343
	<u>13,764,200</u>	<u>10,827,911</u>
Property and equipment, net	<u>\$ 481,121,657</u>	<u>\$ 495,547,718</u>

Depreciation expense for the years ended September 30, 2022 and 2021 was approximately \$39,240,000 and \$40,835,000, respectively. Depreciation expense on office space rental property for the years ended September 30, 2022 and 2021 was approximately \$1,056,000 in each year and was included in other revenues and expenses, net in the accompanying consolidated statements of operations. Construction-in-progress at September 30, 2022 consisted of routine facility renovations. Estimated costs to complete are approximately \$10,326,000.

8. Leases

The Hospital leases substantially all of its property and equipment from the City of Tallahassee under the terms of a lease, as amended, which expires in September 2062. The lease is automatically extended one year each September 30 unless the City of Tallahassee or the Hospital elects to nullify that year's extension. Any such election will not affect automatic renewals in future years. Property and equipment acquired by the Hospital becomes a part of the leased properties but are owned by the City of Tallahassee and are subject to the terms of the lease agreement. Obligations incurred for such acquisitions are the direct responsibility and liability of the Hospital. The Hospital leases the facility for \$1 per year and is responsible for payment of related taxes, insurance, operating expenses and capital improvements of the property and equipment.

The Hospital leases certain property and equipment subject to various leases and service agreements. Agreements with an initial term of twelve months or less are not recorded on the balance sheet; the expense from these agreements are recognized as lease expense over the term of the agreement. Some agreements include options to renew that can extend the agreement term from one to ten years. The exercise of the renewal term is at the Hospital's sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected term of the agreement unless there is a transfer of title or purchase option that is reasonably certain of exercise. The agreements do not contain any material residual value guarantees or material restrictive covenants.

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The following table presents the components of the right-of-use assets and liabilities and their classification as of September 30:

Component of Lease Balances	Classification in Consolidated Balance Sheets	2022	2021
Assets			
Operating lease assets		\$ 8,424,179	\$ 7,882,023
Finance lease assets	Property and equipment, net	11,480,713	12,506,238
Total leased assets		<u>\$ 19,904,892</u>	<u>\$ 20,388,261</u>
Liabilities			
Operating lease liabilities			
Current		\$ 2,562,779	\$ 2,586,481
Long-term		5,925,830	5,375,050
Total operating lease liabilities		<u>8,488,609</u>	<u>7,961,531</u>
Finance lease liabilities			
Current	Current portion of long-term debt	913,530	812,953
Long-term	Long-term debt, net of current portion	17,024,169	17,937,699
Total finance lease liabilities		<u>17,937,699</u>	<u>18,750,652</u>
Total lease liabilities		<u>\$ 26,426,308</u>	<u>\$ 26,712,183</u>

Maturity of Lease Liabilities

	Operating Leases	Finance Leases	Total
2023	\$ 2,864,586	\$ 1,980,731	\$ 4,845,317
2024	2,380,708	2,030,249	4,410,957
2025	1,641,336	2,081,006	3,722,342
2026	783,118	2,133,031	2,916,149
2027	503,684	2,186,357	2,690,041
Thereafter	851,284	14,740,194	15,591,478
Total lease payments	<u>9,024,716</u>	<u>25,151,568</u>	<u>34,176,284</u>
Less: Imputed interest	<u>(536,107)</u>	<u>(7,213,869)</u>	<u>(7,749,976)</u>
Present value of leases	8,488,609	17,937,699	26,426,308
Less: Current portion	<u>(2,562,779)</u>	<u>(913,530)</u>	<u>(3,476,309)</u>
Long term portion of leases	<u>\$ 5,925,830</u>	<u>\$ 17,024,169</u>	<u>\$ 22,949,999</u>

At September 30, 2022 and 2021, the weighted average remaining lease term for operating leases is 4.3 years and 3.6 years, respectively, and the weighted average discount rate is 3.20% and 3.96%, respectively. For finance leases, the weighted average remaining lease term is 11.2 years and 12.2 years as of September 30, 2022 and 2021, respectively, and the weighted average discount rate is 6.0%. During fiscal year ending September 30, 2022, operating cash flows from operating leases and finance leases were approximately \$2,969,000 and \$813,000, respectively. During fiscal year ending September 30, 2021, operating cash flows from operating leases and finance leases were approximately \$3,381,000 and \$719,000, respectively. During fiscal years ending September 30, 2022 and 2021, operating ROU assets amortization expense was approximately \$2,953,000 and \$3,461,000, respectively.

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9. Other Liabilities

Other liabilities consist of the following at September 30, 2022 and 2021:

	2022	2021
Workers' compensation liability	\$ 2,190,427	\$ 1,920,860
Self-insured professional liability	29,399,280	21,528,583
Agency for HealthCare Administration statutory liability	7,002,000	6,696,000
Deferred compensation arrangement	4,147,525	4,461,177
Other liability	-	380,000
Deferred employer payroll taxes	-	4,793,736
Obligation for supplemental executive retirement benefits	2,996,101	3,550,355
Security deposits held	2,500	2,500
	<u>\$ 45,737,833</u>	<u>\$ 43,333,211</u>

10. Long-Term Debt

A summary of long-term debt obligations at September 30, 2022 and 2021 follows:

	2022	2021
Healthcare Facilities Revenue Refunding Bonds, Series 2015A, interest of 4.0% to 5.25% at September 30, 2022 and 2021, final maturity December 2044.	\$ 107,290,000	\$ 107,290,000
Healthcare Facilities Revenue Bonds, Series 2016A, interest of 4.0% to 5.25% at September 30, 2022 and 2021, final maturity December 2055.	133,535,000	136,515,000
Healthcare Facilities Revenue Bonds, Series 2016B, interest of 5.25% at September 30, 2022 and 2021, final maturity December 2051.	100,000,000	100,000,000
Finance lease obligations	17,937,699	18,750,652
	<u>358,762,699</u>	<u>362,555,652</u>
Add: Net unamortized bond premium and bond issuance costs	8,875,584	10,777,695
Total long-term debt	367,638,283	373,333,347
Less: Current portion	(3,998,529)	(3,792,954)
Long-term portion	<u>\$ 363,639,754</u>	<u>\$ 369,540,393</u>

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

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

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

The bond trust indentures require compliance with various restrictive covenants, such as minimum debt service coverage ratios, and include maintenance of certain debt service funds. The Hospital was in compliance with the various restrictive financial covenants at September 30, 2022 and 2021.

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

Scheduled maturities on long-term debt are as follows:

	Long-term Debt
Years ending	
2023	\$ 3,085,000
2024	3,190,000
2025	3,305,000
2026	3,420,000
2027	3,540,000
Thereafter	324,285,000
	<u>\$ 340,825,000</u>

11. Self-Insurance

The Hospital maintains a self-insured retention ("SIR") for professional liability insurance on a claims-made basis and general liability on an occurrence-made basis. In addition, the Hospital has excess insurance coverage through a commercial insurance policy in the amount of \$25 million per event and \$25 million in aggregate. Since May 1, 2005, the SIR has been and is currently the first \$3,000,000 of each professional or general liability claim. Effective dates and amount of Hospital's SIR are as follows:

Effective Dates	SIR Amount
August 1, 2021 to present	\$ 4,000,000
May 1, 2005 to July 31, 2021	3,000,000
May 1, 2003 to April 30, 2005	5,000,000
March 28, 2002 to April 30, 2003	3,000,000
March 15, 2001 to March 27, 2002	1,000,000
January 1, 1989 to March 14, 2001	250,000
Prior to January 1, 1989	100,000

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

Professional and general liability claims, including amounts for which the Hospital maintains an SIR, have been asserted by various claimants in addition to claims which may be asserted for known incidents occurring through September 30, 2022. The asserted claims are in various stages of processing and some may ultimately be brought to trial. Moreover, additional claims arising from services provided to patients in the past may be asserted. The Hospital has engaged an independent actuary to assist in the computation of an accrual for self-insurance of professional liability coverage. The actuarial computations were based upon an evaluation of past incidents. An undiscounted liability of approximately \$38,250,000 and \$34,572,000 has been recorded at September 30, 2022 and 2021, respectively, representing management's best estimates based upon the actuarial computations.

On May 1, 2005, the Hospital entered into a captive arrangement with Health Care Casualty Risk Retention Group, Inc. ("HCCR") for professional and general liability reinsurance coverage. HCCR was incorporated under the Captive Insurance Company Act of 2004 and the District of Columbia Business Corporation Act, D.C. Code, 2001 edition, on December 14, 2004. HCCR was added to the list of registered Risk Retention Groups by the state of Florida on March 8, 2005. In addition, the Hospital owns shares of Health Care Casualty Insurance Limited (the "Captive") which was incorporated as a limited liability company under the Companies Law of the Cayman Islands on August 30, 2002 and holds an unrestricted Class "B" Cayman Islands insurer's license under Section 4(2) of the Cayman Islands Insurance Law. The license enables the Captive to transact insurance business, other than domestic business, from within the Cayman Islands. The Cayman Islands Monetary Authority has imposed a minimum capital requirement of \$120,000.

During the period May 1, 2005 to July 31, 2014, HCCR provided professional and general liability coverage of \$20,000,000 per occurrence in excess of the SIR. During the period August 1, 2014 to July 31, 2016, HCCR provided professional and general liability coverage of \$25,000,000 per occurrence in excess of the SIR. Effective August 1, 2016, the owners of the Captive and HCCR have elected to no longer issue policies of professional and general liability insurance. The Boards of Directors of the Captive and HCCR are winding down the operations of both companies and will obtain any regulatory approvals for such actions and provide for payment of any outstanding liabilities.

The Hospital is self-insured for workers' compensation up to \$750,000 per occurrence and has purchased excess coverage from commercial carriers up to the amount allowed by Florida Statutes. A liability of approximately \$3,041,000 and \$2,772,000 has been recorded at September 30, 2022 and 2021, respectively.

The combined liability for professional liability and workers' compensation self-insurance at September 30, 2022 and 2021 was as follows:

	2022	2021
Other current liabilities	\$ 9,701,806	\$ 12,888,397
Other liabilities	31,589,707	23,449,443
	<u>\$ 41,291,513</u>	<u>\$ 36,337,840</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2022 and 2021

12. Retirement Plans

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

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

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

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

	2022	2021
Accumulated benefit obligation	\$ 340,538,630	\$ 447,287,465
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 447,287,465	\$ 469,832,192
Interest cost	12,776,178	13,178,763
Actuarial gain	(98,083,573)	(14,736,022)
Benefits paid	(21,441,440)	(20,987,468)
Projected benefit obligation, end of year	340,538,630	447,287,465
Change in plan assets		
Plan assets at fair value, beginning of year	528,167,783	491,953,094
Employer contributions	-	-
Actual return on plan assets	(58,612,208)	57,202,157
Benefits paid	(21,441,440)	(20,987,468)
Plan assets at fair value, end of year	448,114,135	528,167,783
Funded status	\$ 107,575,505	\$ 80,880,318

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2022 and 2021

The projected benefit obligation actuarial gain in 2022 was due primarily to an increase in the discount rate used to measure plan liabilities. The projected benefit obligation actuarial gain in 2021 was due primarily to changes in mortality assumptions and an increase in the discount rate used to measure plan liabilities.

	2022	2021
Reconciliation of funded status		
Projected benefit obligation at end of year	\$ (340,538,630)	\$ (447,287,465)
Fair value of assets at end of year	<u>448,114,135</u>	<u>528,167,783</u>
Funded status at end of year	<u>\$ 107,575,505</u>	<u>\$ 80,880,318</u>

	2022	2021
Amounts recognized in net assets without donor restrictions		
Net loss	<u>\$ 16,015,917</u>	<u>\$ 37,394,279</u>
Total amount recognized	<u>\$ 16,015,917</u>	<u>\$ 37,394,279</u>

Changes recognized in net assets without donor restrictions		
Net actuarial gain		
Net actuarial gain from liabilities	\$ (98,083,573)	\$ (14,736,022)
Net actuarial loss (gain) from assets	<u>76,705,211</u>	<u>(39,152,129)</u>
Total net actuarial gain	(21,378,362)	(53,888,151)
Amortization of actuarial loss	<u>-</u>	<u>(4,676,347)</u>
Net change in net assets without donor restrictions	<u>\$ (21,378,362)</u>	<u>\$ (58,564,498)</u>

	2022	2021
Weighted average assumptions for benefit obligations at September 30		
Discount rate	5.53 %	2.93 %
Rate of increase in future compensation levels	N/A	N/A

Weighted average assumptions for net periodic benefit income at September 30		
Discount rate	2.93 %	2.87 %
Expected return on plan assets	3.50 %	3.75 %
Rate of compensation increase	N/A	N/A

Components of net periodic pension income		
Interest cost	\$ 12,776,178	\$ 13,178,763
Expected return on plan assets	(18,093,003)	(18,050,028)
Amortization of actuarial loss	<u>-</u>	<u>4,676,347</u>
Net periodic pension income	<u>\$ (5,316,825)</u>	<u>\$ (194,918)</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2022 and 2021

The components of net periodic pension income other than the service component are included in other revenues and expenses, net in the accompanying consolidated statements of operations.

The Plan assets are administered by a trustee and are invested in the following percentages in various instruments at September 30, 2022 and 2021:

	2022	2021
Mutual funds and short-term investments	9 %	7 %
Equity securities	18	19
Debt securities	73	74
	<u>100 %</u>	<u>100 %</u>

The fair value of the Plan's assets at September 30, 2022 and 2021 are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
September 30, 2022				
Non interest bearing cash	\$ 155,357	\$ -	\$ -	\$ 155,357
Short-term investments	38,472,340	-	-	38,472,340
Corporate bonds and notes	-	46,619,525	-	46,619,525
U.S. government and agency obligations	-	48,700,445	-	48,700,445
Common stocks	314,166,468	-	-	314,166,468
Total investments	<u>\$ 352,794,165</u>	<u>\$ 95,319,970</u>	<u>\$ -</u>	<u>\$ 448,114,135</u>
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
September 30, 2021				
Non interest bearing cash	\$ 124,214	\$ -	\$ -	\$ 124,214
Short-term investments	35,107,053	-	-	35,107,053
Corporate bonds and notes	-	59,767,180	-	59,767,180
U.S. government and agency obligations	-	57,904,568	-	57,904,568
Common stocks	375,264,768	-	-	375,264,768
Total investments	<u>\$ 410,496,035</u>	<u>\$ 117,671,748</u>	<u>\$ -</u>	<u>\$ 528,167,783</u>

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

2023	\$ 23,175,408
2024	23,847,582
2025	24,392,077
2026	24,853,631
2027	25,109,853
2028-2033	152,539,835
	<u>\$ 273,918,386</u>

The Hospital expects to contribute \$0 to the Plan for the year ending September 30, 2023. Estimated amounts to be amortized out of net assets without donor restrictions for the year ending September 30, 2023 are \$0.

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

Investment Strategy

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

Expected Rate of Return

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

Retirement Savings Plan

During the year ended September 30, 2005, the Hospital established the Tallahassee Memorial HealthCare 401(A) Retirement Savings Plan (the "Savings Plan"), a qualified defined contribution plan covering all employees who are at least 21 years of age and have completed one year of service. TMH, Inc. contributes 4% of eligible income to each eligible employee and an additional matching contribution up to 2% of eligible income. Participants become fully vested after three years of service. The contribution required under the Savings Plan for the years ended September 30, 2022 and 2021 was approximately \$12,957,000 and \$12,562,000, respectively. These contributions have been included in salaries, wages and benefits expense in the accompanying consolidated statements of operations. Additionally, the amounts due to the Savings Plan as of September 30, 2022 and 2021 were approximately \$1,543,000 and \$1,894,000, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

13. Net Assets with Donor Restrictions

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

- The duration and preservation of the endowment fund
- The purposes of the Foundation and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policy of the Foundation

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

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2022 and 2021

Net assets with donor restrictions are restricted for future time periods or for the following purposes at September 30, 2022 and 2021:

	2022	2021
Nonendowed net assets		
Animal therapy	\$ 176,308	\$ 155,932
Behavioral health	258,669	182,652
Cancer	3,696,988	4,052,949
Colleague relations	339,026	429,005
Covid19	110,022	104,270
Emergency	192,043	223,385
Family care	836,891	930,676
Heart and vascular	432,304	477,003
Laboratory	79,725	95,887
Medical staff	36,868	42,387
Metabolic	962,918	1,135,676
Music therapy	100,934	129,478
Neurosciences	133,751	291,854
Nursing	325,896	364,723
Other	457,506	442,574
Rehabilitation	225,771	303,915
Surgery	137,951	146,973
Time-restricted for future periods	1,162,072	1,326,874
Women's and children's	2,541,916	3,001,143
Total nonendowed net assets	<u>12,207,559</u>	<u>13,837,356</u>
Endowed net assets		
Animal therapy	236,283	240,486
Behavioral health	171,203	177,509
Cancer	1,186,573	1,234,282
Colleague relations	644,172	608,680
Emergency	357,954	370,711
Family care	1,120,637	1,157,682
Heart and vascular	509,230	524,026
Laboratory	193,093	98,824
Medical staff	64,215	66,581
Metabolic	1,998,708	1,924,201
Music therapy	345,227	257,943
Neurosciences	1,937,645	2,092,166
Nursing	215,626	222,054
Other	610,244	632,641
Rehabilitation	333,595	345,832
Women's and children's	392,658	407,092
Total endowed net assets	<u>10,317,063</u>	<u>10,360,710</u>
Total net assets with donor restrictions	<u>\$ 22,524,622</u>	<u>\$ 24,198,066</u>

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2022 and 2021

Net assets were released from donor restrictions during the years ended September 30, 2022 and 2021 by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

Purpose restrictions accomplished during the years ended September 30, 2022 and 2021 were as follows:

	2022	2021
Animal therapy	\$ 9,751	\$ 13,228
Cancer	656,426	327,717
Colleague relations	16,361	33,865
Covid19	14,147	164,671
Emergency	3,529	16,620
Family care	86,329	62,352
Heart and vascular	36,825	7,742
Laboratory	2,220	-
Metabolic	4,468	7,939
Music therapy	-	300
Neurosciences	213,582	89,115
Nursing	69,095	11,640
Other	18,840	8,432
Rehabilitation	49,049	26,737
Surgery	9,483	4,133
Women's and children's	835,637	658,044
Total restrictions satisfied	<u>\$ 2,025,742</u>	<u>\$ 1,432,535</u>

14. Financial Instruments

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

15. Commitments

TMH, Inc. has no future minimum payments under noncancelable maintenance agreements as of September 30, 2022.

16. Contingencies

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2022 and 2021

17. Functional Expenses

TMH, Inc. provides general health care services to residents within its geographic region. TMH, Inc.'s financial statements report certain expense categories that are attributable to more than one function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, interest and other occupancy costs, are allocated to a function based on a square footage or units of service basis. Expenses relating to providing these services are as follows:

September 30, 2022				
	Program	General and Administrative	Fundraising	Total
Salaries, wages and benefits	\$ 403,209,046	\$ 41,368,882	\$ 709,125	\$ 445,287,053
Supplies and other	301,321,607	36,021,347	846,001	338,188,955
Professional fees	68,198,475	15,753,650	-	83,952,125
Depreciation and amortization	34,454,529	4,779,660	5,339	39,239,528
Interest expense	13,312,701	27,267	-	13,339,968
Total expenses	<u>\$ 820,496,358</u>	<u>\$ 97,950,806</u>	<u>\$ 1,560,465</u>	<u>\$ 920,007,629</u>

September 30, 2021				
	Program	General and Administrative	Fundraising	Total
Salaries, wages and benefits	\$ 361,039,115	\$ 36,233,732	\$ 653,045	\$ 397,925,892
Supplies and other	292,708,769	14,773,527	172,685	307,654,981
Professional fees	77,577,540	3,295,265	-	80,872,805
Depreciation and amortization	36,045,564	4,783,954	5,314	40,834,832
Interest expense	12,933,006	(17,002)	-	12,916,004
Total expenses	<u>\$ 780,303,994</u>	<u>\$ 59,069,476</u>	<u>\$ 831,044</u>	<u>\$ 840,204,514</u>

18. Subsequent Events

TMH, Inc. has evaluated subsequent events through December 19, 2022, which is the date the consolidated financial statements were issued.

Supplemental Schedules



Report of Independent Auditors on Accompanying Consolidating Information

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

We have audited the consolidated financial statements of Tallahassee Memorial HealthCare, Inc. and its subsidiaries as of and for the year ended September 30, 2022 and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

Pricewaterhouse Coopers LLP

December 19, 2022

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2022

Schedule I

	Hospital	SECHS	TMHV	Foundation	Medicus	Eliminations	2022 TMH, Inc.	2021 TMH, Inc.
Assets								
Current assets								
Cash and cash equivalents	\$ 293,848,191	\$ 4,705,142	\$ 18,087,298	\$ 789,439	\$ -	\$ -	\$ 317,430,070	\$ 399,777,309
Short-term investments	1,455,409	-	-	22,084,899	-	-	23,540,308	27,190,829
Assets limited as to use	14,998,577	-	-	-	-	-	14,998,577	14,639,461
Accounts receivable, net	112,694,326	-	-	-	-	-	112,694,326	91,935,351
Inventories	14,637,244	-	45,525	-	-	-	14,682,769	13,396,442
Estimated third-party payor settlement receivable	8,418,973	-	-	-	-	-	8,418,973	-
Other current assets	38,035,020	43,793	12,439,340	660,314	(9,834)	-	51,168,633	39,706,440
Total current assets	484,087,740	4,748,935	30,572,163	23,534,652	(9,834)	-	542,933,656	586,645,832
Assets limited as to use								
Held by trustee	28,355,869	-	-	-	-	-	28,355,869	27,996,753
Less amount required to meet current obligations	(14,998,577)	-	-	-	-	-	(14,998,577)	(14,639,461)
Total assets limited as to use	13,357,292	-	-	-	-	-	13,357,292	13,357,292
Long-term investments	27,300	-	-	-	-	-	27,300	27,300
Property and equipment, net	467,924,984	8,096,919	4,929,490	170,264	-	-	481,121,657	495,547,718
Operating lease right-of-use assets, net	8,424,179	-	-	-	-	-	8,424,179	7,882,023
Due from TMH, Inc.	6,658,432	-	-	-	2,908,885	(9,567,317)	-	-
Pension assets	107,575,505	-	-	-	-	-	107,575,505	80,880,318
Other assets	6,922,407	-	-	1,340,258	-	-	8,262,665	12,973,039
Total assets	\$ 1,094,977,839	\$ 12,845,854	\$ 35,501,653	\$ 25,045,174	\$ 2,899,051	\$ (9,567,317)	\$ 1,161,702,254	\$ 1,197,313,522

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2022

Schedule I

	Hospital	SECHS	TMHV	Foundation	Medicus	Eliminations	2022 TMH, Inc.	2021 TMH, Inc.
Liabilities and Net Assets								
Current liabilities								
Accounts payable and accrued expenses	\$ 101,867,176	\$ 103,298	\$ 2,131,743	\$ 10,340	\$ 2,565,071	\$ (2,149,475)	\$ 104,528,153	\$ 96,380,168
Current portion of long-term debt	3,998,529	-	-	-	-	-	3,998,529	3,792,954
Current portion of operating lease liabilities	2,562,779	-	-	-	-	-	2,562,779	2,586,481
Estimated third-party payor settlement liability	-	-	-	-	-	-	-	49,975,516
Other current liabilities	9,701,807	-	-	60,021	-	-	9,761,828	13,094,936
Due to TMH, Inc.	-	2,385,909	4,546,777	151,176	333,980	(7,417,842)	-	-
Total current liabilities	118,130,291	2,489,207	6,678,520	221,537	2,899,051	(9,567,317)	120,851,289	165,830,055
Long-term debt, net of current portion	363,639,754	-	-	-	-	-	363,639,754	369,540,393
Operating lease liabilities, net of current portion	5,925,830	-	-	-	-	-	5,925,830	5,375,050
Other liabilities	45,737,833	-	-	-	-	-	45,737,833	43,333,211
Total liabilities	533,433,708	2,489,207	6,678,520	221,537	2,899,051	(9,567,317)	536,154,706	584,078,709
Net assets								
Without donor restrictions	561,544,131	10,356,647	28,823,133	2,299,015	-	-	603,022,926	589,036,747
With donor restrictions	-	-	-	22,524,622	-	-	22,524,622	24,198,066
Total net assets	561,544,131	10,356,647	28,823,133	24,823,637	-	-	625,547,548	613,234,813

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Statement of Operations
Year Ended September 30, 2022

Schedule II

	Hospital	SECHS	TMHV	Foundation	Medicus	Eliminations	2022 TMH, Inc.	2021 TMH, Inc.
Operating revenues								
Net patient service revenues	\$ 894,515,193	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 894,515,193	\$ 843,562,920
Other revenue	8,134,564	721,298	9,188,145	675,526	33,060,386	(35,880,536)	15,899,383	18,620,782
Total operating revenues	902,649,757	721,298	9,188,145	675,526	33,060,386	(35,880,536)	910,414,576	862,183,702
Operating expenses								
Salaries, wages and benefits	442,471,439	61,763	1,738,284	1,096,161	32,895,273	(32,975,867)	445,287,053	397,925,892
Supplies and other	334,972,953	8,935	3,973,816	3,374,671	165,113	(4,306,533)	338,188,955	307,654,981
Professional fees	83,814,858	11,949	-	125,318	-	-	83,952,125	80,872,805
Depreciation and amortization	38,759,731	99,082	370,038	10,677	-	-	39,239,528	40,834,832
Interest	13,312,701	4,612	-	-	-	22,655	13,339,968	12,916,004
Total operating expenses	913,331,682	186,341	6,082,138	4,606,827	33,060,386	(37,259,745)	920,007,629	840,204,514
Operating income (loss)	(10,681,925)	534,957	3,106,007	(3,931,301)	-	1,379,209	(9,593,053)	21,979,188
Other revenues and expenses, net	1,464,947	62,123	27,267	-	-	(1,379,209)	175,128	(217,431)
(Deficit) excess of revenues over expenses	(9,216,978)	597,080	3,133,274	(3,931,301)	-	-	(9,417,925)	21,761,757
Net assets released from restrictions used for program services and purchase of equipment	-	-	-	2,025,742	-	-	2,025,742	1,432,535
Change in pension liability	21,378,363	-	-	-	-	-	21,378,363	58,564,498
Change in net assets without donor restrictions	\$ 12,161,385	\$ 597,080	\$ 3,133,274	\$ (1,905,559)	\$ -	\$ -	\$ 13,986,180	\$ 81,758,790

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries
Consolidating Statement of Changes in Net Assets
Year Ended September 30, 2022

Schedule III

	Hospital	SECHS	TMHV	Foundation	Medicus	Eliminations	2022 TMH, Inc.	2021 TMH, Inc.
Net assets without donor restrictions								
(Deficit) excess of revenues over expenses	\$ (9,216,978)	\$ 597,080	\$ 3,133,274	\$ (3,931,301)	\$ -	\$ -	\$ (9,417,925)	\$ 21,761,757
Net assets released from restrictions used for program services and purchase of equipment	-	-	-	2,025,742	-	-	2,025,742	1,432,535
Change in pension liability	21,378,363	-	-	-	-	-	21,378,363	58,564,498
Change in net assets without donor restrictions	12,161,385	597,080	3,133,274	(1,905,559)	-	-	13,986,180	81,758,790
Net assets with donor restrictions								
Contributions	-	-	-	1,575,952	-	-	1,575,952	2,091,656
Investment return, net	-	-	-	(1,223,654)	-	-	(1,223,654)	1,124,148
Net assets released from restrictions used for program services and purchases of equipment	-	-	-	(2,025,742)	-	-	(2,025,742)	(1,432,535)
Change in net assets with donor restrictions	-	-	-	(1,673,444)	-	-	(1,673,444)	1,783,269
Change in net assets	12,161,385	597,080	3,133,274	(3,579,003)	-	-	12,312,736	83,542,059
Net assets								
Beginning of year	549,382,746	9,759,567	25,689,859	28,402,640	-	-	613,234,812	529,692,753
End of year	\$ 561,544,131	\$ 10,356,647	\$ 28,823,133	\$ 24,823,637	\$ -	\$ -	\$ 625,547,548	\$ 613,234,812

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

Tallahassee Memorial HealthCare, Inc. and Subsidiaries

Notes to Consolidating Supplemental Schedules

September 30, 2022

1. Basis of Presentation

The accompanying consolidating information has been prepared for purposes of additional analysis and are not a required part of the consolidated financial statements. The first column, "Hospital," represents information of the hospital division of Tallahassee Memorial HealthCare, Inc. ("TMH Inc.") The second column, "SECHS", represents information of such legal entity, which is a not-for-profit property holding company. The third column, "TMHV", is a for-profit holding corporation which manages the activities that are not tax exempt. The fourth column, "Foundation" represents a not-for-profit organization which promotes the educational training and research programs of TMH, Inc. The fifth column, Medicus represents a disregarded entity that provides Hospital with leased labor. The sixth column, "Eliminations", represents consolidating adjustments, including those related to the elimination of intercompany transactions and balances between the first five columns which are made up primarily of intercompany revenues/salaries and wages expenses (and their related accruals/receivables) arising from leased labor. Also, included in the elimination of intercompany transactions balances are adjustments related to intercompany operating lease activity accounted for under legacy US GAAP between Hospital (lessee) and SECHS (lessor). On October 1, 2020, the Company adopted ASC 842 *Leasing* using the modified retrospective transition approach. The Hospital recognized \$8,424,000 net operating lease right-of-use assets and \$8,489,000 operating lease liabilities with unrelated third parties at September 30, 2022. The Company does not account for its intercompany lease activities under ASC 842. Rather, intercompany charges for rent expense and rental income are charged based on historical rates and eliminated in consolidation. As a result, the columns "Hospital" and "SECHS" do not reflect the effects of ASC 842 with respect to intercompany leases. The seventh column, "2022 TMH, Inc.", represents the total of the first six columns and agrees to the consolidated financial statements of TMH, Inc. Other than as described above, the schedules of supplemental consolidating financial information are prepared in accordance with accounting policies described in the accompanying notes to the consolidated financial statements. These schedules are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of all required disclosures, as well as the lack of accounting for intercompany leases under ASC 842 in the Hospital and SECHS columns.