North Brevard County Hospital District

Financial Statements
and Supplementary Information

For the Years Ended September 30, 2017 and 2016,
and Independent Auditor's Report

NORTH BREVARD COUNTY HOSPITAL DISTRICT

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MSL
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Audit Committee
North Brevard County Hospital District
Titusville, Florida

Report on the Financial Statements

We have audited the accompanying balance sheets of North Brevard County Hospital District (the "District"), including North Brevard Medical Support, Inc. ("NBMS") (a blended component unit of the District), as of September 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, based on our audits, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the District as of September 30, 2017 and 2016, and the respective results of operations, changes in net position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting, placing the basic financial statements in an appropriate operational, economic, or historical context. This information is the responsibility of the District's management. We have applied certain limited procedures to the management's discussion and analysis and required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole as of and for the years ended September 30, 2017 and 2016. The accompanying other supplementary information, as listed in the table of contents, is presented for the purpose of additional analysis of the financial statements and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Tampa, Florida
December 22, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the North Brevard County Hospital District (the "District") annual financial report presents background information and our analysis of the District's financial performance during the fiscal years ended September 30, 2017 and 2016. It is intended to be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total operating revenues in fiscal year 2017 decreased $12.7 million, or 8.8%, while total operating expense decreased $18.4 million, or 12.7%. The net operating margin for fiscal year 2017 was approximately $6.0 million, or 4.5%, compared to the fiscal year 2016 operating margin of approximately $0.4 million, or 0.28%. The total 2017 net nonoperating loss was $8.7 million. As a result, the change in net position in 2017 was a decrease of approximately $2.7 million before capital contributions.

- Total fiscal year 2017 admissions decreased by 8.2% (from 6,748 in 2016 to 6,194 in 2017); patient days decreased by 4.1% (from 30,769 in 2016 to 29,513 in 2017). In addition, inpatient surgeries and special procedures decreased in fiscal year 2017 by 11.1% (from 2,385 in 2016 to 2,121 in 2017). Total cardiac cath lab volume, both cardiac catheterizations and angioplasties ("PTCAs"), decreased 3.7% in 2017 (from 1,689 in 2016 to 1,626 in 2017).

- Charges foregone, based upon established rates, from community (charity) care provided to patients decreased from $11.9 million in fiscal year 2016 to $11.7 million in fiscal year 2017. Community care as a percentage of total gross patient service revenue was 1.9% in 2017 and 2016. The provision for bad debt decreased in fiscal year 2017 by $3.4 million, as compared to fiscal year 2016. The 2017 amount was $20.4 million versus the 2016 amount of $23.8 million. The 2017 provision for bad debt as a percentage of total gross patient service revenue decreased to 3.3%, compared to 3.9% in fiscal year 2016. In total, bad debt and community care, as a percentage of total gross patient service revenue, decreased to 5.2% for 2017, from 5.8% in 2016.

- The District elected to freeze the defined benefit plan during calendar 2016 which resulted in a reduction in the estimated present value of the associated liability. As such, the District recognized a reduction of fiscal year 2017 employee benefit plan expense of $15.2 million in conjunction with recognizing a net pension assets of $14.7 million as of September 30, 2017.

- Net position decreased $2.7 million for the current year, compared to a $3.2 million decrease in the prior year.

- The District's 2017 balance sheet remains strong, as evidenced by comparing the 261 days' cash on hand at fiscal year-end 2017, to the 149 days hospital industry median for Fitch Ratings "BBB" rated hospitals. Similarly, the District's cash-to-debt ratio of 87.0% is below the Fitch Rating industry median of approximately 93.1%. Our long-term debt to capitalization ratio remained the same at 48.2% for 2017 and 2016.

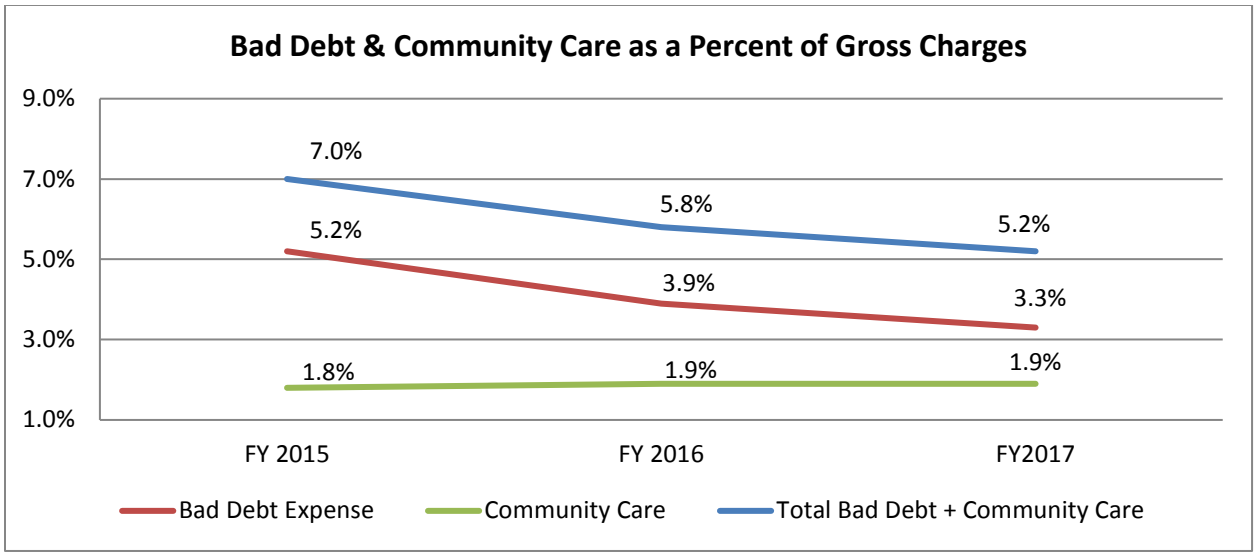
- Net capital expenditures for the year were $11.2 million and were funded by cash flow from operations. The breakdown of the $11.2 million in capital expenditures is approximately $6.7 million for the development and construction of Parrish Healthcare - Titusville; $1.0 million for the software and renovation for the Teletracking and Mission Control project; $1.1 million for the development and construction of Parrish Healthcare - Port Canaveral; and $2.4 million in routine capital equipment replacement.

COMMUNITY BENEFIT HIGHLIGHTS

Bad Debt and Community (Charity) Care

Our fiscal year 2017 total net bad debt write-offs decreased $2.5 million, or 10.2%, from $24.4 million in 2016 to $21.9 million in 2017. Net bad debt write-offs reflect the annual amount of total bad debt write-offs less the amount of collections and adjustments to accounts classified as bad debt. Total 2017 bad debt write-offs were $25.2 million, compared to $26.3 million in 2016; a $1.1 million decrease.

Total 2017 gross cash collections decreased $1.3 million to $133.4 million, compared to the 2016 amount of $134.7 million. Our percentage of cash collected to net patient service revenue was 103.2% in 2017, compared to 95.6% in 2016.



Our fiscal year 2017 total bad debt and community care as a percentage of total gross patient service revenue was 5.2%.

A patient qualifying for community care does not have the ability to pay for services rendered. A patient's charges charged to bad debt means that, based on information provided, the patient has the financial resources, but nevertheless refuses to pay for the services rendered.

In analyzing the $2.5 million decrease in our net bad debt write-offs, we noted that self-pay accounts decreased in 2017 versus 2016 by 680, or 8.1%. Self-pay account write-offs decreased $0.2 million ($14.1 million in 2017 versus $14.3 million in 2016). Bad debt write-offs for self-pay patients that were unemployed decreased approximately $2.5 million, or 27.7% (from $9.2 million to $6.7 million).

The remaining $2.3 million decrease in bad debt write-offs in 2017 compared to 2016 are for the patient portion of Medicare, commercial HMO, and PPO insured patients. Those write-offs decreased from $10.1 million for 2016 to $7.8 million for 2017.

Our self-pay discount policy incorporates the principles and guidelines developed by the American Hospital Association, the Patient Friendly Billing Project, and the Florida Hospital Association. The policy is centered on a sliding scale based on household income. Individuals who make 200% or less of the current Federal Poverty Guidelines ("FPG") qualify for charity care and 100% write-offs; those with household incomes between 201% and 299% of the FPG qualify for an 80% discount; those with household incomes between 300% and 399% of the FPG qualify for a 70% discount; and those with household incomes over 400% of the FPG qualify for a 60% discount. In addition, if the balance is paid in full within 30 days of service, an extra 5% discount is provided. During fiscal year 2017, we provided approximately $19.3 million in discounts to self-pay accounts, as compared to $20.4 million in fiscal year 2016.

In May 2007, Parrish Medical Center ("PMC") began issuing Care Pass Cards as a service to our self-pay patients. Care Pass is an identification card with information showing the patient's name, type of assistance for which the individual qualified, and an expiration date. A financial evaluation determines whether the patient qualifies for financial assistance (i.e., community care) or a discount. Both the discount program and financial assistance are based on the FPG. Care Pass Cards are accepted for all hospital-related services and locations, as well as Parrish Medical Group locations.

Prior to receiving the cards, patients are screened for state medical assistance programs. Anyone who qualifies is helped with the application process by using the Access website provided by the Department of Children and Family Services. Our goal in fiscal year 2017 continues to be finding other community partners (physicians, pharmacies, durable medical equipment, and supply companies, etc.) that will recognize the card and offer discounted healthcare services to people in need.

During fiscal year 2017, our community care was 1.9% of total gross patient service revenue for 2017 and 2016. Total community care was $11.7 million in 2017, compared to $11.9 million in 2016, a $0.2 million increase, or 1.7%. Included in total community care is a hardship provision category for individuals who would not qualify for community care (200% or less of the FPG), but whose total bill(s) exceeded 25% of the individual's annual salary.

Finally, we continue to work on improving our identification of patients who qualify for community care, especially early in the process of the patient's access to our system. Our total fiscal year 2017 actual community care write-offs decreased $0.9 million, or 6.9%. Costs associated with providing community care to patients amounted to approximately $2.6 million and $3.1 million for fiscal years 2017 and 2016, respectively.

Other Community Benefits

PMC is a not-for-profit, community healthcare organization whose mission and vision are *Healing experiences for everyone all the time*® and *Healing families--Healing communities*®. These are words our care partners live by at all of the District's locations: Parrish Medical Center; Parrish Healthcare Center at Port St. John; Parrish Healthcare Center – Port Canaveral; Parrish Healthcare Center – Titusville; Parrish Health & Fitness Center; Parrish Occupational Medical Services; Parrish Home Care; the Senior Consultation Center; Parrish Cancer Center; Parrish Infusion Center; and Parrish Wound Healing Center.

PMC maintains its not-for-profit, public status even though the medical center's Board of Directors has, for more than 22 years, voted against accepting public tax money (unlike most public hospitals). Nevertheless, in 2017, we provided more than $32.1 million in bad debt and community (charity) care - a testament to the medical center's commitment to providing affordable healthcare to the people we serve.

Our service area extends from the Beach Line (SR 528) in the south to the Volusia County line in the north, and from the Atlantic coast in the east to the Orange and Seminole County lines in the west. Our unique Central Florida location means we provide care for year-round residents, seasonal residents, Kennedy Space Center-related tourists, passengers and crews from Cape Canaveral-based cruise lines, and visitors who come to enjoy Brevard County's beaches and fishing. Today, with the addition of the Space Shuttle Atlantis Exhibit, the Space Center hosted 1.7 million visitors, a continued increase in rocket launches, a growing eco-tourism business, and an expansion of the Port Canaveral cruise ship port, tourists are coming to northern Brevard. During the past year, Port Canaveral grew at the rate of 26% and is one of the busiest ports in the country for both cruise and cargo businesses, adding two additional mega cruise ships, for a total of eight by 2022, to call the port home. In addition, there are a number of businesses relocating to the Brevard County area to take advantage of the highly skilled labor pool. One such venture is Kennedy Space Center ("KSC"), which is leasing land to establish Exploration Park at KSC, for commercial light manufacturing, research and space tourism through private commercial aerospace and technology companies.

Blue Origin owned by Amazon.com (750,000 square feet) and OneWeb owned by Airbus (250,000 square feet) will be opening their facilities between now and May 2018. Sierra Nevada Corporation flying space cargo missions is expected to break ground on its 150,000 square foot facility in 2018. Space Florida located at Exploration Park is projecting 1,500 new aerospace jobs within one year. Florida's Secretary of State has projected that within ten years the aerospace expansion will bring 100,000 new jobs and $100 billion dollars of new revenue to the state with a significant part of that growth focused in east Central Florida.

Titusville will remain a major participant in space flight with the goal of becoming one of the world's capitals of high-technology and science. Boeing announced in October 2011 that it would be developing its new commercial space capsule at KSC. KSC will also assemble and process the Orion spacecraft for deep space missions. The first Orion exploration flight test took place in December 2014. The successful unmanned test flight lasted four-and-a-half hours before splashing down in the Pacific Ocean. The next test flight is scheduled for December 2018 with the first mission to carry astronauts to take place in 2021.

Titusville has also seen growth at its municipal airport ("TICO") with businesses, such as Paragon Plastics, Embraer, a natural gas plant, and a logistics center. Lockheed Martin is adding 300 new jobs at the Astrotech site adjacent to TICO, while Space X has added 100 new jobs to its local site.

On the medical front, to meet the increasing needs of the uninsured and underinsured in the community, the Board of Directors approved transitioning the operations of the Community Medical Clinic to a federally qualified healthcare clinic with several other locations in Brevard County. Under the agreement, PMC funded more than $0.9 million in both 2017 and 2016. In addition, the District provided $0.1 million and $0.4 million in outpatient diagnostic services in 2017 and 2016, respectively. The Board of Directors felt this transition and collaboration enabled PMC to continue to fulfill its healing mission with respect to indigent patients at a lower cost than if they used the emergency department for healthcare services. The District's Board of Directors and management understand that PMC seeks to assist our community by serving as an extension of the local healthcare safety net. All patients, regardless of their financial position, are served within the goals of PMC's vision *(Healing families--Healing communities®)*.

PMC's Diabetes Education Program is recognized by the American Diabetes Association as meeting the National Standards for Diabetes Self-Management Education. According to the District's 2016 Community Health Needs Assessment, conducted by Professional Research Corp. ("PRC"), a total of 13.9% of North Brevard County adults report having been diagnosed with diabetes. This is similar to the statewide and national proportions. In addition to the prevalence of diagnosed diabetes referenced above, another 8.7% of service area adults report that they have "pre-diabetes" or "borderline diabetes." This is comparable to the U.S. prevalence. A physician referral is required for participation in the program and for other services.

The Diabetes Education Program includes up to 10 hours of diabetes self-management training, which is provided through small group classes and individual assessments with a Diabetes Nurse Educator and a Registered Dietitian. The program tracks multiple quality measures, including program satisfaction and changes in self-care behaviors.

Diabetes Education has taken extra strides to reach out to members of the community through free monthly diabetes support groups, community presentations, and by participating in health fairs and community events. Last year, more than 1,000 community members participated in our community events.

The Diabetes Education Program revenue does not cover its direct costs, and it operated at a loss of approximately $0.3 in 2017.

In 2000, the District, through its subsidiary, North Brevard Medical Support, Inc. ("NBMS"), opened a $2.0 million Children's Center (the "Center") to bring various community children's programs under one roof. This facility houses Early Learning Coalition of Brevard, Space Coast Early Steps, United Way of Brevard's Healthy Families Program, Nemours pediatric specialty clinics, Caladium school for autistic children, Speech Works Pediatric Therapy and Parrish Early Care and Education, and Lifetime Counseling Center. The Center's partnering agencies work together to meet the needs of children with learning and/or

physical disabilities. Services range from childcare and pre-school to parenting groups, play groups, school tutoring, behavior interventions, developmental evaluations, therapy services, support groups, and more. The Center serves over 300 children each day and operated at a loss of approximately $37,000 in fiscal year 2017.

PMC care partners had more than 16,000 encounters with community members in 2017. The PMC team helped our community learn how to be and stay healthy by providing health fairs, screenings, and education across Brevard County. During 2017 and 2016, the District sponsored numerous community health and wellness-related events and programs. Associated costs, exclusive of staff time, were approximately $19,500 in 2017 and $16,000 in 2016.

The District sponsored 60 organizations and programs in 2017 and 59 organizations and programs in 2016 at a cost of approximately $451,000 and $414,000, respectively. In addition, the District paid approximately $5,000 and $20,000 in 2017 and 2016, respectively, for several healthcare programs for the City of Titusville.

The District offers free multiple support groups that use our staff, resources, and facilities. Among these programs are: Beginning Breastfeeding Class, HealthBridge healthy living series, Crash Course on Aging, and Caregiver Academy. Support groups include those for AWAKE Sleep Disorders Caregiver, Congestive Heart Failure, Diabetes, Look Good Feel Better Cancer Patient, Moms & Kids Gathering (childhood development), Parkinson's, Parrish Partners (cancer), Pulmonary Hypertension, and Stroke.

In addition, the District provides other programs that require a nominal enrollment fee that does not cover the cost of the program but does help pay for materials for the following programs: Moments to Miracles (childbirth education class), Respite Nights (for parents of special needs children), Diabetes Survival Skills - Titusville & Port St. John (diabetes self-management classes), Diabetes Group Class, and HeartSaver CPR Class. In addition, the District offers EMMI®, a comprehensive health program providing important education, videos and more through a variety of platforms. An online health-education library and videos, as well as healthcare provider information, medical records portals, and a variety of health trackers are provided as part of the medical center's website parrishmed.com. A monthly electronic newsletter alerts members to upcoming monthly health events, screenings and important health news. A quarterly health magazine is mailed to more than 26,000 homes in North Brevard.

The District, through its subsidiary NBMS, provides $75,000 annually to support healthcare-related community activities. Brevard County residents and not-for-profit organizations can apply for a grant. A committee reviews the grant requests quarterly to determine who receives grants for that quarter.

The care partners of the District, through PMC's programs, facilities, contributions, and community involvement, are working daily to fulfill our mission (*Healing experiences for everyone all the time®)* and our vision *(Healing Families--Healing Communities®).*

Game Plan: The Game Plan was introduced in 2000 and is the medical center's strategic plan. It is the framework the District uses for the consistent, standardized communication of the organization's annual business strategic goals and expectations. It is supported and directed by the medical center's Board of Directors. In 2012, the District introduced an updated Game Plan. The current Game Plan is a matrix of 10 pillars to drive organizational success: five pillars defining ***what*** we do and five pillars defining ***how*** we do it.

"What we do" Pillars:

- Educate = Knowledge-gain strategies
- Assess = Health screening and assessment strategies
- Understand = Diagnostic strategies
- Care = Treatment strategies
- Maintain = Disease management strategies

"How we do it" Pillars:

- Community Investment = Stewardship and budget strategies
- Engaged Partners in Care = Loyalty and care partner engagement strategies
- System Reliability = Safety and excellence strategies (applying Lean Sigma principles)
- Healing Experiences = Compassion and patient satisfaction strategies
- Healing Communities = Integrity and overall community health management strategies

The premise of the Game Plan is that if an organization is balanced among the pillars, it will be well-positioned to sustain long-term success. These goals are: to achieve and maintain the Hospital Consumer Assessment of Healthcare Providers and Systems ("HCAHPS") patient satisfaction scores in the top 10% nationally (Healing Experience); to achieve and maintain engagement scores in the top 10% nationally (Engaged Partners in Care); to achieve and maintain a rank in the top 10% nationally in Centers for Medicare & Medicaid Services ("CMS") quality indicators for heart attack, heart failure, surgical infection prevention, and pneumonia (System Reliability); to achieve and maintain credit rating in the top 10% nationally (Community Investment); and to achieve and maintain a readmission rate of less than 8% (Healing Communities).

PMC is proud to be an independent, public, not-for-profit community medical center that not only serves our community with excellence, but also serves as an industry leader on many fronts, most notably as leaders of the healing environment and leaders for integrated quality and safe care.

Mayo Clinic announced PMC as the 29th member of the Mayo Clinic Care Network ("MCCN") in 2014. With that announcement, PMC became the first Central Florida MCCN member and the third in Florida. As a MCCN member, PMC physicians and patients have direct access to the latest Mayo Clinic expertise, clinical care information, resources and tools. In 2016, PMC deepened its relationship with Mayo with a formal affiliation for cancer care and treatment. PMC, Mayo Clinic in Jacksonville, Florida, and OMNI Healthcare, Brevard County's only physician-owned and managed multi-specialty group, partnered to create Parrish Cancer Center. The District's cancer program is a member of the MCCN.

PMC's proven care integration, quality and safety performance place us in the top percentile of all U.S. hospitals according to such premier rating and accreditation organizations as The LeapFrog Group, The Safe Care Group, CMS, The Patient Safety Movement Foundation, Vizient Southeast (formerly VHA Southeast) and The Joint Commission.

The Joint Commission announced in January 2016 that PMC is the first in the United States to be awarded Integrated Care Certification. The Joint Commission's Integrated Care Certification recognizes that PMC is improving patient outcomes with better coordinated care and demonstrates PMC's commitment to ensuring that high-quality care transcends the walls of the hospital. With this certification, PMC introduced Parrish Healthcare® to the community — another milestone in our proud tradition of serving as recognized national industry leaders.

Parrish Healthcare is a groundbreaking network of healthcare providers that includes PMC and its affiliates; Parrish Medical Group, NCQA certified patient and family-centered medical homes; and Parrish Health Network, a regional network of healthcare providers, insurers, and others.

Unlike other models that opt to build networks through mergers and acquisitions, PMC's model is one of collaboration. PMC's network includes like-minded organizations who have agreed to collaborate instead of compete for the benefit of the patients and people served. Collaboration between healthcare providers is preferable to costly competition that raises costs and does nothing to improve care. That's why PMC created Parrish Healthcare, a regional network of healthcare providers who are committed to working together to practice evidence-based care and to engage in collaborative initiatives that result in superior quality outcomes, the elimination of patient harm, and reduced healthcare costs for all — achieving the triple aim of the government's value-based purchasing initiative.

PMC is also a CMS 4-star rated hospital, according to Hospital Compare. The overall rating summarizes up to 64 quality measures reflecting common conditions that hospitals treat. The overall rating shows how well each hospital performed, on average, compared to other hospitals in the U.S. PMC maintains top national rankings for quality, safety and patient experience.

In 2016, the National Patient Safety Movement announced PMC was the first hospital to make formal commitments that align with all 14 Actionable Patient Safety Solutions ("APSS") toward eliminating preventable patient deaths by 2020. The Patient Safety Movement Foundation works with medical safety experts from around the world to develop this series of simple and easy-to-follow processes to some of the most common patient safety challenges that hospitals face today. These processes, called APSS, can be adapted to almost any clinical setting, anywhere in the world. There are currently 14 patient safety challenges, and PMC has made a total of 14 commitments that align with all 14 APSS categories.

Additionally, PMC is ranked among the Top 100 SafeCare Hospitals® by the SafeCare Group. The SafeCare Group was founded in 2010 to help hospitals excel in the areas of Patient Safety, Quality, and Efficiency. According to the data, PMC was the highest ranking performer among Florida hospitals for CMS Hospital Value-Based Purchasing ("HVBP") Program, Hospital-Acquired Condition Reduction Program ("HACRP"), and Hospital Readmissions Reduction Program ("HRRP"). It was also the only Florida hospital to attain the coveted three-standard deviations above the average cumulative score with 40 metrics of the Affordable Care Act.

PMC has also maintained the designation of a Top Performer on Key Quality Measures® by The Joint Commission, the leading accreditor of healthcare organizations in the United States.

PMC has earned more straight 'A' Hospital Safety Grades from The LeapFrog Group, than most U.S. hospitals. In 2016, PMC's straight A record, placed them among the top 1.2% of hospitals in the United States.

PMC also received the 2016 Women's Choice Award®, distinguishing PMC as one of America's Best Stroke Centers. The Women's Choice Award is the only declaration that integrates clinical excellence ("CMS") and consumer experience ("HCAHPS") to provide women, the family's Chief Health Officers, the ability to make the best healthcare decisions for their families.

In addition, PMC was designated as a Gynecological Surgery Center of Excellence by the American Institute of Minimally Invasive Surgery ("AIMIS") in 2015; in 2014, PMC was one of only 37 hospitals in the United States to receive Consumer Reports' highest rating in preventing surgical-site infections, central line infections, and infections stemming from urinary catheters; in a separate rating, in 2014, Consumer Reports also rated PMC as Florida's safest hospital; PMC earned the Designated Blue Distinction® Center for Maternity Care; among many other awards and distinctions (all of which can be found on parrishmed.com).

In addition to the patient safety and clinical quality distinctions, PMC has also earned a national reputation as one of America's finest healing work environments. PMC ranks among the top "150 Great Places to Work in Healthcare" by *Becker's Hospital Review 2016*, a premier national healthcare publication; was named a Top 100 Places to Work by *Modern Healthcare*; and earned the Gallup Great Workplaces award; among others.

PMC's focus on quality, safety and excellent patient experiences is not only the right thing to do on behalf of the patients and communities we serve, but will also lead to increased reimbursement from the government, as part of their value-based purchasing program and commercial insurance payors.

PMC is guided by its vision of Healing Families—Healing Communities® and exists to fulfill its mission to provide a Healing experience for everyone all the time®.

We had another surveillance review in October 2017 with Standard and Poor's, one of our two credit rating agencies; and in March 2017, with Fitch Ratings. Standard & Poor's report and Fitch Ratings report both reaffirmed the credit rating of BBB, outlook negative.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District using accounting methods prescribed by the Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants *Audit and Accounting Guide for Health Care Organizations* (the "Audit Guide"). These financial statements provide current and long-term financial information about the District's activities. The Balance Sheets include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides information to compute rate-of-return, evaluate the capital structure of the District, and assess the District's liquidity and financial flexibility.

All revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. These statements measure changes in the District's operations over the past two years and can be used to determine whether the District has recovered its costs through patient service revenue and other revenue sources.

The final required statement is the Statement of Cash Flows. This statement provides information about the District's cash from operating, investing, and financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

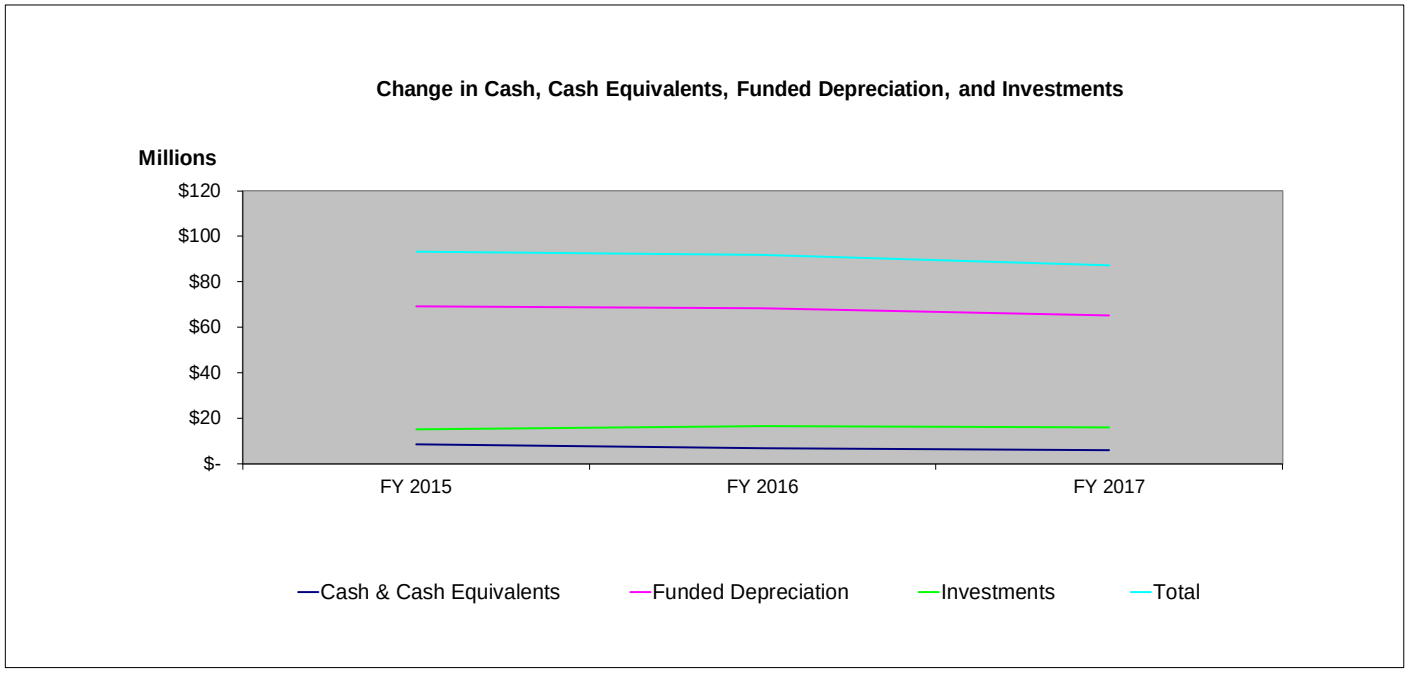
The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Position report information about the District's financial position and activities. These two statements report the net position of the District and the changes in the net position. Increases or decreases in net position are one indicator of whether the District's financial health is improving or deteriorating. However, other nonfinancial factors, such as changes in economic conditions, population growth (including the uninsured and working poor), and new or changed government legislation, should also be considered.

TABLE 1
Condensed Balance Sheets
(in thousands)

	FY2015	FY2016	FY 2017	FY16 vs. FY17 Dollar Change	Total % Change
Current and other long-term assets	$ 132,615	$ 126,321	$ 136,325	$ 10,004	7.92 %
Capital assets	91,129	85,771	79,069	(6,702)	(7.81)%
Deferred outflows	13,500	18,638	18,749	111	0.60 %
Total assets and deferred outflows	$ 237,244	$ 230,730	$ 234,143	$ 3,413	1.48 %
Current and long-term debt outstanding	$ 101,023	$ 98,734	$ 96,316	$ (2,418)	(2.45)%
Other current and long-term liabilities	26,929	25,898	31,426	5,528	21.35 %
Deferred inflows	131	98	3,071	2,973	3033.67 %
Total liabilities and deferred inflows	$ 128,083	$ 124,730	$ 130,813	$ 6,083	4.88 %
Invested in capital assets, net of related debt	$ 5,596	$ 9,670	$ 5,108	$ (4,562)	(47.18)%
Restricted by donors	520	301	280	(21)	(6.98)%
Restricted for debt service	5,156	5,189	5,222	33	0.64 %
Unrestricted	97,889	90,840	92,720	1,880	2.07 %
Total net assets	$ 109,161	$ 106,000	$ 103,330	$ (2,670)	(2.52)%

Net Position

A summary of the District's condensed Balance Sheets is presented in Table 1 below:



2017 Compared to 2016

The increase of $10.0 million in current and other long-term assets in fiscal year 2017, compared to 2016, is due to a $2.1 million decrease in accounts receivable; a $4.6 million decrease in cash, funded depreciation, and investments; an increase of $2.3 million in deposits and other assets; an increase of $0.1 million in supplies; a decrease of $0.4 million in prepaid expenses and other assets; an increase of $0.1 in trust reserves and restricted assets and an increase of $14.7 million in net pension assets. The increase of $0.1 million for deferred outflows is related to the partial refunding of the Series 2008 Bonds and the pension asset. The decrease of $6.7 million in capital assets in 2017 over 2016 stems from the net effect of the capital additions ($1.0 million), less the net change of accumulated depreciation ($7.7 million) recognized in 2017.

The approximately $2.4 million decrease in current and long-term debt outstanding in fiscal year 2017 is due to the annual bond payment on the 2008 and 2014 Bonds of approximately $1.3 million and $0.7 million, respectively; and a decrease in long-term capital lease obligations of $0.4 million. Other current and long-term liabilities increased $5.5 million due to an increase of $4.5 million for accounts payable and accrued expenses; an increase in third-party payables of $0.7 million; and an increase in other current liabilities of $0.3 million. Finally, as seen in Table 1, fiscal year 2017 total net position decreased $2.7 million to $103.3 million, down from $106.0 million in fiscal year 2016. The change in net position results primarily from $2.7 million in net operating and nonoperating loss.

2016 Compared to 2015

The decrease of $6.3 million in current and other long-term assets in fiscal year 2016, compared to 2015, is due to a $0.5 million increase in accounts receivable; a $0.2 million decrease in temporarily donor-restricted funds; a $1.3 million decrease in cash, funded depreciation, and investments; an increase of $0.9 million in deposits and other assets; a decrease of $0.3 million in supplies; an increase of $0.6 million in prepaid expenses and other assets; and a decrease of $6.5 million in net pension assets. The increase of $5.1 million for deferred outflows is related to the partial refunding of the Series 2008 Bonds and the pension asset. The decrease of $5.4 million in capital assets in 2016 over 2015 stems from the net effect of the capital additions ($6.1 million), less the net change of accumulated depreciation ($11.5 million) recognized in 2016.

The approximately $2.3 million decrease in current and long-term debt outstanding in fiscal year 2016 is due to the annual bond payment on the 2008 and 2014 Bonds of approximately $1.3 million and $0.7 million, respectively; and a decrease in long-term capital lease obligations of $0.3 million. Other current and long-term liabilities decreased $1.0 million due to a decrease of $1.8 million for accounts payable and accrued expenses; offset by an increase in third-party payables of $0.3 million; and an increase in other current liabilities of $0.5 million. Finally, as seen in Table 1, fiscal year 2016 total net position decreased $3.2 million to $106 million, down from $109.2 million in fiscal year 2015. The change in net position results primarily from $3.2 million in net operating and nonoperating loss.

Sources of Revenue

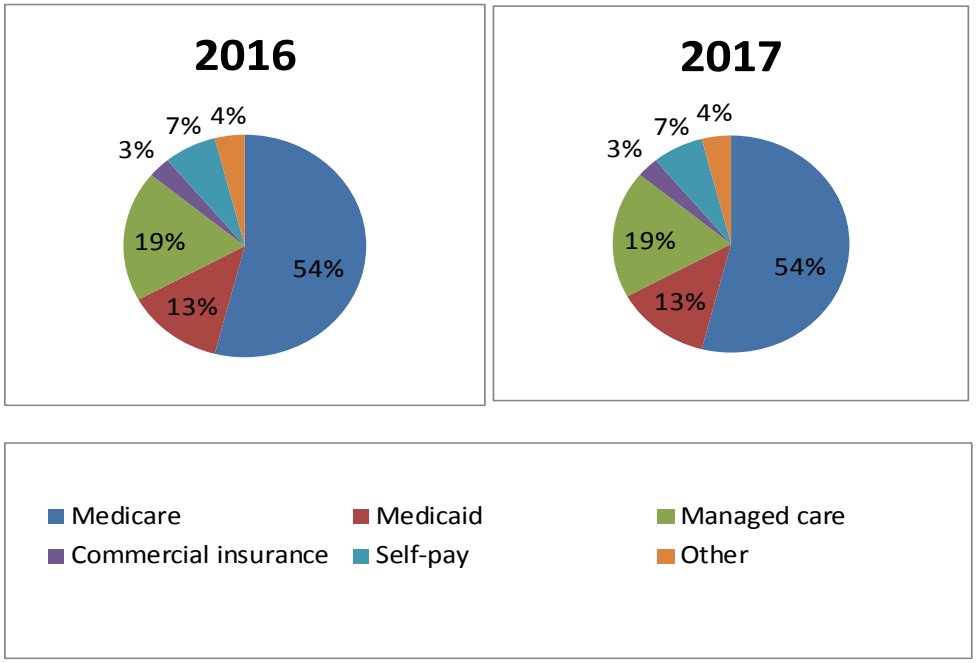
Operating Revenue

During fiscal year 2017, the District derived approximately 86% of total revenues from operations and approximately 14% from nonoperating activities. Operating revenues include revenues from the Medicare and Medicaid programs, third-party insurance carriers, and patients. Table 2 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended September 30, 2017 and 2016.

TABLE 2

Payor Mix by Percentage

	Year Ended September 30,	
	2016	**2017**
Medicare	54%	54%
Medicaid	13%	13%
Managed care	19%	19%
Commercial insurance	3%	3%
Self-pay	7%	7%
Other	4%	4%
Total patient service revenues	100%	100%



Net Nonoperating Revenues (Expenses)

Investment Income. During fiscal year 2017, investment income of $6.7 million is included in the District's $153.8 million in total revenues (both operating revenue and nonoperating revenue). This was comprised primarily of $2.1 million of interest and dividends, $1.7 million of realized gains on sale of investments, and $2.9 million of net unrealized gains on investments.

Net Other Nonoperating Revenues. During fiscal year 2017, the District incurred approximately $0.5 million of net nonoperating income from the activities of NBMS. Within other nonoperating revenue are certain income and/or expenses of the Center; Parrish Health Network, a joint venture; Florida Medical Insurance Corporation and physician recruitment activities.

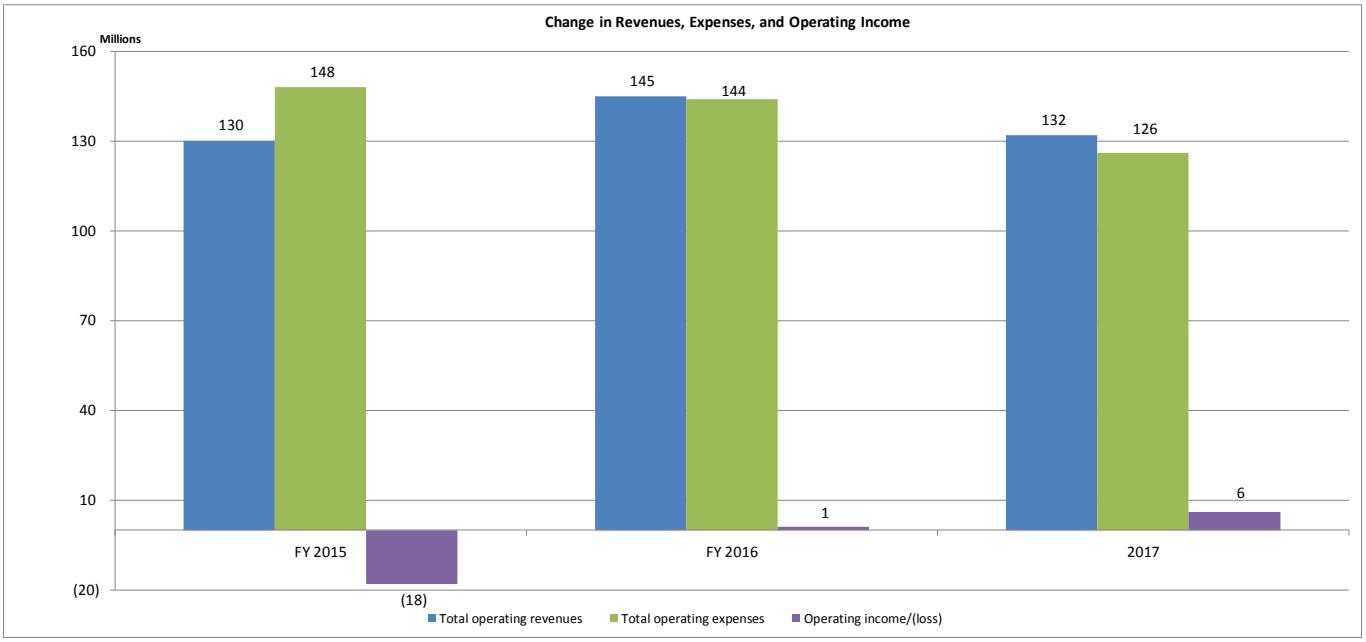
The District's net other nonoperating expenses during 2017 approximated the same results from 2016. We have 46 employed physicians as of September 30, 2017. The net loss from physician practices increased by approximately $0.8 million compared to 2016. During 2017, our total active medical staff increased by 8; our total active medical staff at September 30, 2017 and 2016, was 108 and 100, respectively.

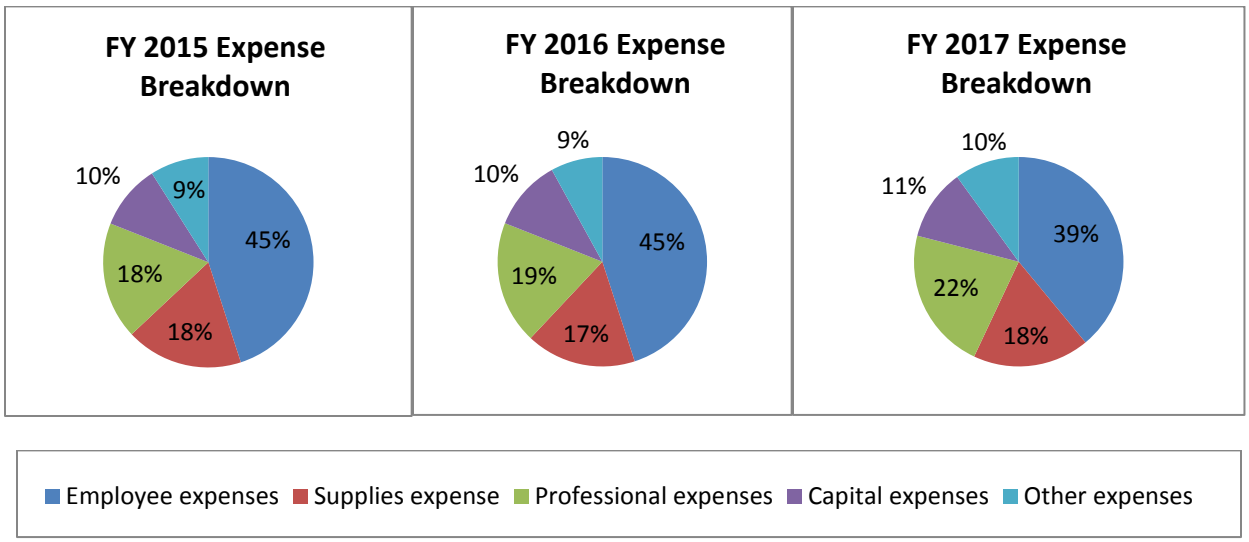
Summary of Revenues, Expenses, and Changes in Net Position

The following table presents a summary of the District's historical revenues and expenses for each of the fiscal years ended September 30, 2015, 2016, and 2017:

TABLE 3
Condensed Statements of Revenues, Expenses, and Changes in Net Position
(in thousands)

	FY 2015	FY 2016	FY 2017	FY16 vs. FY17 Dollar Change	Total % Change
Net patient service revenue	$ 127,883	$ 142,149	$129,227	$ (12,922)	(9.1)%
Other operating revenues	1,985	2,924	3,102	178	6.1 %
Total operating revenues	129,868	145,073	132,329	(12,744)	(8.8)%
Employee expenses	66,123	65,665	48,562	(17,103)	(26.0)%
Supplies expense	26,971	24,543	23,203	(1,340)	(5.5)%
Professional expenses	27,098	27,370	27,458	88	0.3 %
Capital expenses	14,135	15,251	14,210	(1,041)	(6.8)%
Other expenses	13,786	11,841	12,874	1,033	8.7 %
Total operating expenses	148,113	144,670	126,307	(18,363)	(12.7)%
Operating income (loss)	(18,245)	403	6,022	5,619	1394.3 %
Nonoperating expense - net	(9,910)	(4,658)	(8,697)	(4,039)	86.7 %
Loss before capital contributions	(28,155)	(4,255)	(2,675)	1,580	(37.1)%
Capital contributions	166	1,094	5	(1,089)	(99.5)%
Change in net position	(27,989)	(3,161)	(2,670)	491	(15.5)%
Total net position - beginning of year	137,150	109,161	106,000	(3,161)	(2.9)%
Total net position - end of year	$ 109,161	$ 106,000	$103,330	$ (2,670)	(2.5)%





OPERATING AND FINANCIAL PERFORMANCE

Table 4 presents the volume indicators for the years ended September 30, 2017 and 2016, as well as the 2017 budget:

TABLE 4
Hospital Volume Indicators

	Year Ended September 30,		
	Actual 2016	**Actual 2017**	**Budget 2017**
Admissions	6,748	6,194	6,844
Patient Days	30,769	29,513	28,050
Average Length of Stay	4.56	4.76	4.10
Adjusted Admissions	18,429	17,250	18,765
Adjusted Patient Days	83,772	82,027	76,858
Inpatient Surgery and Special	2,385	2,121	2,390
Outpatient Surgery and Special	3,552	3,773	3,313
Emergency Room Visits	43,274	41,851	46,327
Outpatient Diagnostic Visits	62,194	61,347	63,322

Admissions. The decrease of 554 admissions from the prior year was due to several factors. The change is primarily isolated to the following specialties:

Increases

- OB/GYN – 147 cases
- Nephrology – 49 cases
- Hospitalist – 36 cases
- Orthopedics – 20 cases

Decreases

- Internal Medicine – 289 cases
- Pulmonary – 263 cases
- Cardiology – 140 cases
- General Surgery – 40 cases
- Intensivist – 35 cases
- Family Practice – 19 cases
- Neurosurgery – 14 cases

Surgery Procedures. Inpatient surgery and special procedures in fiscal year 2017 decreased by 11.1%, or 264 procedures, compared to fiscal year 2016. Outpatient surgery and special procedures increased by 6.2%, or 221 procedures, in fiscal year 2017, compared to fiscal year 2016. The following specialties had an increase in fiscal year 2017, as compared to 2016: Ophthalmology, Orthopedics, Pulmonary and ENT. The following specialties had a decrease in fiscal year 2017, as compared to 2016: General Surgery, OB/GYN, Gastroenterology, Urology and Oncology.

Emergency Room Visits. Emergency room visits decreased by 1,423 visits, or 3.3%, in fiscal year 2017, compared to fiscal year 2016. When compared to the fiscal year 2017 budget, emergency room visits were 9.7%, or 4,476 below budget. The decrease in emergency room visits is primarily due to changes in the uninsured population and the increased utilization of urgent cares.

Outpatient Diagnostics. In fiscal year 2017, outpatient diagnostic visits decreased 1.4%, or 847 visits, from fiscal year 2016. In addition, compared to the fiscal year 2017 budget, outpatient diagnostic visits were below budget by 1,975, or 3.1%. Parrish Healthcare Center in Port St. John had a decrease in volumes, compared to 2016 by 0.4%, or 83. In addition, compared to the fiscal year 2017 budget, volumes were below budget by 3.9%, or 749. The decrease is mainly due to a shift to the Parrish Medical Group, low cost, outpatient diagnostic.

The urgent care center we opened in collaboration with MedFast Urgent Care in Parrish Healthcare Center at Port St. John adds volume to the diagnostic center in Port St. John. In fiscal year 2017, urgent care visits increased 8.0%, or 733 visits (9,855 in 2017, compared to 9,122 in 2016).

Parrish Medical Group opened the second collaboration with MedFast Urgent Care physicians, this one in Titusville. In fiscal year 2017, urgent care visits increased 24.2%, or 2,140 visits (10,967 in 2017, compared to 8,827 in 2016).

Both Urgent Care Center locations are assisting the community by providing another cost-effective alternative to the emergency room for the community. The physicians that staff the Urgent Care Center are all board-certified emergency room physicians, which is a major differentiator from other urgent care centers.

The following summarizes the District's Statements of Revenues, Expenses, and Changes in Net Position between 2017 and 2016, as presented in Table 3:

Net Patient Service Revenue: Net patient service revenue decreased $12.9 million, or 9.1%, in 2017. Total inpatient surgery and special procedure volume decreased 11.1%, Cardiac Cath Lab volume decreased 7.4% and outpatient diagnostic visits decreased 1.4%. Fiscal year 2017 inpatient gross revenue decreased 2.0%, and outpatient gross revenue increased by 1.3% from fiscal year 2016. Length of Stay increased 4.5%, while admissions decreased 8.2% from fiscal year 2016. We continue to qualify for the State of Florida's Medicaid disproportionate share, intergovernmental transfers, and low-income pool programs. We received approximately $3.7 million in 2017, vs. $4.5 million in 2016. The state of Florida is phasing out the low-income pool program, and it is likely that we will be receiving less in future years. Finally, fiscal year 2017 combined bad debt and community care decreased $3.6 million from fiscal year 2016 ($32.0 million in fiscal year 2017 vs. $35.6 million in fiscal year 2016). The combined bad debt and community care, as a percentage of gross revenue, was 5.2% in fiscal year 2017, compared to 5.8% in fiscal year 2016.

Total cash collections on patient accounts decreased by $1.3 million, compared to fiscal year 2016. The total cash collections of $133.4 million represent 103.2% of the net patient service revenue. Disproportionate share, Low Income Pool funding, and other cost report settlements make up the difference between patient cash and net revenue.

Employee Expenses. Employee expenses decreased $17.1 million, or 26.0%, in 2017, which is a combination of salary and benefit costs. Salary costs decreased $1.5 million, or 3.1%. This was a result of market adjustments, internal promotions, and a decrease of 6.3%, or approximately 62 FTEs, compared to 2016. Employee benefits decreased $15.6 million, or 88.7%, primarily because of a decrease of $15.2 million related to freezing the defined benefit plan and the GASB 67/68 impact, an increase of $1.7 million related to the 403(b) match and employer contribution, a decrease in payroll taxes of $0.1 million related to the decrease in FTEs, an increase in other employee benefits of $0.5 million, and a decrease in group health claims paid of $2.5 million.

Supplies Expense. Supply costs decreased $1.3 million, or 5.5%. Medical and surgical supplies decreased approximately $0.2 million, or 1.7%. This decrease was primarily related to continued group purchasing organization ("GPO") contract compliance, renegotiated cardiac implant contracts, and refreshed GPO medical surgical contract pricing. Medications costs decreased $0.2 million, or 3.7%. A $0.5 million decrease related to the dialysis center program transfer to the joint venture offset primarily by an increase in medications related to the increase in Ophthalmology procedures and the increase in length of stay. Administrative supplies and other expenses decreased $0.9 million, or 13.9%. The decrease in administrative supplies and other expenses results principally from a decrease of $0.7 million in office administrative and other expenses, a decrease of $0.1 million in information systems purchased software, and a decrease of $0.1 million in marketing expense.

Professional Expenses. Professional fees and contract services increased $0.1 million, or 0.3%. Contract labor costs decreased $1.5 million, or 49.2%, due to a decrease of $0.2 million in the finance division by converting contract positions to staffed FTE's and consolidated responsibilities, a decrease of $1.3 million in Emergency Department, Echo Vascular, Diabetes Management, and dietary services. Contract service arrangements with outside providers increased $1.5 million, or 6.8%. Contract services increased primarily due to increases in attorney fees $0.9 million, administrative consulting $1.8 million and collection fees $0.1 million. These increases were offset by decreases of $1.3 million in Rehab services, Wound care management, Lab services, Diabetes education, Human resources, and lobby services, due to contract restricting. Physician fees increased approximately $0.1 million, or 6.0%, due to an increase in anesthesia contract services of $0.3 million, offset by a decrease of $0.2 million in Cath lab fees.

Capital Expenses. Capital expenses, which include depreciation and interest expense, decreased approximately $1.0 million, or 6.8%. Depreciation expense decreased approximately $0.9 million, or 7.8%, due to capitalized buildings reaching their useful depreciable lives. Interest expense decreased by approximately $0.1 million, or 3.8%. This is due to a reduction of interest expense of $0.1 million related to the pay down of principal on the 2008 and 2014 Bonds.

Other Expenses. Other operating expenses increased $1.0 million, or 8.7%. Repair and maintenance costs increased $1.7 million, or 25.9%, due to an increase of $0.6 million in plant services repairs and maintenance supplies and purchased repair services mainly related to the two hurricanes, an increase of $1.0 million in IT network equipment and software, an increase of $0.1 million in grounds service contract (full year) and an increase of $0.1 million in clinic equipment repairs. These increases were offset by a decrease of $0.1 million for environmental services. Rents and leases decreased $0.1 million, or 3.7%, due to a decrease of $0.1 million for IT network equipment, a decrease of $0.1 million for Radiology equipment, offset by an increase of $0.1 million in echo/vascular equipment. Utilities costs remained unchanged from 2016. Finally, there was a decrease of $0.6 million, or 110.3%, in our total insurance costs, mainly due to a $0.4 million decrease in malpractice costs and a decrease of $0.2 million in property and general liability insurance.

The following summarizes the District's Statements of Revenues, Expenses, and Changes in Net Position between 2016 and 2015, as presented in Table 3:

Net Patient Service Revenue: Net patient service revenue increased $14.3 million, or 11.2%, in 2016. Total outpatient surgery and special procedure volume increased 0.7%, and outpatient diagnostic visits decreased 6.1%. Fiscal year 2016 inpatient gross revenue increased 6.7%, and outpatient gross revenue increased by 3.6% from fiscal year 2015. We continue to qualify for the State of Florida's Medicaid disproportionate share, intergovernmental transfers, and low-income pool programs. We received approximately $4.5 million in 2016, vs. $6.3 million in 2015. The state of Florida is phasing out the low-income pool program, and it is likely that we will be receiving less in future years. Finally, fiscal year 2016 combined bad debt and community care decreased $5.7 million from fiscal year 2015 ($35.6 million in fiscal year 2016 vs. $41.3 million in fiscal year 2015). The combined bad debt and community care, as a percentage of gross revenue, was 5.8% in fiscal year 2016, compared to 7.0% in fiscal year 2015.

Total cash collections on patient accounts increased by $5.7 million, compared to fiscal year 2015. The total cash collections of $135.9 million represent 95.6% of the net patient service revenue. Disproportionate share, Low Income Pool funding, and other cost report settlements make up the difference between patient cash and net revenue.

Employee Expenses. Employee expenses decreased $0.5 million, or 0.7%, in 2016, which is a combination of salary and benefit costs. Salary costs decreased $1.5 million, or 3.1%. This was a result of market adjustments, internal promotions, and a decrease of 6.0%, or approximately 62 FTEs, compared to 2015. Employee benefits increased $1.1 million, or 6.6%, primarily because of an increase of $1.2 million in the minimum required pension contribution, a decrease in payroll taxes of $0.1 million related to the decrease in FTEs, and a decrease in other employee benefits of $0.1 million offset by an increase in group health claims paid of $0.1 million.

Supplies Expense. Supply costs decreased $2.4 million, or 9.0%. Medical and surgical supplies decreased approximately $1.7 million, or 12.0%. This decrease was primarily related to continued GPO contract compliance, renegotiated cardiac implant contracts, and refreshed GPO medical surgical contract pricing. Medications costs were unchanged year over year. Administrative supplies and other expenses decreased $0.7 million, or 10.0%. The decrease in administrative supplies and other expenses results principally from a decrease of $0.2 million from the change in the indigent care tax, a decrease of $0.3 million in information systems purchased software and minor non-medical equipment, a decrease of $0.2 million in recruitment expense.

Professional Expenses. Professional fees and contract services increased $0.3 million, or 1.0%. Contract labor costs decreased $0.2 million, or 6.0%, due to a decrease of $1.0 million in the finance division by converting contract positions to staffed FTE's and consolidated responsibilities, offset by an increase of $0.8 million in Emergency Department, Echo Vascular, Diabetes Management, and dietary services. Contract services increased $0.2 million and physician fees increased approximately $0.3 million. Contract service arrangements with outside providers increased $0.2 million, or 1.0%. Contract services increased primarily due to increases in Wound Care management, Lab services, Business Office collection fees, attorney fees and administrative consulting. These increases were offset by decreases in dietary management, clinical equipment management, and lobby services due to contract restricting. Physician fees increased approximately $0.3 million, due to an increase in GI medical director contract agreement services.

Capital Expenses. Capital expenses, which include depreciation and interest expense, increased approximately $1.1 million, or 7.9%. Depreciation expense decreased approximately $0.4 million, or 3.0%, due to capitalized buildings reaching their useful depreciable lives. Interest expense increased by approximately $1.5 million, or 69.0%. This is due to an increase of approximately $1.6 million due to the termination of the interest rate swap, offset by a reduction of interest expense of $0.1 million related the 2008 and 2014 Bonds.

Other Expenses. Other operating expenses decreased $1.9 million, or 14.1%. Repair and maintenance costs decreased $0.1 million, or 1.0%, due to a decrease of $0.1 million in plant services repairs and maintenance supplies and purchased repair services. Rents and leases decreased $0.6 million, or 21.0%, due to a decrease of $0.4 million for IT network equipment, a decrease of $0.1 for Pharmacy equipment and a decrease of $0.1 million for Radiology equipment. Utilities costs remained unchanged from 2015. Finally, there was a decrease of $1.2 million, or 70.0%, in our total insurance costs, mainly due to a $1.2 million decrease in malpractice costs.

CURRENT BUDGET

The District prepares an annual operating budget, approved by its Board of Directors. The budget is in effect for the entire fiscal year, which begins October 1 and ends on September 30. Significant changes are possible during the year to fund unplanned programs approved by the Board. A fiscal year 2017 budget comparison and analysis is presented monthly in the District's interim financial statements. A comparison of actual revenues and expenses to the approved budget is summarized in Table 5 below:

TABLE 5
Revenues and Expenses
Budget vs. Actual
(in thousands)

	Actual 2017	Budget 2017	Over (Under)	% Difference
Net patient service revenue	$ 129,227	$ 140,159	$ (10,932)	-7.8%
Other operating revenue	3,102	492	2,610	530.5%
Total operating revenues	132,329	140,651	(8,322)	-5.9%
Employee expenses	48,562	60,741	(12,179)	-20.1%
Supplies expense	23,203	22,866	337	1.5%
Professional expenses	27,458	24,082	3,376	14.0%
Capital expenses	14,210	14,347	(137)	-1.0%
Other expenses	12,874	14,000	(1,126)	-8.0%
Total operating expenses	126,307	136,036	(9,729)	-7.2%
Operating income	6,022	4,615	1,407	30.5%
Nonoperating revenue (expenses), net	(8,697)	(11,807)	3,110	-26.3%
(Loss) before capital contributions	(2,675)	(7,192)	4,517	-62.8%
Capital contributions	5	-	5	100.0%
Change in net position	$ (2,670)	$ (7,192)	$ 4,522	-62.9%

The District completed its fiscal year with a favorable variance of a $4.5 million increase in net position, compared to budget. The following significant variances and their impact on operations are noted below:

Net Patient Service Revenue. Net patient service revenue was under budget by $10.9 million, or 7.8%. The most significant cause for this was a decline in admissions of 9.5%, lower than budgeted outpatient procedures, 3.1% and an increase in length of stay of 17.1%.

Other Operating Revenue. Other operating revenue exceeded budget by $2.6 million, or 530.5%. The increase over budget was principally due to the gain on the sale of the Dialysis program. In connection with the sale, NBMS became a 40% owner in the program.

Employee Expenses. Employee expenses were $12.2 million, or 20.1%, below budget. Employee expenses include both salaries and benefits. Salaries exceeded budget by $0.6 million, or 1.24%, and benefits were under budget $12.7 million, or 86.5%. Salaries exceeded budget due to the implementation of the total rewards program. Benefits were under budget by $12.8 million, or 86.5%, due to a decrease of $12.8 million related to the freeze of the defined benefit plan and the related impact of GASB 67/68, a decrease of $2.1 million in group health costs, offset by an increase in contributions to the 403(b) plan of $1.7 million and an increase in other benefits of $0.5 million.

Supplies Expense. Total supply costs were higher than expected by $0.3 million, or 1.5%, compared to budget. Medical and surgical supplies were over budget by $0.4 million, or 3.1%, due to an increase in Orthopedic and cardio implant costs of $0.5 million, or 11.8%, related to outpatient surgical and diagnostic volume increases from budget, offset by a decrease of $0.1 million in wound care expenses. Medications were over budget by $0.9 million, or 19.9% primarily due to an increase in Ophthalmology and Orthopedic cases and unbudgeted costs for Dialysis patients due to the timing of the sale of the Dialysis program. Other supply costs, such as administrative supplies, were below budget $0.9 million, or 13.9%. This decrease is primarily related to a decrease of $0.4 million in marketing and communication expenses and a decrease of $0.5 million in administrative supplies, travel and information systems minor equipment and software.

Professional Expenses. Professional fees and contract services were $3.4 million, or 14.0%, above budget. Contract labor, which was under budget by approximately $0.3 million, or 17.4%, was due to an unbudgeted interim position in the business office, and ER, offset by a reduction of costs in the cath lab, Echo vascular and diabetes. Total contract service fees were above budget by approximately $2.2 million, or 10.5%. Legal fees exceeded budget by $1.6 million, consulting fees exceeded budget by $0.4 million related to continued collection efforts of the accounts receivable, consulting fees related to BRG exceeded budget by $0.9 million, and money manager fees exceeded budget by $0.2 million, offset by reductions in contract management services below budgeted expenses by $0.9 million. Physician fees were $1.5 million, or 106.6%, over budget. Anesthesia support increased $0.7 million, the cath lab medical services fees unbudgeted $0.7 million and an increase in other medical services fees of $0.1 million.

Capital Expenses. Capital expenses, which include interest and depreciation, were $0.1 million, or 1.0%, under budget. Interest expense was at budget for the year. Depreciation expense was $0.1 million, or 1.0%, below budget, caused by timing differences of assets reaching their fully depreciated state.

Other Expenses. Other operating expenses were under budget by $1.1 million, or 8.0%. Utilities, which include electricity, gas, and water were under budget by $0.4 million, due to actual rates being lower than anticipated budget increases. Rents were below budget by $0.2 million, or 8.3%. IT equipment rental was under budget by $0.4 million, offset by $0.1 million over budget in Echo vascular equipment rental and $0.1 million over budget in bed rentals. Repairs and maintenance were over budget by approximately $0.1 million, or 0.7%, related to IT services contracts. Insurance costs were lower than budget by $0.6 million, or 109.4%, due to a reduction in medical malpractice insurance of $0.5 million and a reduction of property insurance of $0.1 million.

Nonoperating Revenue/(Expense). Net nonoperating expense was less than budget by $3.1 million, or 26.3%. Compared to budget, the net loss from physician practices exceeded budget by $1.5 million. This loss is offset by investment gains which exceed budget by $4.2 million, or 160.7%, and net other nonoperating expenses being less than budget by $0.4 million.

CAPITAL ASSETS

During fiscal year 2017, the District invested approximately $9.6 million in capital assets included in Table 6 below:

TABLE 6
Capital Assets
(in thousands)

	FY2016	FY2017	Dollar Change	Total % Change
Land	$ 9,946	$ 9,351	$ (595)	(5.98)%
Land improvements	3,075	5,786	2,711	88.16 %
Buildings and improvements	138,346	133,853	(4,493)	(3.25)%
Equipment	86,959	88,054	1,095	1.26 %
Subtotal	238,326	237,044	(1,282)	(0.54)%
Less: accumulated depreciation	(157,689)	(165,451)	(7,762)	4.92 %
Construction in progress	5,134	7,476	2,342	45.62 %
Net capital assets	$ 85,771	$ 79,069	$ (6,702)	(7.81)%

Net property, plant, and equipment decreased $6.7 million, or 7.8%, due to the net effect of capital assets purchased and depreciation expense recognized. Capital expenditures for the year were $11.2 million and were funded by cash flows from operations, offset by retirements of $10.1 million and net accumulated depreciation of $7.7 million. The breakdown of the $11.2 million in capital expenditures is approximately $6.7 million for the development and construction of Parrish Healthcare - Titusville; $1.0 million for the software and renovation for the Teletracking and Mission Control project; $1.1 million for the development and construction of Parrish Healthcare - Port Canaveral; and $2.4 million in routine capital equipment replacement. More information about the District's capital assets is presented in the Notes to Basic Financial Statements.

LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION

On July 30, 2008, due to the auction rate bond market turmoil, PMC issued $99,975,000 in Revenue Refunding Bonds, Series 2008, maturing October 1, 2043. The Series 2008 Bonds' proceeds were used for the purpose of (i) financing all or a portion of the acquisition, construction, and equipping of an outpatient healthcare center; a cardiac catheterization lab; and certain routine capital projects; (ii) refunding the District's outstanding Auction Rate Revenue Bonds, Series 2000, and outstanding Auction Rate Revenue Bonds, Series 2005; (iii) funding a reserve fund; and (iv) paying certain costs with respect to the issuance of the Series 2008 Bonds. The Series 2008 Bonds bear a fixed interest rate of 5.69%.

On September 24, 2014, PMC completed its refunding of a portion of the Revenue Refunding Bonds, Series 2008 (the "Series 2008 Bonds") and issued $70,000,000 in Refunding Bonds, Series 2014 (the "Series 2014 Bonds"), maturing October 1, 2043. The proceeds from the Series 2014 Bonds were used for the purpose of (i) refunding a portion ($62,575,000) of the Series 2008 term bonds maturing in 2028, 2038, and 2043 through defeasance; and (ii) establishment of an escrow account with TD Bank, National Association, as escrow agent, sufficient to pay when due the interest and principal on the bonds, at a price equal to 100% of the principal amount thereof (the "Redemption Price"), together with accrued interest thereon to October 1, 2018 (the "Redemption Date"). The Series 2014 Bonds bear a fixed interest rate of 3.0% through October 1, 2029. The interest rate on the Series 2014 Bonds will be remarketed after October 1, 2029, based on then prevailing rates.

The District recognized a deferred outflow related to the defeasance of a portion of the Series 2008 Bonds of approximately $11,571,000. This represents the difference between the amounts funded into the escrow account and the carrying value of principal and associated bond discounts. Deferred outflows on defeasance of approximately $10,366,000 and $10,765,000 at September 30, 2017 and 2016, respectively, are presented net of accumulated amortization of approximately $1,205,000 and $806,000, respectively.

The Master Indenture requires PMC to maintain certain financial ratios and places restrictions on various activities, such as the transfer of assets and incurrence of additional indebtedness. For the years ended September 30, 2017 and 2016, the District was in compliance with all such covenants.

The District has entered into certain lease and loan agreements to finance the purchase of certain operating equipment and construction upgrades. The lease is payable in varying installments through 2023, with rates ranging from 3.8% to 6.0%. The leases have been recognized as capital leases. At September 30, 2017 and 2016, the District's leased assets of approximately $2,502,000 are recorded net of accumulated depreciation of approximately $2,068,000 and $1,946,000, respectively.

At September 30, 2017, PMC had $96.3 million in short-term and long-term debt and capital lease obligations. Of this amount, $28.2 million was the Series 2008 Bonds offering, $67.9 million was the Series 2014 Bonds issued September 24, 2014, $0.4 million was unamortized bond discount on the Series 2008 Bond issue, and $0.6 million was the capital lease obligation. The principal payment of approximately $1.3 million on the Series 2008 Bonds was due October 1, 2016, and is classified as a current liability on the 2016 Balance Sheet. A more detailed description of the bonds and information about PMC's long-term debt is presented in the Notes to Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's Board and management considered many factors when establishing the fiscal year 2017 budget. Of primary importance was the status of the economy, which takes into account market forces and environmental factors, such as the following:

- Medicare and Medicaid legislation;
- Security legislation (HIPAA);
- Competitive factors in the District's market area;
- Workforce shortages;
- Impact of the tightening of the credit markets and impact on the District's access to capital funds;
- Impact of the significant fluctuations in the stock market and impact on pension fund assets;
- Impact of the fixed income markets on the District's $87,400,000 investment portfolio;
- New insurance products that allow for high deductibles;
- Physician recruitment;
- Parrish Healthcare Center Port Canaveral and Titusville expanded services;
- Increasing pressure to determine/establish the appropriate physician alignment strategy;
- Dealing with the impacts of the healthcare reform on operations of PMC, as well as providing health insurance to PMC employees;
- Increasing costs of health insurance and pension costs;
- Managed care penetration;
- Physician competition with free-standing, ambulatory surgery center; and
- Employed physician practices continuing to operate at a loss.

The other major consideration was to understand the dynamics of the District's potential for increasing bad debt and community care costs, while maintaining control of the cost structure necessary to support operations given the impact from the economy on hospital volumes. The desire of the Board and Executive Management is to establish the appropriate physician alignment strategy, to meet the needs of our medical staff, and be in compliance with federal regulations. This is a very sensitive issue, yet critical to successfully meeting the healthcare needs in our community.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is intended to provide our citizens, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for its funding. If you have any questions about this report or need additional financial information, please contact the District's Finance Department at 951 North Washington Avenue, Titusville, Florida 32796.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents - Note 3	$ 6,036,400	$ 6,758,894
Restricted assets - Held by trustee and required for current liabilities - Note 3	2,209,415	2,177,964
Patient accounts receivable - net of estimated uncollectibles of $14,643,871 and $16,172,820, respectively - Note 10	16,391,099	18,443,454
Supplies	2,318,009	2,292,624
Prepaid expenses and other assets	5,665,048	6,097,084
Total current assets	32,619,971	35,770,020
RESTRICTED ASSETS - Note 3:		
Temporarily donor-restricted net position	279,971	300,988
Funded depreciation	65,281,628	68,437,543
Held by trustee - Note 5	3,012,511	3,010,919
Total restricted assets, less current portion	68,574,110	71,749,450
OTHER ASSETS:		
Net pension asset - Note 6	14,745,419	-
Deposits and other assets	4,348,448	2,069,955
Investments - Note 3	16,037,195	16,731,493
Total other assets	35,131,062	18,801,448
CAPITAL ASSETS - Note 4:		
Land	9,351,346	9,946,078
Improvements to land	5,785,878	3,074,797
Buildings and improvements	133,853,131	138,345,550
Equipment	88,053,961	86,958,898
Construction in progress	7,475,636	5,134,333
	244,519,952	243,459,656
Less accumulated depreciation	(165,450,615)	(157,688,679)
Net capital assets	79,069,337	85,770,977
DEFERRED OUTFLOWS:		
Pension	8,382,602	7,872,482
Series 2008 Bond refunding	10,366,260	10,765,257
Total deferred outflows	18,748,862	18,637,739
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 234,143,342	$ 230,729,634

(Continued)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016

	2017	2016
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$ 18,514,628	$ 14,080,646
Accrued health insurance and workers' compensation - Note 6	1,717,374	1,844,428
Accrued employee personal leave bank - Note 11	2,934,693	3,141,679
Accrued salaries	2,093,274	1,427,374
Accrued medical malpractice - Note 11	281,881	588,143
Other current liabilities	2,777,141	2,675,290
Estimated third-party settlements - Note 2	1,054,116	314,565
Current portion of long-term debt and capital lease obligations - Note 5	2,521,206	2,435,891
Total current liabilities	31,894,313	26,508,016
OTHER LIABILITIES:		
Accrued medical malpractice - Note 11	1,175,966	612,163
Accrued other post employment benefits	876,697	786,907
Net pension liability	-	425,460
Total other liabilities	2,052,663	1,824,530
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS:		
Net of current portion - Note 5	93,794,863	96,298,314
Total liabilities	127,741,839	124,630,860
COMMITMENTS AND CONTINGENCIES		
DEFERRED INFLOWS:		
Pension	3,071,292	98,307
Total deferred inflows	3,071,292	98,307
NET POSITION:		
Net invested in capital assets	5,108,610	9,670,336
Restricted by donors - Note 7	279,971	300,988
Restricted for debt service	5,221,926	5,188,883
Unrestricted	92,719,704	90,840,260
Total net position	103,330,211	106,000,467
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 234,143,342	$ 230,729,634

See notes to basic financial statements. (Concluded)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
OPERATING REVENUE:		
Net patient service revenue - net of provision for bad debt of $20,396,773 and $23,757,661, respectively - Note 2	$ 129,227,119	$ 142,149,493
Other operating revenue	3,101,571	2,923,529
Total operating revenue	132,328,690	145,073,022
OPERATING EXPENSES:		
Salaries and wages	46,575,990	48,078,122
Employee benefits	1,986,076	17,586,927
Medications and supplies	23,202,511	24,543,182
Professional fees and contractual services	27,457,389	27,370,032
Other operating expenses	12,874,170	11,840,622
Depreciation	10,617,015	11,517,505
Interest expense	3,593,479	3,733,760
Total operating expenses	126,306,630	144,670,150
OPERATING INCOME	6,022,060	402,872
NONOPERATING REVENUES (EXPENSES):		
Investment income, net - Note 3	6,747,074	8,100,599
Other nonoperating expenses, net - Note 1	(15,444,044)	(12,758,707)
Total nonoperating revenue (expenses), net	(8,696,970)	(4,658,108)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(2,674,910)	(4,255,236)
CAPITAL CONTRIBUTIONS	4,654	1,094,861
CHANGE IN NET POSITION	(2,670,256)	(3,160,375)
NET POSITION:		
Beginning of year	106,000,467	109,160,842
End of year	$ 103,330,211	$ 106,000,467

See notes to basic financial statements.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from third-party payors and patients	$ 132,019,025	$ 141,899,402
Other receipts and payments, net	3,101,571	2,923,529
Payments to employees	(45,910,090)	(49,771,462)
Payments to suppliers and contractors	(74,463,085)	(80,259,817)
Net cash provided by operating activities	14,747,421	14,791,652
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest, dividends, and net realized gains on investments	3,856,911	6,395,427
Change in funded depreciation and investments	(2,929,904)	(8,792,718)
Net cash used in investing activities	927,007	(2,397,291)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Other nonoperating expenses	(5,407,810)	(2,553,939)
Depreciation - nonoperating	1,005,393	982,272
Net cash used in noncapital financing activities	(4,402,417)	(1,571,667)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds on sale of property and equipment	6,190,302	432,878
Purchases of property and equipment	(12,010,139)	(7,800,953)
Interest paid on long-term debt	(3,741,391)	(4,198,631)
Principal payments on long-term debt	(2,073,000)	(1,978,000)
Principal payments on capital lease obligation	(364,931)	(330,309)
Capital grants and contributions	4,654	1,094,861
Net cash used in capital and related financing activities	(11,994,505)	(12,780,154)
CHANGE IN CASH AND CASH EQUIVALENTS	(722,494)	(1,957,460)
CASH AND CASH EQUIVALENTS - Beginning of year	6,758,894	8,716,354
CASH AND CASH EQUIVALENTS - End of year	$ 6,036,400	$ 6,758,894

(Continued)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 6,022,060	$ 402,872
Adjustments to reconcile operating income from to net cash provided by operating activities:		
Depreciation	10,617,015	11,517,505
Amortization of bond discounts	19,795	19,795
Provision for bad debts	20,396,773	23,757,661
Interest expense considered capital financing activity	3,741,391	4,198,631
Loss (gain) on disposal of property and equipment	101,956	(37,054)
Increase in patient accounts receivable	(18,344,418)	(24,267,954)
(Increase) decrease in supplies	(25,385)	306,716
Decrease (increase) in prepaid expenses and other assets	432,036	(605,869)
Decrease in temporarily donor-restricted funds	21,017	218,848
(Increase) decrease in net pension asset	(12,282,554)	957,035
Increase in deposits and other assets	(2,278,493)	(907,016)
Increase in accounts payable	5,231,095	500,694
(Decrease) increase in accrued health insurance and workers' compensation	(127,054)	312,436
Decrease in accrued employee personal leave bank	(206,986)	(546,713)
Increase (decrease) in accrued salaries	665,900	(1,693,340)
Increase (decrease) in accrued medical malpractice	257,541	(31,071)
Increase in estimated third-party settlements	739,551	260,202
Increase in other post employment benefits	89,790	41,664
(Decrease) increase in net pension liability	(425,460)	425,460
Increase (decrease) in other current liabilities	101,851	(38,850)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 14,747,421	$ 14,791,652
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Assets acquired but unpaid for and included in accounts payable	$ 1,206,492	$ 409,379

See notes to basic financial statements. (Concluded)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The North Brevard County Hospital District (the "District") was created under the laws of the state of Florida in 1953 and operates Parrish Medical Center ("PMC"), a community hospital providing inpatient and outpatient healthcare services in North Brevard County, Florida. The basic financial statements of the District include the balances of North Brevard Medical Support, Inc. ("NBMS"), a not-for-profit, non-stock corporation and blended component unit of the District, organized under the laws of the state of Florida solely to benefit and further the interests of the District through physician recruitment and the provision of medical goods and services.

The District's primary activity is the operation of a general acute care hospital licensed for 210 beds.

The District has entered into employment agreements with certain local physicians to ensure that adequate professional and medical services are available in its service area. The District managed a total of 16 physicians' practices with 46 physicians as of September 30, 2017, and 16 physicians' practices with 38 physicians as of September 30, 2016.

During 2003, NBMS entered into a letter of agreement with Physicians Professional Liability Risk Retention Group ("PPLRRG") to purchase 500,000 shares of PPLRRG's Class E common stock. The purpose of this investment is to provide local physicians practicing at PMC with an alternative and affordable primary layer of malpractice insurance coverage (see Note 3).

The District may levy taxes upon all real and personal taxable property in the District for operating purposes and debt service, not to exceed five mills for all purposes. Effective September 19, 1994, the Board of Directors adopted a tax rate of zero mills; subsequently, no taxes have been assessed, including fiscal years 2017 and 2016.

During fiscal year 1995, the Florida Legislature approved an amendment to the District's enabling legislation, which allowed the District to participate with other hospitals and healthcare providers to provide services within and beyond the boundaries of the District. The District is expressly prohibited from using any funds derived from the assessment of ad valorem taxes on property within the District to support any such joint participation beyond the boundaries of the District.

All intercompany balances and transactions between PMC and NBMS have been eliminated.

Basis of Presentation - The District applies the provisions of Governmental Accounting Standards Board ("GASB") pronouncements. The GASB has established standards for external financial reporting for all state and local governmental entities, which include a balance sheet, a statement of revenue and expenses, a statement of changes in net position, and a direct method statement of cash flows. Net position is classified into three components: net invested in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- *Net Invested in Capital Assets*: This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- *Restricted*: This component of net position consists of contributed assets whose use is restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted*: This component of net position consists of net position that does not meet the definition of "restricted" or "net invested in capital assets."

Enterprise Fund Accounting - The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. The more significant areas subject to management estimates include estimated reserves for professional liability, workers' compensation and health insurance claims, net pension asset/liability, allowances for uncollectible patient accounts receivable, and third-party payor settlements. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less and excludes otherwise qualifying amounts which are internally designated by the Board of Directors for a specific purpose and reported in restricted assets.

Supplies - Supplies are stated at the lower of cost or market, determined by the first-in, first-out method.

Restricted Assets - Cash, investments, and pledges receivable limited in substance under terms of debt indentures, trust agreements, or other similar arrangements, and internally designated assets set aside by the Board of Directors for future capital improvements ("funded depreciation"), over which the Board retains control and may, at its discretion, subsequently use for other purposes, are considered to be restricted assets. Investments, consisting of marketable debt securities, are carried at fair value. Amounts required to meet current liabilities of the District are presented as current assets in the balance sheets.

Investments - Marketable securities included in the District's investment portfolios are carried at fair value based on quoted market prices (see Note 3). Changes in fair value are included in investment income in the statements of revenues, expenses, and changes in net position.

Capital Assets - Capital assets are recorded at cost, except for donated assets, which are recorded at fair value at the time of donation. Expenditures, which materially increase values, change capacities, or extend useful lives, are capitalized, as is interest cost during the period of construction. Depreciation is computed using the straight-line method over the estimated useful lives of the various assets. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Amortization is included in depreciation in the statements of revenues, expenses, and changes in net position. Gains and losses on dispositions are recorded in the year of disposal and are included in other nonoperating revenues (expenses) in the statements of revenues, expenses, and changes in net position. Estimated useful lives used in computing depreciation range as follows:

Improvements to land	5 to 20 years
Buildings and improvements	5 to 40 years
Equipment	3 to 15 years

PMC has a policy of funding depreciation on certain assets. The funds are held in cash and investment accounts and recorded as part of restricted assets (see Note 3).

The District considers impairment whenever indicators of impairment are present, such as when the decline in service utility of the capital asset is large in magnitude and unexpected. Pursuant to these guidelines, management has determined that no impairments of capital assets existed at September 30, 2017 and 2016.

Capitalized Interest - The District capitalizes the interest cost of restricted, tax-exempt borrowings less any interest earned on temporary investment of the proceeds of those borrowings from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use. As a result, the balance sheets reflect an increase of approximately $123,000 and $88,000 to construction in progress, representing net interest expense capitalized for the years ended September 30, 2017 and 2016, respectively.

Deferred Outflows / Deferred Inflows - In addition to assets, the District reports a separate section for deferred outflows of resources on its balance sheets. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources until then. The District has two items that qualify for reporting as deferred outflows of resources.

Deferred Outflow on Partial Refunding of the Series 2008 Bonds - The defeasance costs related to the partial refunding of the Series 2008 Bonds are included in deferred outflows and are being amortized over the period the bonds are outstanding. Amortization expense related to these costs is included in other nonoperating expenses as interest expense.

Deferred Outflow Related to Pensions - These deferred outflows of resources are an aggregate of items related to pensions, as calculated in accordance with GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB No. 68"). The deferred outflows related to pensions will be recognized as either pension expense or a reduction in net pension asset in future reporting years. Details on the composition of the deferred outflows of resources related to pension are further discussed in Note 6.

In addition to liabilities, the District reports a separate section for deferred inflows of resources on its balance sheets. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources until then. The District has one item that qualifies for reporting as deferred inflows of resources.

Deferred Inflows Related to Pensions - These deferred inflows of resources are an aggregate of items related to pensions, as calculated in accordance with GASB 68. The deferred inflows related to pensions will be recognized as a reduction to pension expense or a change in net pension asset/liability in future reporting years (see Note 6).

Risk Management - The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the prior three years. PMC is self-insured for employee health and workers' compensation benefits. PMC was self-insured for medical malpractice prior to October 1, 2016 to purchase insurance from a captive insurance company formed by the District (see Notes 9 and 11). The estimated liabilities for such self-insured programs include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Medical Malpractice Liability – The liability for losses (including loss adjustment expenses) represents the estimated ultimate cost of all reported and unreported losses that are unpaid as of the balance sheet date. The liability for unpaid losses is estimated using individual case-basis valuations and statistical analyses, and is not discounted. Although considerable variability is inherent in such estimates, management believes that the liability for losses and loss adjustments expenses represents its best estimate of the ultimate cost of unpaid claims. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are recorded in the period determined.

Reinsurance – The District relies on ceded reinsurance to limit its retained insurance risk (see Note 11). In entering into reinsurance agreements, management considers a variety of factors, including the creditworthiness of reinsurers. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, the District would be contingently liable for such amounts. Management has determined that no provision for uncollectable reinsurance recoveries was necessary at September 30, 2017 and 2016, respectively.

Statements of Revenues, Expenses, and Changes in Net Position - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenue or operating expenses. Nonoperating revenues (expenses) represent the net operations of activities or transactions incidental or peripheral to the direct care of patients within the hospital setting and primarily include the District's funding of NBMS, physician practices, health and fitness center, rental activities, and investment income. Approximately $8,521,000 and $7,725,000 of net loss related to the physician practice operations, $6,833,000 and $5,259,000 of other nonoperating expenses, and $90,000 net loss and $225,000 of net income from health and fitness is included in other net nonoperating expenses in the 2017 and 2016 statements of revenues, expenses, and changes in net position, respectively. When an expense is incurred for purposes in which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position, to the extent such are available.

Net Patient Service Revenue - Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others when services are 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. Bad debts are reported as a component of net patient service revenue.

Charity Care - The District 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 District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Contributed Resources - Resources restricted by donors for specific operating purposes are held as restricted funds until expended for the intended purpose and are reported as other operating revenue. Resources restricted by donors for additions to property and equipment, which are reported as capital contributions, are held as restricted funds until expended, at which time they are reported as transfers to unrestricted net position. Gifts, grants, and bequests not restricted by donors are initially reported as other operating revenue regardless of the use for which they might be designated by the Board of Directors.

Income Taxes - NBMS has been recognized by the Internal Revenue Service as a tax-exempt organization, as described in Section 501(c)(3) of the Internal Revenue Code ("IRC"). Income earned in furtherance of the District's tax-exempt or governmental purpose is exempt from federal and state income taxes. The IRC provides for taxation of unrelated business income under certain circumstances. Management has determined that the District has no significant unrelated business income. Accordingly, these financial statements include no provision or liability for income taxes.

Fair Value of Financial Instruments - The carrying value of net accounts receivable, accrued liabilities, and accounts payable approximates fair value due to the short-term nature of these accounts.

Accrued Public Assessment Assistance - The District is required to make quarterly payments to The Public Medical Assistance Trust Fund ("PMATF") based on a prescribed percentage (1.5% for inpatient and 1.0% for outpatient) of prior period revenue, as prescribed by the Agency for Health Care Administration. The District has elected to recognize a liability for the PMATF based on the calculated amount currently due, representing the District's estimate of the termination liability.

Other Postemployment Benefits - The GASB requires state and local governmental employers to account for and report their annual cost of postemployment healthcare and other non-pension benefits ("OPEB") and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs are based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due. As described in Note 6, the District's defined-benefit pension retirement plan includes a health insurance subsidy benefit of $100 per month. The District's net OPEB obligation was approximately $877,000 and $787,000 as of September 30, 2017 and 2016, respectively, which is included within the other liabilities section of the balance sheets. The District has elected to fund the OPEB obligation on a pay-as-you-go basis.

Subsequent Events - The District evaluated subsequent events for recognition and disclosure through December 22, 2017, which is the date the basic financial statements were issued.

In November 2017, the District satisfied its remaining obligations for debt service related to the Series 2008 Bonds (see Note 5) through placement of assets in an irrevocable trust in conjunction with the issuance of the Series 2017 Bonds in the amount of $25,000,000. The Series 2017 Bonds were issued pursuant to the Master Trust Indenture associated with the Series 2008 and Series 2014 Bonds. Semi-annual interest payments at 3.22%, along with annual principal payments in varying installments, are due through maturity in October 2027. As part of the refinancing, the difference between the amounts funded into the irrevocable trust and the carrying value of the Series 2008 Bonds will be recognized as a deferred outflow and amortized into interest expense over the term of the Series 2017 Bonds.

2. NET PATIENT SERVICE REVENUE

PMC has agreements with third-party payors that provide for payments to PMC at amounts different from its established rates. Major third-party payors are summarized below:

Medicare - Inpatient acute care services and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and use of capital related to Medicare beneficiaries are paid based on a cost-reimbursement methodology. PMC is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by PMC and audits thereof by the Medicare Fiscal Intermediary (reports audited through 2013). PMC's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

Reimbursement for Medicare Outpatient services is made in accordance with the Ambulatory Payment Classification ("APC") system called for under the Outpatient Prospective Payment System. Unlike the Inpatient Prospective Payment System ("DRG"), with one DRG payment per inpatient discharge, each outpatient encounter under the APC system could result in the assignment of multiple APC payments. Regulations allow providers to reduce or waive the beneficiary's co-insurance, as well as provide for additional payments for new devices, drugs, or biologicals. PMC has determined not to reduce or waive beneficiary co-insurance during 2017 and 2016.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are reimbursed using an APR-DRG methodology. Florida Medicaid Program DRG payments cover all services and items furnished during the inpatient stay and are made up of two parts; a base DRG and a level of severity.

Reimbursement for Medicaid Outpatient services is made using an enhanced Ambulatory Patient Grouping ("EAPG"). Florida Medicaid program EAPG payments are made on a per-visit basis, where the payment is directed to the main significant procedure or treatment provided during an outpatient visit; considering the average costs of ancillary services and moving away from cost-based reimbursement to a prospective payment system. In addition to the EAPG base rate, an Add On (Per service Automatic Enhancement Payment) is paid on each payable line based on the provider's attributes.

Final determination of amounts earned pursuant to the Medicare and Medicaid programs for open years is subject to review by appropriate governmental authorities or their agents. It is management's opinion that settlements for cost reporting years after 2013 for Medicare and 2014 for Medicaid, when reached, will not vary significantly from the estimated amounts. During 2017 and 2016, PMC received additional assessments and reimbursement from the Medicare and Medicaid programs, primarily related to increased reimbursement levels and funding for disproportionate share services. The increase to historically claimed reimbursements were processed and approved by the various Intermediaries through lump-sum settlements and retroactive rate adjustments during the current year. In 2017 and 2016, PMC recorded a decrease to net patient service revenue of approximately $465,000 and $150,000, respectively, relating to prior-year, estimated third-party settlement, and other payment issues. The net estimated third-party payable to Medicare and Medicaid as of September 30, 2017 and 2016, of approximately $1,054,000 and $315,000, respectively, is recorded in estimated third-party settlements in the current liabilities section of the balance sheets.

Other Third-Party Payors - PMC also has various payment arrangements for inpatient and outpatient services rendered to commercial insurance carriers, health maintenance organizations, and preferred provider organizations. These agreements include prospectively determined discharge rates, per diems, and discounts from established rates.

Following is a summary of net patient service revenue for fiscal years 2017 and 2016:

	2017	2016
Gross patient service revenue	$ 616,464,238	$ 615,620,033
Less provision for contractual adjustments	(455,179,143)	(437,854,275)
Less provision for charity adjustments	(11,661,203)	(11,858,604)
Less provision for bad debt	(20,396,773)	(23,757,661)
Net patient service revenue	$ 129,227,119	$ 142,149,493

3. CASH, CASH EQUIVALENTS, INVESTMENTS, AND OTHER

Investments are stated at fair value, which is estimated based upon quoted market prices for those or similar instruments. The composition of the District's cash and cash equivalents, investments, and restricted assets at September 30, 2017 and 2016, is as follows:

	2017	2016
Restricted Assets		
Restricted cash and cash equivalents:		
Temporarily donor-restricted net position	$ 279,971	$ 300,988
Held by trustee - net of current portion	3,012,511	3,010,919
Total restricted cash and cash equivalents	3,292,482	3,311,907
Cash and investments for funded depreciation:		
Marketable securities	65,050,438	68,251,274
Accrued interest receivable	231,190	186,269
Total cash and investments for funded depreciation	65,281,628	68,437,543
Total restricted assets - noncurrent portion	68,574,110	71,749,450
Current portion included in current assets - cash held by trustee	2,209,415	2,177,964
Total restricted assets	$ 70,783,525	$ 73,927,414
Other Assets - Investments		
Marketable securities	$ 15,980,401	$ 16,681,979
Accrued interest receivable	56,794	49,514
Total other assets - investments	$ 16,037,195	$ 16,731,493

The composition of PMC's marketable securities as of September 30, 2017 and 2016, is as follows:

		Investment Maturities			
September 30, 2017	**Market Value**	**One year or Less**	**1–5 Years**	**6–10 Years**	**More Than 10 Years**
U.S. Government Obligations	$ 1,433,355	$ -	$ -	$ 1,433,355	$ -
Municipal Obligations	1,631,339	-	1,110,984	520,355	-
Corporate Bonds	16,494,205	1,379,953	7,881,467	5,248,678	1,984,107
U.S. Agency Mortgage-Backed Securities	4,165,552	-	-	1,636,798	2,528,754
Collateralized Mortgage Obligations	236,734	-	-	236,734	-
	23,961,185	$ 1,379,953	$ 8,992,451	$ 9,075,920	$ 4,512,861
Domestic Equities	35,019,785				
International Equities	4,478,641				
Mutual Funds:					
Short Term Bond Fund	8,052,160				
Intermediate Term Bond Fund	4,634,172				
Alternative Investments - Real Estate	2,672,829				
Real Estate EFTs	2,500,051				
Total Marketable Securities	$ 81,318,823				

	Ratings					
	AAA	**AA**	**A**	**BBB**	**<BBB**	**Not Rated**
U.S. Government Obligations	$ 1,433,355	$ -	$ -	$ -	$ -	$ -
Municipal Obligations	-	368,785	520,355	-	-	742,199
Corporate Bonds	174,665	1,161,054	6,233,362	8,705,443	-	219,681
U.S. Agency Mortgage-Backed Securities	4,165,552	-	-	-	-	-
Collateralized Mortgage Obligations	236,734	-	-	-	-	-
Domestic Equities	-	-	-	-	-	35,019,785
International Equities	-	-	-	-	-	4,478,641
Mutual Funds	-	-	-	-	-	12,686,332
Alternative Investments - Real Estate	-	-	-	-	-	2,672,829
Real Estate EFTs	-	-	-	-	-	2,500,051
Total Marketable Securities	$ 6,010,306	$ 1,529,839	$ 6,753,717	$ 8,705,443	$ -	$ 58,319,518

September 30, 2016	Market Value	Investment Maturities: One year or Less	1–5 Years	6–10 Years	More Than 10 Years
U.S. Government Obligations	$ 3,656,984	$ -	$ 445,850	$ 891,531	$ 2,319,603
Municipal Obligations	1,176,488	493,289	683,199	-	-
Corporate Bonds	13,266,649	1,542,243	8,250,312	2,392,423	1,081,671
U.S. Agency Mortgage-Backed Securities	5,281,420	-	-	849,540	4,431,880
Collateralized Mortgage Obligations	307,991	-	-	307,991	-
	23,689,532	$ 2,035,532	$ 9,379,361	$ 4,441,485	$ 7,833,154
Domestic Equities	36,910,375				
International Equities	4,152,551				
Mutual Funds:					
Short Term Bond Fund	3,735,198				
Intermediate Term Bond Fund	11,466,318				
Alternative Investments - Real Estate	2,471,396				
Real Estate EFTs	2,743,666				
Total Marketable Securities	$ 85,169,036				

	Ratings: AAA	AA	A	BBB	<BBB	Not Rated
U.S. Government Obligations	$ 3,656,984	$ -	$ -	$ -	$ -	$ -
Municipal Obligations	-	647,607	252,008	-	-	276,873
Corporate Bonds	-	1,017,395	6,011,419	5,939,228	97,750	200,857
U.S. Agency Mortgage-Backed Securities	5,281,420	-	-	-	-	-
Collateralized Mortgage Obligations	307,991	-	-	-	-	-
Domestic Equities	-	-	-	-	-	36,910,375
International Equities	-	-	-	-	-	4,152,551
Mutual Funds	-	-	-	-	-	15,201,516
Alternative Investments - Real Estate	-	-	-	-	-	2,471,396
Real Estate EFTs	-	-	-	-	-	2,743,666
Total Marketable Securities	$ 9,246,395	$ 1,665,002	$ 6,263,427	$ 5,939,228	$ 97,750	$ 61,957,234

The District adopted generally accepted accounting standards for fair value measurements which provides a single definition of fair value and established a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 Inputs other than quoted prices in active markets within Level 1 that are either directly or indirectly observable

Level 3 Significant unobservable inputs for the asset or liability in which little or no market data exists

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value.

If available, quoted market prices are used to value investments. U.S. Government Obligations, Municipal Obligations, Corporate Bonds, U.S. Agency Mortgage-Backed Securities, Collateralized Mortgage Obligations, Domestic Equities, International Equities, and Real Estate ETFs are valued at the closing price reported on the major market on which the individual securities are traded. Mutual funds and alternative investments – real estate are valued using a market approach at the recorded closing net asset value ("NAV") of the funds. The NAV is based on the fair value of the underlying investments. The District's bonds payable are valued at quoted prices considering yields for the same or similar types of borrowings, taking into account the underlying terms.

September 30, 2017

Assets:	**Fair Value Measurements**			
	Level 1	**Level 2**	**Level 3**	**Total**
U.S. Government Obligations	$ 1,433,355	$ -	$ -	$ 1,433,355
Municipal Obligations	1,631,339	-	-	1,631,339
Corporate Bonds	16,494,205	-	-	16,494,205
U.S. Agency Mortgage-Backed Securities	4,165,552	-	-	4,165,552
Collateralized Mortgage Obligations	236,734	-	-	236,734
Domestic Equities	35,019,785	-	-	35,019,785
International Equities	4,478,641	-	-	4,478,641
Mutual Funds	12,686,332	-	-	12,686,332
Alternative Investments - Real Estate	-	-	2,672,829	2,672,829
Real Estate ETFs	2,500,051	-	-	2,500,051
Marketable debt securities	$ 78,645,994	$ -	$ 2,672,829	$ 81,318,823
Liabilities:				
Bonds payable	$ -	$ 97,917,000	$ -	$ 97,917,000

September 30, 2016

Assets:	**Fair Value Measurements**			
	Level 1	**Level 2**	**Level 3**	**Total**
U.S. Government Obligations	$ 3,656,984	$ -	$ -	$ 3,656,984
Municipal Obligations	1,176,488	-	-	1,176,488
Corporate Bonds	13,266,649	-	-	13,266,649
U.S. Agency Mortgage-Backed Securities	5,281,420	-	-	5,281,420
Collateralized Mortgage Obligations	307,991	-	-	307,991
Domestic Equities	36,910,375	-	-	36,910,375
International Equities	4,152,551	-	-	4,152,551
Mutual Funds	15,201,516	-	-	15,201,516
Alternative Investments - Real Estate	-	-	2,471,396	2,471,396
Real Estate ETFs	2,743,666	-	-	2,743,666
Marketable debt securities	$ 82,697,640	$ -	$ 2,471,396	$ 85,169,036
Liabilities:				
Bonds payable	$ -	$ 101,299,000	$ -	$ 101,299,000

Credit Risk - State of Florida Statutes, Section 218.415, provides for each unit of local government or political subdivision to adopt investment policies that are commensurate with the nature and size of public funds within their custody. These policies must include consideration for safety of capital, liquidity of funds, diversification of investments, investment income, maturity requirements, and performance measurement. Section 218.415, Florida Statutes, authorizes the District to invest in (1) the Local Government Surplus Funds Trust Fund, which is administered by the State Board of Administration; (2) obligations of, or obligations for which the principal and interest are unconditionally guaranteed by the U.S. Government; (3) interest-bearing time deposits or savings accounts in banks and savings and loans organized under laws of the United States of America; (4) obligations of the Federal Farm Credit Banks, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, the Federal National Mortgage Association, and obligations guaranteed by the Government National Mortgage Association; and (5) other investments authorized by resolution by the governing board of a special district.

The District has a Board-approved policy for the investment of funds. The District has investment management agreements which provide for selected investment managers to invest and manage the District's Board-designated and excess operating funds in accordance with the District's investment policy. The funds are pooled and invested according to established investment criteria and the nature of intended use. Long-term designation of investments is based on the maturity dates underlying investments and/or the intent of management to hold the investments for long-term purposes. Investment securities are classified as available for sale, as the investment managers have the ability to liquidate investments in order to avoid losses from changes in market conditions. Funds held under the Bond Indenture are required to be invested in qualified investments, as defined in the Bond Indenture. All other funds are required to be invested according to the District's investment policy, which was updated in November 2017. The objectives of the District's investment policy are prioritized in the following order: (1) safety of principal, (2) liquidity, (3) generation of income, (4) inflation protection, (5) return on investment/yield, and (6) understanding of risk.

Concentration of Credit Risk - Investments in any one issuer that represent 5% or more of an entity's investment portfolio are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. Government, and investments in mutual funds, external investment pools, and other pooled investments, are excluded from this requirement. Based on the nature of the District's investments, no concentration of credit risk exists for the District.

Custodial Credit Risk - As of September 30, 2017 and 2016, all of the District's cash and cash equivalents are held in the name of the District or NBMS (or wholly owned subsidiaries of NBMS (see Note 9)). Accordingly, no custodial credit risk exists for the District.

Deposit Risk - In addition to insurance provided by the Federal Deposit Insurance Corporation, all of the District's demand deposits are held in banking institutions approved by the State of Florida State Treasurer to hold public funds. Under the Florida Statutes, Chapter 280, *Florida Security for Public Deposits Act* ("Chapter 280"), the state treasurer requires all qualified public depositories to deposit with the treasurer or another banking institution eligible collateral equal to amounts ranging from 50% to 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. Government and Agency Securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a qualified public depository failure, the remaining public depositories would be responsible for covering any resulting losses in excess of amounts insured and collateralized. Amounts held by the bank are insured or fully collateralized by Government Securities.

Interest Rate Risk - The District's investment policy includes certain limitations on investment maturities; however, the District's primary means of managing exposure to fair value losses arising from increasing interest rates is based upon the composition of its investment portfolio, which includes marketable securities, which are unconditionally guaranteed by the U.S. Government and have limited interest rate variability.

The effective yield earned on the District's investments as of September 30, 2017 and 2016, was approximately 2.5% and 2.3%, respectively.

Investment income, net, consists of the following for the years ended September 30, 2017 and 2016:

	2017	2016
Investment income:		
Interest and dividends earned on investments	$ 2,166,655	$ 2,000,915
Realized gain on marketable securities	1,690,256	4,394,512
Change in unrealized gain on marketable securities	2,890,163	1,705,172
Investment income, net	$ 6,747,074	$ 8,100,599

During the year ended September 30, 2003, NBMS purchased $500,000 of Class E common stock of PPLRRG to create an alternative malpractice insurance vehicle in which the medical staff could obtain malpractice insurance at more affordable rates than commercially available in the local market. Six local physicians are currently taking advantage of the program as of September 30, 2017. This investment is recorded at cost in deposits and other assets in the balance sheets. The Class E common stock of PPLRRG is nonvoting, and NBMS owns approximately 6% of the total outstanding common stock of PPLRRG. As a Class E shareholder of PPLRRG, NBMS has certain rights and obligations, as defined under the PPLRRG's Articles of Incorporation.

4. CAPITAL ASSETS

A summary of changes in capital assets during 2017 and 2016 is as follows:

	2017			
	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Land	$ 9,946,078	$ -	$ (594,732)	$ 9,351,346
Improvements to land	3,074,797	2,816,060	(104,979)	5,785,878
Buildings and improvements	138,345,550	1,087,016	(5,579,435)	133,853,131
Equipment	86,958,898	2,924,230	(1,829,167)	88,053,961
Construction in progress	5,134,333	4,385,719	(2,044,416)	7,475,636
Total capital assets	243,459,656	11,213,025	(10,152,729)	244,519,952
Less: accumulated depreciation	(157,688,679)	(11,622,408)	3,860,471	(165,450,616)
Capital assets - net	$ 85,770,977	$ (409,383)	$ (6,292,258)	$ 79,069,336

	2016			
	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Land	$ 9,840,078	$ 106,000	$ -	$ 9,946,078
Improvements to land	2,114,810	959,987	-	3,074,797
Buildings and improvements	135,884,994	2,809,430	(348,874)	138,345,550
Equipment	85,967,120	2,062,478	(1,070,700)	86,958,898
Construction in progress	3,534,239	1,600,094	-	5,134,333
Total capital assets	237,341,241	7,537,989	(1,419,574)	243,459,656
Less: accumulated depreciation	(146,212,654)	(12,499,776)	1,023,751	(157,688,679)
Capital assets - net	$ 91,128,587	$ (4,961,787)	$ (395,823)	$ 85,770,977

Depreciation expense for 2017 and 2016 was approximately $11,600,000 and $12,500,000, respectively, and has been included in operating and nonoperating expenses in the statements of revenues, expenses, and changes in net position based on the District's policy for reporting related activities, as defined in Note 1. At September 30, 2017, the District had fully depreciated capital assets of approximately $12,900,000 that were still in use.

5. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION

On July 30, 2008, PMC completed its refunding of the Auction Rate Revenue Bonds, Series 2000 (the "Series 2000 Bonds"), and Auction Rate Revenue Bonds, Series 2005 (the "Series 2005 Bonds"), and issued $99,975,000 in the Revenue Refunding Bonds, Series 2008 (the "Series 2008 Bonds"). The proceeds from the Series 2008 Bonds were used for the purpose of (i) financing all or a portion of the acquisition, construction, and equipping of an outpatient healthcare center, a cardiac catheterization lab, and certain routine capital projects; (ii) refunding the District's outstanding Auction Rate Revenue Bonds, Series 2000, and outstanding Auction Rate Revenue Bonds, Series 2005; (iii) funding a reserve fund; and (iv) paying certain costs with respect to the issuance of the Series 2008 Bonds. The Series 2008 Bonds bear a fixed interest rate of 5.695%.

On September 24, 2014, PMC completed its refunding of a portion of the Series 2008 Bonds and issued $70,000,000 in Refunding Bonds, Series 2014 (the "Series 2014 Bonds"), maturing October 1, 2043. The proceeds from the Series 2014 Bonds were used for the purpose of (i) refunding a portion ($62,575,000) of the Series 2008 term bonds maturing in 2028, 2038, and 2043 through defeasance and (ii) establishment of an escrow account with TD Bank, National Association, as escrow agent, sufficient to pay when due the interest and principal on the bonds, at a price equal to 100% of the principal amount thereof (the "Redemption Price"), together with accrued interest thereon to October 1, 2018 (the "Redemption Date"). The Series 2014 Bonds bear a fixed interest rate of 3.0% through October 1, 2029. The interest rate on the Series 2014 Bonds will be remarketed after October 1, 2029, based on then prevailing rates.

The District recognized a deferred outflow related to the defeasance of a portion of the Series 2008 Bonds of approximately $11,571,000. This represents the difference between the amounts funded into the escrow account and the carrying value of principal and associated bond discounts. Deferred outflows on defeasance of approximately $10,366,000 and $10,765,000 at September 30, 2017 and 2016, respectively, are presented net of accumulated amortization of approximately $1,205,000 and $806,000, respectively. The Series 2014 and Series 2008 Bonds are collateralized by and are payable solely from an obligation issued under the Master Trust Indenture (the "Master Indenture") between TD Bank, as Master Trustee (the "Master Trustee"), and PMC, as well as certain monies held under the trust indenture governing the Series 2008 Bonds (the "Bond Indenture"). The obligation issued under the Master Indenture is collateralized by a pledge of and a security interest in the net revenues of the District and any future member of the Obligated Group that is a Governmental Unit and the net revenue and accounts of any future member of the Obligated Group that is a corporation or other business entity. Currently, PMC is the sole member of the Obligated Group.

Under the terms of the Bond Indenture, various amounts are being held on deposit with the Master Trustee, as trustee, for bond redemption, interest payments, a debt service reserve, and certain construction expenditures. Such amounts are not available for current operations of PMC. The Master Indenture requires the Obligated Group to maintain sinking fund deposits equal to the maximum annual debt service requirement of the Series 2008 Bonds. Amounts on deposit in the sinking fund as of September 30, 2017 and 2016, were approximately $3,013,000 and $3,011,000, respectively. In addition, the Master Indenture requires the Obligated Group to maintain certain financial ratios and places restrictions on various activities, such as the transfer of assets and incurrence of additional indebtedness. At September 30, 2017, PMC was in compliance with all such covenants.

The District has entered into certain lease and loan agreements to finance the purchase of certain operating equipment and construction upgrades. The lease is payable in varying installments through 2023, with rates ranging from 3.8% to 6.0%. The leases have been recognized as capital leases. At September 30, 2017 and 2016, the District's leased assets of approximately $2,502,000 are recorded net of accumulated depreciation of approximately $2,068,000 and $1,946,000, respectively.

Long-term debt and capital lease obligations as of September 30, 2017 and 2016, consist of the following:

	2017	2016
Revenue Refunding Bonds, Series 2008, principal payable in variable annual installments beginning in 2009 through 2043, interest payable October 1 and April 1 at the average coupon rate of 5.695%.	$ 28,210,000	$ 29,555,000
Refunding Bonds, Series 2014, principal payable monthly beginning in 2014 through 2043, interest payable monthly at the fixed rate of 3.0%.	67,947,000	68,675,000
Capital lease obligation	619,975	984,906
Principal maturities	96,776,975	99,214,906
Unamortized bond discount	(460,906)	(480,701)
Total long-term debt	96,316,069	98,734,205
Less current installments	(2,521,206)	(2,435,891)
Long-term portion	$ 93,794,863	$ 96,298,314

A summary of changes in long-term debt and capital lease obligations during 2017 and 2016 is as follows:

	2017				
	Beginning Balance	Additions	Repayments	Ending Balance	Amounts Due Within One Year
Series 2008					
Fixed rate refunding bonds	$ 29,555,000	$ -	$ 1,345,000	$ 28,210,000	$ 1,410,000
Series 2014					
Fixed rate refunding bonds	$ 68,675,000	$ -	$ 728,000	$ 67,947,000	$ 750,000
Capital lease obligations	$ 984,906	$ -	$ 364,931	$ 619,975	$ 361,206

	2016				
	Beginning Balance	Additions	Repayments	Ending Balance	Amounts Due Within One Year
Series 2008					
Fixed rate refunding bonds	$ 30,835,000	$ -	$ 1,280,000	$ 29,555,000	$ 1,345,000
Series 2014					
Fixed rate refunding bonds	$ 69,373,000	$ -	$ 698,000	$ 68,675,000	$ 728,000
Capital lease obligations	$ 1,315,215	$ -	$ 330,309	$ 984,906	$ 362,891

As of September 30, 2017, the District has the following outstanding bonds, which were funded by the placement of assets in an irrevocable trust to be used for satisfying debt service requirements; therefore, the debt and related assets are not reported in the financial statements.

Description of Obligation	Fiscal Year Defeased	Original Issue	Amount Outstanding
Series 2008 Fixed Rate Bonds	2014	$ 62,575,000	$ 62,575,000

Annual scheduled principal maturities and interest on long-term debt and capital lease obligations as of September 30, 2017, are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2018	$ 2,521,206	$ 3,600,527
2019	3,313,940	3,473,387
2020	2,358,038	3,395,264
2021	2,441,631	3,303,671
2022	2,527,383	3,214,175
2023-2027	13,814,777	14,635,615
2028-2032	16,416,000	11,894,671
2033-2037	19,634,000	8,520,504
2038-2042	23,591,000	4,398,194
2043-2045	10,159,000	295,400
	$ 96,776,975	$ 56,731,408

The annual scheduled interest requirements included above related to the Series 2014 Bonds are based on a fixed rate of 3.0% per annum, and the Series 2008 Bonds are based on a fixed average interest rate of 5.695% per annum.

The total future lease payments on the capital lease included in the schedule above is approximately $620,000; the interest portion is $51,000.

6. EMPLOYEE BENEFIT PLANS

Employees' Retirement System

Plan Freeze - Effective September 30, 2016, the District's defined benefit pension plan was frozen. All benefit accruals under that plan ceased; therefore, average monthly earnings on or after October 1, 2016 shall not be considered. Continuous service will continue to be credited to participants after September 30, 2016 for vesting purposes, for purposes of determining normal and early retirement date and for purposes of eligibility for disability benefits. Effective October 1, 2016, PMC contributes to a 403(b) defined contribution plan with an employer discretionary match and discretionary noncontributory employer contribution.

Plan Description - PMC contributes to a noncontributory, single-employer, defined-benefit pension retirement plan, Parrish Medical Center, Inc. Pension Plan ("the Plan"), administered by the Pension Administrative Committee. The Plan was established under the authority of the District's Board of Directors. Additionally, all amendments and changes to PMC's obligation to contribute to the Plan are covered by this authority. The average rating for investments held in the Plan's portfolio is an average of AA. Separate financial statements are not available for the Plan.

Benefits Provided - The Plan covers all permanent, full-time PMC employees and all permanent, part-time employees who customarily work at least 20 hours per week and five months per year, and who complete at least 1,000 hours of service per year, after completion of one year of continuous service. The Plan was frozen effective September 30, 2016. Normal retirement age is determined as the earlier of:

1. Age 65, regardless of continuous service;
2. Age 60 and 25 years of continuous service; or
3. 30 years of continuous service, regardless of age.

Normal retirement benefits are determined as 1.75% of average monthly earnings up to $1,000, plus 1.50% of average monthly earnings in excess of $1,000, times continuous service.

Early retirement age is determined as age 55 and 20 years of continuous service. Early retirement accrued benefits are reduced 6.67% for each of the first five years and 3.33% for each of the next five years by which the benefit Commencement Date precedes age 65.

The vesting schedule is as follows:

Years of Service	Vested Percentage
Less than 5	None
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

Members will receive the vested portion of their accrued benefit payable at otherwise early age (reduced) or age 65.

Disability benefits are based on the normal retirement benefit accrued to the date of disability. Employees are eligible after 10 years of continuous service. Death benefits are based on the accrued benefit as of the date of death and are payable as a lump sum. Employees are eligible after 5 years of continuous service.

Plan Membership **-** The Plan membership was as follows as of October 1, 2015 (date of actuarial valuation):

Inactive Plan members or beneficiaries currently receiving benefits	64
Inactive Plan members entitled but not yet receiving benefits	148
Active Plan members	800
	1,012

Funding Policy **-** PMC contributes the amount necessary to meet the minimum required employer contribution, as calculated by the actuary. Employee contributions are not permitted.

Assumptions and Other Inputs **-** Total Pension Liability was determined by an actuarial valuation as of October 1, 2015, updated to September 30, 2016, using the following actuarial assumptions:

Inflation	2.80%
Salary Increases	3.80% - 4.90%
Discount Rate	7.60%
Investment Rate of Return	7.60%

Mortality Rate: RP2000, Combined Healthy, with projection to the valuation date using Scale AA. This assumption is utilized for benefits paid in the form of annuities only. The actuarial assumptions used in the October 1, 2015 valuation were based on the results of an actuarial experience study for the period 2007-2013. The Long-Term Expected Rate of Return on the Plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of the Plan's investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the Long-Term Expected Rate of Return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Large Cap Equity	35%	10%
Mid and Small Cap	20%	10%
International Equity	5%	10%
Alternatives	10%	10%
Fixed Income	30%	4%
	100%	

Discount Rate **-** The Discount Rate used to measure the Total Pension Liability was 7.60%. The projection of cash flows used to determine the Discount Rate assumed that Plan member contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the Long-Term Expected Rate of Return on Plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions **-** The District's Net Pension Asset was measured as of September 30, 2017 and 2016. The Total Pension Liability used to calculate the Net Pension Asset was determined as of that date.

	Increase (Decrease)			
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a)-(b)	Pension Expense
Balances at September 30, 2016	$ 55,964,095	$ 55,538,635	$ 425,460	
Changes for a year:				
Service cost	690,793	-	690,793	$ 690,793
Interest	3,252,842	-	3,252,842	3,252,842
Differences between expected and actual experience	(562,243)	-	(562,243)	-
Changes of assumptions	3,656,761	-	3,656,761	614,409
Change of beneift terms	(13,325,988)	-	(13,325,988)	(13,325,988)
Contributions - employer	-	1,440,995	(1,440,995)	-
Current year amortization of experience difference	-	-	-	52,160
Current year amortization	-	-	-	574,282
Net investment income	-	7,442,049	(7,442,049)	(4,287,260)
Benefit payments, including refunds of employee contributions	(5,336,757)	(5,336,757)	-	-
Net changes	(11,624,592)	3,546,287	(15,170,879)	(12,428,762)
Balances at September 30, 2017	$ 44,339,503	$ 59,084,922	$ (14,745,419)	$ (12,428,762)

	Increase (Decrease)			
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a)-(b)	Pension Expense
Balances at September 30, 2015	$ 52,647,353	$ 59,173,550	$ (6,526,197)	
Changes for a year:				
Service cost	1,836,604	-	1,836,604	$ 1,836,604
Interest	4,207,238	-	4,207,238	4,207,238
Differences between expected and actual experience	1,059,852	-	1,059,852	-
Changes of assumptions	-	-	-	92,014
Administrative expense	-	-	-	-
Contributions - employer	-	1,691,990	(1,691,990)	-
Contributions - employee	-	-	-	-
Contributions - buy back	-	-	-	-
Current year amortization of experience difference	-	-	-	132,481
Current year amortization	-	-	-	1,205,239
Net investment income	-	(1,539,953)	1,539,953	(4,650,086)
Benefit payments, including refunds of employee contributions	(3,786,952)	(3,786,952)	-	-
Administrative expense	-	-	-	-
Other changes	-	-	-	-
Net changes	3,316,742	(3,634,915)	6,951,657	2,823,490
Balances at September 30, 2016	$ 55,964,095	$ 55,538,635	$ 425,460	$ 2,823,490

On September 30, 2017 and 2016, the District reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	September 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Balances at September 30, 2016	$ 7,872,482	$ 98,307
Differences between expected and actual experience	3,656,761	562,243
Changes of assumptions	(746,890)	(80,321)
Net difference between projected and actual earnings on pension plan investments	-	3,154,789
Current year amortization	(1,238,008)	(663,726)
Contributions - employer	(1,440,995)	-
Employer contributions subsequent to the measurement date	279,252	-
Balances at September 30, 2017	$ 8,382,602	$ 3,071,292

	September 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Balances at September 30, 2015	$ 2,336,088	$ 131,075
Differences between expected and actual experience	1,059,852	-
Changes of assumptions	(224,495)	-
Net difference between projected and actual earnings on pension plan investments	6,190,039	-
Current year amortization	(1,238,007)	(32,768)
Contributions - employer	(1,691,990)	-
Employer contributions subsequent to the measurement date	1,440,995	-
Balances at September 30, 2016	$ 7,872,482	$ 98,307

At September 30, 2017, $279,252 of Deferred Outflows of Resources related to pensions resulting from the employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset in the year ending September 30, 2018. Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in Pension Expense as follows:

Year Ended September 30,	
2018	$ 1,240,850
2019	$ 1,240,850
2020	$ 1,273,620
2021	$ 35,612
2022	$ 666,570
Thereafter	$ 574,556

Sensitivity of the Net Pension Asset to Changes in the Discount Rate **-** The following presents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.60% and 8.00% at September 30, 2017 and 2016, respectively, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Current Discount		
	1% Decrease	Rate	1% Increase
At September 30, 2017	6.60%	7.60%	8.60%
Sponsor's Net Pension Liability (Asset)	$ (8,405,527)	$ (14,745,419)	$ (20,028,909)
At September 30, 2016	7.00%	8.00%	9.00%
Sponsor's Net Pension Liability (Asset)	$ 8,321,439	$ 425,460	$ (6,214,046)

Pension Plan Fiduciary Net Position **-** Detailed information about the pension Plan's fiduciary net position is available in the separately issued Plan financial report.

Employee Health Plan

PMC has established a self-insured program for health benefits covering substantially all employees. During both 2017 and 2016, the plan covers healthcare services up to $185,000 per claim and provides unlimited commercial insurance coverage for cases exceeding these amounts for each covered employee or dependent. Health insurance expense, which includes medical expense provided by outside providers, dental and life benefits, and administrative costs (net of employee contributions), was approximately $7,617,000 and $10,202,000 in 2017 and 2016, respectively. Medical services provided to covered employees at PMC are recorded as a contractual adjustment when service is provided. Contractual adjustments under this plan amounted to approximately $6,936,000 and $8,536,000 in 2017 and 2016, respectively. At September 30, 2017 and 2016, the liability for reported and estimated unreported employee health plan claims incurred was approximately $447,000 and $454,000, respectively, and is included as a component of accrued health insurance and workers' compensation in the accompanying balance sheets.

Workers' Compensation Plan

PMC has established a self-insured program for workers' compensation benefits covering all employees. The plan covers employees up to $650,000 per claim for 2017 and 2016 and is limited to approximately $3.0 million per year in the aggregate for 2017 and 2016 and provides for commercial insurance relating to cases exceeding these amounts. Workers' compensation insurance expense, which includes payments for administrative fees, wages, and outside medical services, amounted to approximately $583,000 and $359,000 in 2017 and 2016, respectively. Medical services provided by PMC under this plan are recorded as contractual adjustments when the service is provided. These services amounted to approximately $167,000 and $141,000 in 2017 and 2016, respectively. At September 30, 2017 and 2016, the liability for reported and estimated unreported workers' compensation claims incurred was approximately $1,270,000 and $1,390,000, respectively, and is included as a component of accrued health insurance and workers' compensation liabilities in the balance sheets. The total accrual includes estimates of the ultimate costs of both reported claims and claims incurred but not reported, as determined by an actuary in 2015 and discounted at 4%, and are actuarially determined every other year.

Other Postemployment Obligations

The District provides postemployment healthcare benefits to all employees who retire from the District under the plan after 20 or more years of service and age 55, or after 30 years of service. Premiums paid by retirees are based on the projected average plan cost of the District's self-insured health benefit program for the year. The plan is funded on a pay-as-you-go basis. The District may make additional contributions as desired. No additional contributions have been made to date.

The District's annual OPEB cost is calculated based on the Annual Required Contribution ("ARC") of the employer, an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a closed period not to exceed 30 years. The following table shows the components of the District's annual cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan:

	2017	2016
Annual required contribution	$ 125,650	$ 89,013
Interest on net OPEB obligation	31,476	29,810
Adjustment to annual required contribution	(47,854)	(44,468)
Annual OPEB cost	109,272	74,355
Contributions made	(19,482)	(32,691)
Increase in net pension obligation	89,790	41,664
Net OPEB obligation - beginning of year	786,907	745,243
Net OPEB obligation - end of year	$ 876,697	$ 786,907

The net OPEB obligation is included with employee compensation and benefits payable in the balance sheets. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 were as follows:

Three-Year Trend Information			
Fiscal Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
September 30, 2017	$ 109,272	17.8%	$ 876,697
September 30, 2016	$ 74,355	44.0%	$ 786,907
September 30, 2015	$ 76,399	45.3%	$ 745,243

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision, as actual experience is compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Calculations are based upon the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term prospective, so methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the October 1, 2016 actuarial valuation (the most recent calculation available), the Entry Age Normal Actuarial Cost Method was used. The actuarial assumptions included a 4.0% discount rate and an annual healthcare cost trend rate of 8.75%, which is expected to decrease between 0.25% and 0.50% each year until the ultimate trend rate of 4.0% in fiscal 2073. The funded ratio was 0.0%, as the plan is unfunded and, thus, the unfunded actuarial accrued liability of approximately $877,000 is equal to the actuarial accrued liability. Covered payroll under the plan was approximately $39,301,000, resulting in a ratio of 2.4% as compared to the unfunded actuarial liability.

The following is a summary of the activity in the accrued health insurance, workers' compensation, and OPEB accounts for the years ended September 30, 2017 and 2016:

	Beginning Balance	Additions	Reductions	Ending Balance
2017	$ 2,631,335	$ 5,379,643	$ 5,416,907	$ 2,594,071
2016	$ 2,277,235	$ 7,480,156	$ 7,126,056	$ 2,631,335

7. DONOR-RESTRICTED NET POSITION

Donor-restricted net position is available for the following programs at September 30, 2017 and 2016:

	2017	2016
Cancer Programs	$ 83,140	$ 89,798
Diabetes	47,124	47,124
Education/Training	33,789	33,789
Women's Services - Lactate/Birthing	30,180	49,021
Chain of Lakes - Health Village	30,157	30,884
Stereotactic Breast Biopsy	17,931	17,931
Wellness	8,000	2,000
ASPR	5,815	5,815
Foundation	4,954	300
Circle of Giving	4,092	4,092
All Other	14,789	20,234
	$ 279,971	$ 300,988

8. CHARITY AND OTHER UNREIMBURSED CARE

The District's mission is to provide high-quality, affordable healthcare to the community. In pursuing its commitment to serve all members of the community, the District provides services to the financially disadvantaged, despite the lack or adequacy of payment for those services. The District maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The District also provides a charity care revenue deduction for those with billed charges equal to or greater than 125% of their annual salary. Charges forgone, based upon established rates, due to the provision of charity care to patients, amounted to approximately $11,661,000 and $11,859,000 in 2017 and 2016, respectively. Associated costs to provide charity care to patients amounted to approximately $2,620,000 and $2,913,000 in 2017 and 2016, respectively. Charity care is also provided through reduced price services and fee programs offered throughout the year based upon activities and services, which the District believes will serve a community health need. These activities include the Brevard Health Alliance, wellness programs, community education programs, and health fairs.

9. RELATED-PARTY TRANSACTIONS AND RELATIONSHIPS

North Brevard Medical Support, Inc. - Other than earnings on investments, NBMS has no other material sources of revenue with which to continue its operations or meet its obligations as they become due. However, NBMS receives funding from PMC in the form of grants. NBMS can obtain grants from PMC in any fiscal year equal to the lesser of the net patient service revenue of PMC for its preceding fiscal year, or 2.5% of PMC's gross revenue for its preceding fiscal year. PMC funded a grant of approximately $3,299,000 in 2017 for NBMS to meet its fiscal year 2017 obligations and a grant of $2,799,000 in 2016 for NBMS to meet its fiscal year 2016 obligations, which is recorded in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position. The grant is eliminated in consolidation. The operating activities of NBMS are included in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position for the years ended September 30, 2017 and 2016.

Florida Health Network, Inc. - In March 2007, Parrish Health Network (the "Network") was formed. The primary purpose of the Network is to create a community network with clinical integration, which combines the resources, strengths, knowledge, and expertise of our local healthcare providers in order to offer the community exceptional, comprehensive care. The Network is a wholly owned subsidiary of NBMS.

The operating activities of the Network are included in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position for the years ended September 30, 2017 and 2016.

Jess Parrish Medical Foundation, Inc. - The Jess Parrish Medical Foundation, Inc. (the "Foundation") is a separate Florida 501(c)(3) corporation, which raises money to support the District's programs and for the general advancement of healthcare organizations and objectives. The District has determined that the Foundation's financial statements are immaterial for inclusion in the District's financial statements. As such, the District has elected to exclude the Foundation's activities from the District's financial statements.

Home Health Program - In September 2016, the District sold its home health program (the "Program") to a third party and recognized a gain of approximately $1.6 million. The operations of the Program prior to the sale are included in net patient service revenue and the gain on sale of the Program is in other operating revenue in the statements of revenues, expenses, and changes in net position for the year ended September 30, 2016.

Effective September 2016, NBMS has a 25% joint venture interest in the Program. The operating activities of the Program after this date are included in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position for the years ended September 30, 2017 and 2016.

Dialysis Program - In December 2016, the District sold its Dialysis program to a third party and recognized a gain of approximately $2.5 million. The operations of the Dialysis program prior to the sale are included in net patient service revenue and the gain on sale of the Dialysis program is in other operating revenue in the statements of revenues, expenses, and changes in net position for the years ended September 30, 2017 and 2016.

Effective December 2016, NBMS has a 40% joint venture interest in the Dialysis program. The operating activities of the Dialysis program after this date are included in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position for the year ended September 30, 2017.

Florida Medical Insurance Corporation - In August 2016, Florida Medical Insurance Corporation (the "Captive") was issued a license permitting it to transact business as a domestic captive insurer by the State of Florida Office of Insurance Regulation. The Captive is a wholly owned subsidiary of NBMS. PMC paid insurance premiums to the Captive of approximately $1,723,000 in 2017, which was recorded in operating expenses in the statements of revenues, expenses, and changes in net position. The premium expense is eliminated in consolidation.

10. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to credit risk consist principally of patient accounts receivable. Patient accounts receivable consist of amounts due from Medicare, Medicaid, insurance companies, and self-pay patients.

The District 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 at September 30, 2017 and 2016, is as follows:

	2017	2016
Medicare	33.8 %	36.5 %
Medicaid	6.6 %	8.2 %
Commercial and other	50.6 %	48.2 %
Self-pay	9.0 %	7.1 %
	100.0 %	100.0 %

All balances, net of related contractual discounts and collectibility allowances, are expected to be collected within the subsequent fiscal year.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases - The District leases certain office space and equipment under noncancelable operating leases, expiring in various years through 2029. Payments under these obligations, which are not subject to cancellation, are based on fixed monthly amounts. The following is a summary, by year, of the approximate future minimum lease payments for the operating leases:

2018	$ 2,332,000
2019	1,991,000
2020	1,600,000
2021	1,486,000
2022	1,291,000
Thereafter	4,564,000
	$ 13,264,000

Total rental expense was approximately $2,140,000 and $2,222,000 in 2017 and 2016, respectively.

Accrued Medical Malpractice - Prior to July 1987, PMC maintained malpractice coverage through the Florida Hospital Trust Fund and the Florida Hospital Excess Trust Fund B for the purpose of paying malpractice claims against PMC. On July 21, 1987, PMC elected to rely on sovereign immunity with respect to liability claims against PMC, subject to the limited waiver provisions of Section 768.28, Florida Statutes ($200,000 per claim, $300,000 per incident) for 2017 and 2016. PMC terminated its participation in the Florida Hospital Trust Fund and Florida Hospital Excess Trust Fund B, purchased insurance coverage for non-reported acts prior to July 22, 1987, and engaged an actuary for the purpose of projecting future malpractice liability on a self-insured basis. Based upon the actuary's analysis and the possibility of a special act of the Florida Legislature, as provided in Section 768.29(5), Florida Statutes, PMC has recorded a total accrued liability for reported and unreported claims of approximately $1,458,000 and $1,200,000 (net of claims paid) for the period July 22, 1987 through September 30, 2017 and 2016, respectively. The total accrual includes estimates of the ultimate costs of both reported claims and claims incurred but not reported and are discounted at 4%.

The following is a summary of the activity in the accrued medical malpractice liability accounts for the years ended September 30, 2017 and 2016:

	Beginning Balance	Additions	Reductions	Ending Balance
2017	$ 1,200,306	$ 345,008	$ 87,467	$ 1,457,847
2016	$ 1,231,377	$ 116,000	$ 147,071	$ 1,200,306

At September 30, 2017 and 2016, the estimated current portion of the total accrued liability was approximately $282,000 and $588,000, respectively. The statements of revenues, expenses, and changes in net position reflects no change for 2017 and an approximate $31,000 decrease in other operating expenses for 2016 representing a change in estimate of the liability for medical malpractice claims incurred in the prior years.

Excess Insurance - Effective June 13, 2014, PMC purchased a claims-made umbrella policy with a $5 million limit covering PMC and employed physicians. The umbrella policy is excess over the sovereign immunity limits of $200,000/$300,000. If sovereign immunity does not apply, the policy is excess over a professional liability limit of $1.0 million/$3.0 million, which is the self-insured retention. Effective May 30, 2014, PMC purchased a claims-made professional liability excess policy for contract physicians working in the Florida Health Network. These physicians carry their own underlying insurance policy for the first $250,000 per claim and $750,000 per physician. The excess policy covers an additional $750,000 per claim and $2.25 million per physician, bringing the total coverage to $1 million/$3 million limits. Both policies were purchased as a result of membership in the Mayo Clinic Care Network.

Effective October 1, 2016, the Captive provides, on a claims-made basis, hospitals and physicians professional liability for both employed and non-employed physicians to the District. The hospital and employed physicians professional liability coverage has a limit of $6,000,000 per claim and in the aggregate. The Captive has purchased a reinsurance layer on this coverage with limits of $5,250,000 excess $750,000 per occurrence and in the aggregate. Non-employed physicians professional liability coverage has a limit of $750,000 excess $250,000 per claim with a $3,000,000 annual aggregate. The Captive has purchased a reinsurance layer on this coverage with limits of $250,000 excess $750,000 per occurrence and in the aggregate. At September 30, 2017, the District recognized approximately $344,000 of estimated recoveries from reinsurance within prepaid and other current assets.

Effective October 1, 2016, the Captive provides, on an occurrence basis, commercial general liability and property deductible reimbursement coverages to the District. The commercial general liability coverage has a limit of up to $6,000,000 per claim and in the aggregate. The property deductible reimbursement coverage has a limit of $250,000 per claim with no annual aggregate.

Insurance Capital and Surplus – The NAIC has established risk-based capital ("RBC") requirements to help State regulators monitor the financial strength and stability of property and casualty insurers by identifying those companies that may be inadequately capitalized. The calculated RBC level based on the annual statements as filed by the Captive was in excess of the threshold requirements as of September 30, 2017.

The Captive is required to maintain a minimum capital and surplus of $250,000 pursuant to insurance regulations. As of September 30, 2017, the Captive is above the minimum capital and surplus.

The payment of dividends is subject to regulatory restrictions and requires approval from the Florida Office of Insurance Regulation. There were no dividends declared or paid during the year ended September 30, 2017.

Accrued Employee Personal Leave Bank - PMC provides a benefit program entitled "Personal Leave Bank." This program allows all eligible employees to earn personal leave in lieu of traditional sick days, vacation days, or holidays. Accrual of personal leave time is based upon length of service with PMC. The personal leave bank is charged for hours taken off from work. All employees may request payment for up to 120 hours total per year of earned personal leave at two specified times during the fiscal year. The first 80 hours are paid at 100%, the next 40 hours are paid at 80% of the employee's current pay rate. The accrued liability under this program amounted to approximately $2,935,000 and $3,142,000 at September 30, 2017 and 2016, respectively.

Litigation - The District is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material, adverse effect on the future financial position, results of operations, or cash flows of the District.

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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - UNAUDITED SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS
FOR THE YEARS ENDED SEPTEMBER 30,

	2017	2016	2015	2014
Total pension liability				
Service cost	$ 690,793	$ 1,836,604	$ 1,998,932	$ 1,850,863
Interest	3,252,842	4,207,238	3,998,329	3,796,320
Differences between expected and actual experience	(562,243)	1,059,852	-	-
Changes of assumptions	3,656,761	-	736,112	-
Changes of benefit terms	(13,325,988)	-	-	-
Contributions - buy back	-	-	1,474	-
Benefit payments, including refunds of employee contributions	(5,336,757)	(3,786,952)	(4,135,338)	(2,404,947)
Net change in total pension liability	(11,624,592)	3,316,742	2,599,509	3,242,236
Total pension liability - beginning	55,964,095	52,647,353	50,047,844	46,805,608
Total pension liability - ending (a)	$ 44,339,503	$ 55,964,095	$ 52,647,353	$ 50,047,844
Plan fiduciary net position				
Contributions - employer	$ 1,440,995	$ 1,691,990	$ 3,126,488	$ 3,166,212
Contributions - employee	-	-	-	-
Contributions - buy back	-	-	1,474	-
Net investment income	7,442,049	(1,539,953)	4,572,243	6,113,059
Benefit payments, including refunds of employee contributions	(5,336,757)	(3,786,952)	(4,135,338)	(2,404,947)
Administrative expense	-	-	-	(497)
Other changes	-	-	-	-
Net change in plan fiduciary net position	3,546,287	(3,634,915)	3,564,867	6,873,827
Plan fiduciary net position - beginning	55,538,635	59,173,550	55,608,683	48,734,856
Plan fiduciary net position - ending (b)	$ 59,084,922	$ 55,538,635	$ 59,173,550	$ 55,608,683
Net pension liability (asset) - ending (a) - (b)	$ (14,745,419)	$ 425,460	$ (6,526,197)	$ (5,560,839)
Plan fiduciary net position as a percentage of the total pension liability	133.26%	99.24%	112.40%	111.11%
Covered employee payroll	$ 36,342,540	$ 38,851,076	$ 32,463,253	$ 36,159,641
Net pension asset as a percentage of covered employee payroll	-40.57%	1.10%	-20.10%	-15.38%

Note: The District implemented GASB Statement No. 68 for the fiscal year ended September 30, 2016, including a restatement as of September 30, 2014. Information for prior years is not available.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - UNAUDITED SCHEDULE OF PENSION CONTRIBUTIONS

FOR THE YEARS ENDED SEPTEMBER 30,

	2017	2016	2015	2014
Actuarially determined contribution	$ 1,440,995	$ 1,691,990	$ 3,126,488	$ 3,166,212
Contributions in relation to the actuarially determined contributions	1,440,995	1,691,990	3,126,488	3,166,212
Total pension liability - ending (a)	$ -	$ -	$ -	$ -
Covered employee payroll	$ 36,342,540	$ 38,851,076	$ 32,463,253	$ 36,159,641
Contributions as a percentage of covered employee payroll	3.97%	4.36%	9.63%	8.76%

Note: The District implemented GASB Statement No. 68 for the fiscal year ended September 30, 2016, including a restatement as of September 30, 2014. Information for prior years is not available.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - UNAUDITED SCHEDULE OF FUNDING PROGRESS - OPEB

YEAR ENDED SEPTEMBER 30, 2017

Actuarial Valuation Date	Acturial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Interest (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
October 1, 2006	$ -	$ 3,511,441	$ 3,511,441	0.0%	$ 31,378,457	11.2%
October 1, 2010	$ -	$ 1,480,384	$ 1,480,384	0.0%	$ 46,585,080	3.2%
October 1, 2012	$ -	$ 1,259,205	$ 1,259,205	0.0%	$ 40,478,347	3.1%
October 1, 2014	$ -	$ 744,662	$ 744,662	0.0%	$ 40,343,088	1.8%
October 1, 2016	$ -	$ 953,330	$ 953,330	0.0%	$ 39,301,450	2.4%

Pension Assumptions

Valuation Date:	10/01/2015

Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Cost Method:	Aggregate Actuarial Cost Method.
Interest Rate:	8% per year compounded annually, gross of investment-related expenses. This assumption is consistent with the Plan's investment policy and long-term expected return by asset class.
Inflation:	2.8% per year
Lump Sum Assumptions:	The minimum guaranteed lump sum is based on the Plan-specific 1971 Group Annuity Mortality Table for Males and an assumed PBGC discount rate as of each October 1 of the valuation year (increased from 1.00% to 1.25% per annum for the October 1, 2015 valuation) compounded annually. The base lump sum is based on the long term discount rate of 8.0% per annum compounded annually and the mortality table prescribed by the Secretary of the Treasury (the "Secretary") in accordance with Section 417(e)(3)(A)(ii)(I) of the Internal Revenue Code, as applicable for the year in which the valuation is performed. All benefits to participants are assumed to be paid as lump sums, except for those who already terminated or retired as of the valuation date and who did not yet receive lump sum payouts.
Mortality Rates:	RP2000, Combined Healthy, with projection to the valuation date using Scale AA. This assumption is utilized for benefits paid in the form of annuities only, and believe sufficiently accommodates future mortality improvements.
Post Retirement COLA:	Not applicable.
Payroll Growth Assumption:	None necessary for amortization purposes under the Aggregate Actuarial Cost Method.
Administrative Expenses:	None assumed.
Funding Method:	Aggregate Actuarial Cost Method. A Funding load equal to one year of assumed salary increases (at the current 4.35% assumption) and a half year of investment return (at the current 8% assumption) was utilized for determination of the Sponsor's dollar funding requirement.
Actuarial Asset Method:	All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period.

Normal Retirement:

The below rates were adopted by the Board as the result of an Experience Study performed for the period October 1, 1993 through October 1, 2013.

Number of Years after first Eligible	Retirement Probability
0-3	15%
4 or more	100%

Early Retirement:

Commencing at eligibility for Early Retirement (Age 55 with 20 years of Credited Service), Members are assumed to retire with an immediate benefit at the rate of 6% per year. This assumption was adopted by the Board as the result of an Experience Study performed for the period October 1, 1993 through October 1, 2013.

Disability Rates:

Age	Disability Rates
20	0.07%
25	0.09
30	0.11
35	0.14
40	0.19
45	0.30
50	0.51
55	0.96
60	1.66
65	---

The above rates are consistent with those utilized by other Florida non-special risk retirement programs.

Termination Rate:

Age	Termination Rates
Less than 20	75.0%
20-24	19.0
25-39	12.0
40-64	6.0
65 and Older	0.0

The above rates were adopted by the Board as the result of an Experience Study performed for the period October 1, 1993 through October 1, 2013.

Salary Increases:

Years of Service	Salary Increases
Less than 6 Years	4.9%
Years 6-15	4.3
16 Years and Greater	3.8

The above salary rates were adopted by the Board as the result of an Experience Study performed for the period October 1, 1993 through October 1, 2013. It is also inclusive of 2.8% inflation assumption.

OTHER SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2017

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 2,513,369	$ 3,523,031	$ -	$ 6,036,400
Restricted assets - held by trustee and required for current liabilities	2,209,415	-	-	2,209,415
Patient accounts receivable - net	16,406,442	-	(15,343)	16,391,099
Supplies	2,318,009	-	-	2,318,009
Prepaid expenses and other assets	6,031,425	755,994	(1,122,371)	5,665,048
Total current assets	29,478,660	4,279,025	(1,137,714)	32,619,971
RESTRICTED ASSETS:				
Temporarily donor-restricted net position	279,971	-	-	279,971
Funded depreciation	65,281,628	-	-	65,281,628
Held by trustee	3,012,511	-	-	3,012,511
Total restricted assets	68,574,110	-	-	68,574,110
OTHER ASSETS:				
Net pension asset	14,745,419	-	-	14,745,419
Deposits and other assets	5,113,934	4,334,614	(5,100,100)	4,348,448
Investments	16,037,195	-	-	16,037,195
Total other assets	35,896,548	4,334,614	(5,100,100)	35,131,062
CAPITAL ASSETS:				
Land	9,201,346	150,000	-	9,351,346
Improvements to land	5,785,878	-	-	5,785,878
Buildings and improvements	130,682,380	3,170,751	-	133,853,131
Equipment	86,983,882	1,070,079	-	88,053,961
Construction in progress	7,475,636	-	-	7,475,636
	240,129,122	4,390,830	-	244,519,952
Less accumulated depreciation	(162,685,960)	(2,764,655)	-	(165,450,615)
Net capital assets	77,443,162	1,626,175	-	79,069,337
DEFERRED OUTFLOWS:				
Pension	8,382,602	-	-	8,382,602
Series 2008 Bond refunding	10,366,260	-	-	10,366,260
Total deferred outflows	18,748,862	-	-	18,748,862
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 230,141,342	$ 10,239,814	$ (6,237,814)	$ 234,143,342

(Continued)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2017

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
LIABILITIES, DEFEERED INFLOWS, AND NET POSITION				
CURRENT LIABILITIES:				
Accounts payable	$ 18,355,620	$ 1,296,722	$ (1,137,714)	$ 18,514,628
Accrued health insurance and workers' compensation	1,717,374	-	-	1,717,374
Accrued employee personal leave bank	2,934,693	-	-	2,934,693
Accrued salaries	2,093,274	-	-	2,093,274
Accrued medical malpractice	172,775	109,106	-	281,881
Other current liabilities	2,777,141	-	-	2,777,141
Estimated third-party settlements	1,054,116	-	-	1,054,116
Current portion of long-term debt & capital lease obligations	2,483,911	37,295	-	2,521,206
Total current liabilities	31,588,904	1,443,123	(1,137,714)	31,894,313
OTHER LIABILITIES:				
Accrued medical malpractice	563,422	612,544	-	1,175,966
Accrued other post employment benefits	876,697	-	-	876,697
Other liabilities	-	5,100,100	(5,100,100)	-
Net pension liability	-	-	-	-
Total other liabilities	1,440,119	5,712,644	(5,100,100)	2,052,663
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS:				
Net of current portion	93,596,438	198,425	-	93,794,863
Total liabilities	126,625,461	7,354,192	(6,237,814)	127,741,839
COMMITMENTS AND CONTINGENCIES				
DEFERRED INFLOWS:				
Pension	3,071,292	-	-	3,071,292
Total deferred inflows	3,071,292	-	-	3,071,292
NET POSITION:				
Net invested in capital assets	3,508,442	1,600,168	-	5,108,610
Restricted by donors	279,971	-	-	279,971
Restricted for debt service	5,221,926	-	-	5,221,926
Unrestricted	91,434,250	1,285,454	-	92,719,704
Total net position	100,444,589	2,885,622	-	103,330,211
TOTAL LIABILITIES, DEFFERED INFLOWS, AND NET POSITION	$ 230,141,342	$ 10,239,814	$ (6,237,814)	$ 234,143,342

See Independent Auditor's Report.

(Concluded)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2016

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 6,363,354	$ 395,540	$ -	$ 6,758,894
Restricted assets - held by trustee and required for current liabilities	2,177,964	-	-	2,177,964
Patient accounts receivable - net	18,446,683	-	(3,229)	18,443,454
Supplies	2,292,624	-	-	2,292,624
Prepaid expenses and other assets	8,252,472	101,175	(2,256,563)	6,097,084
Total current assets	37,533,097	496,715	(2,259,792)	35,770,020
RESTRICTED ASSETS:				
Temporarily donor-restricted net position	300,988	-	-	300,988
Funded depreciation	68,437,543	-	-	68,437,543
Held by trustee	3,010,919	-	-	3,010,919
Total restricted assets	71,749,450	-	-	71,749,450
OTHER ASSETS:				
Net pension asset	-	-	-	-
Deposits and other assets	16,512	2,053,443	-	2,069,955
Investments	16,731,493	-	-	16,731,493
Total other assets	16,748,005	2,053,443	-	18,801,448
CAPITAL ASSETS:				
Land	9,796,078	150,000	-	9,946,078
Improvements to land	3,074,797	-	-	3,074,797
Buildings and improvements	135,187,137	3,158,413	-	138,345,550
Equipment	85,913,545	1,045,353	-	86,958,898
Construction in progress	4,624,815	509,518	-	5,134,333
	238,596,372	4,863,284	-	243,459,656
Less accumulated depreciation	(155,232,374)	(2,456,305)	-	(157,688,679)
Net capital assets	83,363,998	2,406,979	-	85,770,977
DEFERRED OUTFLOWS:				
Pension	7,872,482	-	-	7,872,482
Series 2008 Bond refunding	10,765,257	-	-	10,765,257
Total deferred outflows	18,637,739	-	-	18,637,739
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 228,032,289	$ 4,957,137	$ (2,259,792)	$ 230,729,634

(Continued)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2016

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION				
CURRENT LIABILITIES:				
Accounts payable	$ 13,993,830	$ 2,346,608	$ (2,259,792)	$ 14,080,646
Accrued health insurance and workers' compensation	1,844,428	-	-	1,844,428
Accrued employee personal leave bank	3,141,679	-	-	3,141,679
Accrued salaries	1,427,374	-	-	1,427,374
Accrued medical malpractice	588,143	-	-	588,143
Other current liabilities	2,675,290	-	-	2,675,290
Estimated third-party settlements	314,565	-	-	314,565
Current portion of long-term debt & capital lease obligations	2,402,803	33,088	-	2,435,891
Total current liabilities	26,388,112	2,379,696	(2,259,792)	26,508,016
OTHER LIABILITIES:				
Accrued medical malpractice	612,163	-	-	612,163
Accrued other post employment benefits	786,907	-	-	786,907
Net pension liability	425,460	-	-	425,460
Total other liabilities	1,824,530	-	-	1,824,530
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS:				
Net of current portion	96,060,553	237,761	-	96,298,314
Total liabilities	124,273,195	2,617,457	(2,259,792)	124,630,860
COMMITMENTS AND CONTINGENCIES				
DEFERRED INFLOWS:				
Pension	98,307	-	-	98,307
Total deferred inflows	98,307	-	-	98,307
NET POSITION:				
Net invested in capital assets	7,263,358	2,406,978	-	9,670,336
Restricted by donors	300,988	-	-	300,988
Restricted for debt service	5,188,883	-	-	5,188,883
Unrestricted	90,907,558	(67,298)	-	90,840,260
Total net position	103,660,787	2,339,680	-	106,000,467
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 228,032,289	$ 4,957,137	$ (2,259,792)	$ 230,729,634

See Independent Auditor's Report.

(Concluded)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2017

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
OPERATING REVENUE:				
Net patient service revenue	$ 129,227,119	$ -	$ -	$ 129,227,119
Other operating revenue	3,101,571	-	-	3,101,571
Total operating revenue	132,328,690	-	-	132,328,690
OPERATING EXPENSES:				
Salaries and wages	46,575,990	-	-	46,575,990
Employee benefits	1,986,076	-	-	1,986,076
Medications and supplies	23,228,107	-	(25,596)	23,202,511
Professional fees and contractual services	27,457,389	-	-	27,457,389
Other operating expenses	14,597,170	-	(1,723,000)	12,874,170
Depreciation	10,617,015	-	-	10,617,015
Interest expense	3,593,479	-	-	3,593,479
Total operating expenses	128,055,226	-	(1,748,596)	126,306,630
OPERATING INCOME	4,273,464	-	1,748,596	6,022,060
NONOPERATING REVENUES (EXPENSES):				
Investment income, net	6,745,859	1,215	-	6,747,074
Other nonoperating expenses, net	(10,941,332)	(2,754,116)	(1,748,596)	(15,444,044)
Internal grants	(3,298,842)	3,298,842	-	-
Total nonoperating revenues (expenses), net	(7,494,315)	545,941	(1,748,596)	(8,696,970)
(LOSS) INCOME BEFORE CAPITAL CONTRIBUTIONS	(3,220,851)	545,941	-	(2,674,910)
CAPITAL CONTRIBUTIONS	4,654	-	-	4,654
CHANGE IN NET POSITION	$ (3,216,197)	$ 545,941	$ -	$ (2,670,256)

See Independent Auditor's Report.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2016

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
OPERATING REVENUE:				
Net patient service revenue	$ 142,149,493	$ -	$ -	$ 142,149,493
Other operating revenue	2,923,529	-	-	2,923,529
Total operating revenue	145,073,022	-	-	145,073,022
OPERATING EXPENSES:				
Salaries and wages	48,078,122	-	-	48,078,122
Employee benefits	17,586,927	-	-	17,586,927
Medications and supplies	24,543,182	-	-	24,543,182
Professional fees and contractual services	27,370,032	-	-	27,370,032
Other operating expenses	11,840,622	-	-	11,840,622
Depreciation	11,517,505	-	-	11,517,505
Interest expense	3,733,760	-	-	3,733,760
Total operating expenses	144,670,150	-	-	144,670,150
OPERATING INCOME	402,872	-	-	402,872
NONOPERATING REVENUES (EXPENSES):				
Investment income, net	8,100,599	-	-	8,100,599
Other nonoperating expenses, net	(9,968,963)	(2,789,744)	-	(12,758,707)
Internal grants	(2,799,488)	2,799,488	-	-
Total nonoperating revenues (expenses), net	(4,667,852)	9,744	-	(4,658,108)
(LOSS) INCOME BEFORE CAPITAL CONTRIBUTIONS	(4,264,980)	9,744	-	(4,255,236)
CAPITAL CONTRIBUTIONS	1,094,861	-	-	1,094,861
CHANGE IN NET POSITION	$ (3,170,119)	$ 9,744	$ -	$ (3,160,375)

See Indepdendent Auditor's Report.

OTHER REPORT

MSL
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors and Audit Committee
North Brevard County Hospital District
Titusville, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Brevard County Hospital District (the "District") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2017.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Pursuant to the provisions of *Chapter 10.500, Rules of the Auditor General*, we reported certain matters to management of the District in an Independent Auditor's Management Letter dated December 22, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Tampa, Florida
December 22, 2017