



Halifax Hospital Medical Center d/b/a Halifax Health

Financial Report
September 30, 2017

Contents

Independent Auditor's Report	1 – 2
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Management's Discussion and Analysis (Unaudited)	3 – 10
Financial Statements:	
Statement of Net Position	11 – 12
Statement of Revenues, Expenses and Changes in Net Position	13
Statement of Cash Flows	14 – 15
Statement of Fiduciary Net Position	16
Statement of Changes in Fiduciary Net Position	17
Notes to Financial Statements	18 – 49

Required Supplementary Information (Unaudited):	
Schedule of Changes in Net Pension Liability – Halifax Pension Plan	50
Schedule of Funding Progress – Halifax Pension Plan	51
Schedule of Actuarially Determined Contributions – Halifax Pension Plan	52
Notes to Required Supplementary Information – Halifax Pension Plan	53
Schedule of Funding Progress – Halifax Insurance Subsidy OPEB	54
Schedule of Funding Progress – Halifax Implicit Rate Subsidy OPEB	55
Other Supplementary Information:	
Schedule of Net Position – Obligated Group	56 – 57
Schedule of Revenues, Expenses and Changes in Net Position – Obligated Group	58
Note to Schedules – Obligated Group	59



Independent Auditor's Report

RSM US LLP

To the Honorable Commissioners of the Board
Halifax Hospital Medical Center
d/b/a Halifax Health

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Halifax Hospital Medical Center d/b/a Halifax Health ("Halifax Health"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise Halifax Health's basic financial statements as listed in the table of contents.

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 audit. We did not audit the basic financial statements of Halifax Health's fiduciary activities as of and for the year ended September 30, 2017, as presented on pages 16 – 17, which represent 100% of the total assets and additions of the aggregate remaining fund information. That statement was audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Halifax Health's fiduciary activities, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Halifax Health'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 Halifax Health'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 opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of Halifax Health as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the net position as of October 1, 2016, has been restated to record net pension liability in accordance with Governmental Accounting Standards Board requirements. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 – 10 and the required supplementary information on pages 50 – 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Halifax Health's basic financial statements. The accompanying Obligated Group financial information on pages 56 – 59 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The Obligated Group financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit the Obligated Group financial information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

RSM US LLP

Davenport, Iowa
January 12, 2018

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Management’s Discussion and Analysis (Unaudited)
Year Ended September 30, 2017**

INTRODUCTION

This section of the Halifax Hospital Medical Center (the “Medical Center”) d/b/a Halifax Health’s annual financial report provides an overview of the organization and management’s discussion and analysis of financial performance and results for the fiscal year ended September 30, 2017. This analysis should be read in conjunction with the accompanying basic financial statements.

The current enabling act of the Medical Center was passed by a special act of the Florida Legislature as Chapter 2003-374, Laws of Florida (the “Act”), which codified all prior laws that established the Medical Center as a special taxing district, a public body corporate and politic of the State of Florida. The Medical Center was originally created in 1925 under the name Halifax Hospital District by Chapter 112.72, Laws of Florida, 1925. The Medical Center’s Board of Commissioners (the “Board”) is empowered to levy ad valorem taxes for operating expenses, capital outlays, and other purposes. Pursuant to the Act, the Medical Center has all the powers of a body corporate, including, but not limited to, the power to establish, construct, operate, and maintain such hospitals, medical facilities, and healthcare facilities and services for the preservation of the public health, for the public good, and for the use of the public; the power to enter into contracts; borrow money; establish for-profit and not-for-profit corporations; the power to acquire, purchase, hold, lease, and convey real and personal property; and the power of eminent domain. The Medical Center’s geographic territory is primarily northeastern Volusia County, Florida, including the cities of Bunnell, Daytona Beach, DeBary, Deland, DeLeon Springs, Deltona, Edgewater, Flagler Beach, Holly Hill, Lake Helen, New Smyrna Beach, Oak Hill, Orange City, Ormond Beach, Osteen, Palm Coast, Pierson, Port Orange, and Seville.

The Medical Center owns and operates three inpatient hospital facilities under one license. The main campus of the Medical Center, located in Daytona Beach, is the inpatient referral center which includes a Level II neonatal intensive care center and a Level II state-certified trauma center, offering open-heart surgery, neurosurgery, inpatient rehabilitation and other specialty inpatient and outpatient services. The Port Orange campus, located ten miles south of the main campus, is a community hospital providing a broad range of services to the residents of Port Orange and southeast Volusia County. The Halifax Behavioral Services (HBS) campus, two miles north of the main campus, provides inpatient and outpatient child, adolescent, and adult psychiatric services. The Medical Center is licensed by the Agency for Health Care Administration (AHCA) to operate with 678 beds and 33 bassinets. The licensed beds by location are set forth in the table below:

Licensed Beds by Location

Main campus:	
Inpatient hospital	528
Inpatient rehabilitation	40
Port Orange campus	80
HBS campus	30
Total	678

In addition to its inpatient facilities, the Medical Center owns and operates a freestanding emergency room located in Deltona and outpatient centers in Daytona Beach, Port Orange, Ormond Beach, Palm Coast and Deland.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2017**

The Medical Center has established not-for-profit corporations (the "component units" or the "affiliates") to assist in carrying out its purpose to provide health care and related services to the community. The component units are legally separate organizations for which the Medical Center is financially accountable and the nature and significance of their relationship to the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete. The component units of the Medical Center are:

- East Volusia Health Services, Inc. ("EVHS")
- HH Holdings, Inc. ("Holdings")
- Halifax Healthcare Systems, Inc. ("HHCSI")
- Halifax Healthy Families Corporation d/b/a Healthy Communities ("Healthy Communities")
- Halifax Staffing, Inc. ("Staffing")
- Patient Business & Financial Services, Inc. ("PBFS")
- Halifax Hospice, Inc. d/b/a Halifax Health Hospice ("Hospice")
- Halifax Management System, Inc. ("HMS")
- Halifax Medical Center Foundation, Inc. ("Foundation")
- Volusia Health Ventures, Inc. d/b/a Volusia Health Network ("VHN")

These corporations are considered blended component units of the Medical Center and their financial results are blended with the Medical Center in the accompanying financial statements. See Note 1 of the audited financial statements for a description of each component unit and combining schedules. The Medical Center, together with all of its component units, is referred to as "Halifax Health."

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report includes the independent auditor's report, management's discussion and analysis, and the basic financial statements of Halifax Health. The basic financial statements are intended to describe the net position, results of operations, sources and uses of cash, and the capital structure of Halifax Health. Fiduciary fund statements for the pension trust fund are also provided as part of the basic financial statements. The basic financial statements include notes providing detailed information for select accounts and transactions.

In addition to the aforementioned content, the annual financial report includes required supplementary information composed of unaudited schedules of changes in net pension liability, funding progress, and actuarially determined contributions for the Halifax Pension Plan, and schedules of funding progress for the Halifax Insurance Subsidy and for the Halifax Implicit Rate Subsidy postemployment benefit plans.

Schedules of net position and revenues, expenses, and changes in net position for the Obligated Group are included as additional (supplementary) information. The members of the Obligated Group are the Medical Center and Holdings. In accordance with generally accepted accounting principles, certain component units are blended with the accounts of the Medical Center in the Obligated Group financial information, including EVHS, Staffing, HHCSI and PBFS.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2017**

NET POSITION AND CHANGES IN NET POSITION

Net position is an indicator of the financial health of an organization. Increases in net position over time indicate that the financial condition is improving while decreases in net position over time signify a declining financial condition. A comparative summary of the financial condition of Halifax Health is presented below:

**Condensed Statements of Net Position
(In thousands)**

	2017	2016 (as restated)
Current assets	\$ 425,287	\$ 412,173
Assets whose use is limited, noncurrent	51,034	63,600
Capital assets, net	356,986	356,341
Other noncurrent assets and deferred outflows	88,965	109,260
	<hr/>	<hr/>
Total assets and deferred outflows	\$ 922,272	\$ 941,374
	<hr/>	<hr/>
Current liabilities	\$ 95,114	\$ 88,145
Long-term debt and premium on long-term debt, net	359,427	366,702
Noncurrent liabilities and deferred inflows	155,006	185,201
Total liabilities and deferred inflows	609,547	640,048
	<hr/>	<hr/>
Net investment in capital assets	25,778	34,305
Restricted net position	5,856	5,850
Unrestricted net position, as restated	281,091	261,171
Total net position, as restated	312,725	301,326
	<hr/>	<hr/>
Total liabilities, deferred inflows and net position	\$ 922,272	\$ 941,374
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**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2017**

The statement of revenues, expenses, and changes in net position measures the annual operating success of the organization and can be used to determine whether costs have been recovered through operating revenue sources. Following is a comparative summary of the operations of Halifax Health.

**Condensed Statement of Revenues and Expenses
(In thousands)**

	2017	2016 (as restated)
Operating revenue	\$ 543,899	\$ 530,666
Operating expenses	525,403	496,740
Income from operations	<u>18,496</u>	<u>33,926</u>
Nonoperating expenses	<u>(7,097)</u>	<u>(4,702)</u>
Increase in net position	<u>\$ 11,399</u>	<u>\$ 29,224</u>

MANAGEMENT'S DISCUSSION OF RECENT FINANCIAL PERFORMANCE

Total assets and deferred outflows of Halifax Health decreased \$19.1 million from September 30, 2016. Current assets of Halifax Health increased \$13.1 million from fiscal year 2016 primarily as a result of an increase in cash and cash equivalents of \$4.9 million, an increase in inventories of \$2.9 million and an increase in investments of \$1.8 million. Noncurrent assets whose use is limited decreased from fiscal year 2016 by approximately \$12.6 million as a result of the decrease in trustee-held funds used for capital purchases. Capital assets, net of accumulated depreciation increased \$645,000 from 2016 primarily as a result of capital acquisitions of approximately \$22.0 million, offset by depreciation and amortization expense of \$21.4 million and disposals of certain equipment. Other noncurrent assets and deferred outflows decreased \$20.3 million from 2016 primarily due to the decrease in the fair value of the interest rate swap of \$12.3 million, decreases in deferred outflows related to the pension plan of \$6.4 million and the amortization of goodwill of \$1.3 million.

Total liabilities and deferred inflows of Halifax Health decreased \$30.5 million from September 30, 2016 due to the decrease in pension liability and the fair value of the interest rate swap liability. Current liabilities increased from fiscal year 2016 primarily as a result of an increase in current payables of \$7.0 million due to timing of payments.

Long-term debt, excluding current portion due, decreased approximately \$6.6 million from September 30, 2016 as a result of principal payments made in the year. As of September 30, 2017, the Medical Center's outstanding bonds (Series 2008, Series 2015, and Series 2016) were rated A- by Standard & Poor's, and A- by Fitch Ratings with a stable outlook.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2017**

The decrease in noncurrent liabilities and deferred inflows of the Medical Center of \$30.2 million from fiscal year 2016 is primarily due to the decrease in the net pension liability of \$19.2 million and a decrease in the long-term value of the interest rate swap liability of \$12.3 million.

The net position of Halifax Health at September 30, 2017, was \$312.7 million, an increase of \$11.4 million from September 30, 2016. The increase is the result of a decrease in the pension liability of \$19.2 million and revenue generated from patient care and other operations of \$543.9 million offset by operating expenses of \$525.4 million and nonoperating expenses of \$7.1 million.

Operating Revenues

The increase in operating revenues of \$13.2 million over 2016 at Halifax Health is primarily the result of an increase in admissions, and new services offered. Halifax Health continues to expand the quality and continuum of services that it provides to the community.

Utilization statistics for the years ended September 30, 2017 and 2016, are as follows:

Halifax Health Utilization Statistics

	2017	2016
Medical Center Activity:		
Admissions	23,213	23,026
Patient days	137,838	133,895
Average daily census	378	366
Total outpatient visits	291,682	292,272
Observation patient day equivalents	9,504	8,832
Hospice Activity:		
Hospice patient days	201,231	201,259

Halifax Health's inpatient admissions for 2017 increased by 187 admissions compared to 2016, and patient days for 2017 increased by 3,943 (2.9%) compared to 2016. The increases in admissions and patient days led to an increase in the average daily census by 12 patients per day from the prior year. Outpatient visits for 2017 decreased by 590 compared to 2016 due to certain outpatient activity included in a joint venture with a third party.

Operating Expenses

Total operating expenses of Halifax Health increased \$28.7 million in fiscal year 2017 compared to fiscal year 2016 primarily due to increases in salaries and benefits expense of \$25.2 million and an increase in supplies expense of \$8.1 million offset by decreases in purchased services of \$2.0 million. Included in operating expenses is the impact of Hurricane Matthew (October 2016) and Hurricane Irma (September 2017) in the amount of \$3.1 million. Depreciation and amortization expense decreased \$900,000 from 2016 to 2017, primarily due to assets retired from service.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2017**

Halifax Health also incurs expenses related to ad valorem taxes levied. These expenses include payments to Volusia County and the cities of Daytona Beach, Ormond Beach, Holly Hill, and Port Orange (tax collector and appraiser commissions, Medicaid matching funds, and redevelopment taxes) and the costs of non-hospital community health services (physician services, community clinics, prescription drugs, medical supplies, etc.). Ad valorem tax-related expenses were substantially the same from 2016 to 2017.

Nonoperating Revenues, Expenses, Gains and Losses

Investment income decreased \$3.6 million in fiscal year 2017 compared to fiscal year 2016 as a result of increases in interest rates reducing returns on fixed income investments offset by improved performance of the equity markets. Investment income for the year ended September 30, 2017 includes unrealized gains of \$1.9 million.

KEY FINANCIAL INDICATORS

The following represents a summary of key financial indicators of Halifax Health:

Key Financial Indicators

	2017	2016 (as restated)
Total margin	2.1%	5.4%
Days cash on hand	265.6	276.3
Unrestricted cash to long-term debt	103.0%	99.1%
Long-term debt to capitalization	53.9%	55.4%
Total net patient service revenue, before provision for bad debts (in millions)	\$ 588.0	\$ 557.3

The total margin decreased to 2.1% in fiscal year 2017 due to the increase in operating revenues of Halifax Health, offset by increases in operating and nonoperating expenses compared to fiscal year 2016. The number of days cash on hand, which includes investments and board designated assets whose use is limited, decreased from 276.3 days at September 30, 2016, to 265.6 days at September 30, 2017, due to increases in operating expenses and cash flows during 2017. Unrestricted cash (including investments and board designated assets whose use is limited) to long-term debt increased in fiscal year 2017 from 2016 due to increases in cash and cash equivalents. Long-term debt to capitalization decreased as a result of the increase in net position at September 30, 2017 compared to September 30, 2016.

Total net patient service revenue, before provision for bad debts, increased \$30.7 million from 2016 as a result of changes in estimates relating to third party liabilities, increased oncology visits, increased cardiology procedures and new services offered by the Medical Center. In April 2017 the Medical Center opened a full service 24/7 emergency department located in Deltona.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2017**

COMMUNITY BENEFIT

Halifax Health provides a continuum of health care services to the community and is involved in numerous outreach programs that help meet the public health needs of the community. Halifax Health provided an estimated \$61.6 million in community benefits during fiscal year 2017, which is comprised of amounts paid for community health and wellness services and the cost of uncompensated care.

The table below shows the sources and uses of the ad valorem tax revenues of Halifax Health, which includes community benefits (in thousands):

SCHEDULE OF USES OF PROPERTY TAXES

	<u>2017</u>	<u>2016</u>
Gross property tax levy	\$ 11,252	\$ 13,252
Tax discounts and uncollectible taxes	<u>(300)</u>	<u>(345)</u>
Net property taxes collected	<u>10,952</u>	<u>12,907</u>
Amounts paid to Volusia County and Cities:		
Tax collector and appraiser commissions	(374)	(390)
Volusia County Medicaid matching assessment	(2,920)	(2,818)
Redevelopment taxes paid to Cities	<u>(585)</u>	<u>(630)</u>
Subtotal	<u>(3,879)</u>	<u>(3,838)</u>
Net taxes available for community health, wellness and readiness	<u>7,073</u>	<u>9,069</u>
Amounts paid for community health and wellness services:		
Preventive health services (clinics, Healthy Kids, etc.)	(1,345)	(1,309)
Physician services	(8,801)	(7,571)
Trauma services	(6,061)	(5,406)
Pediatric and neonatal intensive care services	(325)	(687)
Child and adolescent behavioral services	<u>(602)</u>	<u>(616)</u>
Subtotal	<u>(17,134)</u>	<u>(15,589)</u>
Deficiency of net taxes available to fund hospital operating expenses	(10,061)	(6,520)
Uncompensated care provided by Halifax Health, <i>at cost</i>	<u>(44,452)</u>	<u>(45,506)</u>
Total deficiency of net taxes available to fund hospital operating expenses and uncompensated care provided by Halifax Health, <i>at cost</i>	<u>\$ (54,513)</u>	<u>\$ (52,026)</u>

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2017**

RISK FACTORS

The health care industry is highly dependent on several factors that could have a significant effect on the future operations and financial condition of Halifax Health. These factors include, but are not limited to, competition, state and federal regulatory authorities, Medicare and Medicaid laws and regulations, healthcare reform initiatives, environmental laws, advances in technology, changes in demand for health care services, demographic changes, and managed care contract terms and conditions.

As of the date of this report, the following known facts, decisions, or conditions may have a significant effect on net position or the results of operations:

- Salaries in the health care industry continue to be very competitive due to increased costs of attracting and retaining quality physicians, registered nurses, and other health care professionals.
- The laws and regulations governing the Medicare and Medicaid program are complex and subject to change. As such, changes to these programs could have a negative effect on the financial performance of the Halifax Health. Audits of hospital compliance with Medicare and Medicaid program laws and regulations present exposure for repayments and fines and penalties.
- In March 2010, President Barack Obama signed the Affordable Care Act ("ACA"). The ACA was enacted to increase the quality and affordability of healthcare and lower the uninsured rate. Unsuccessful congressional efforts have been made to repeal the ACA and the following concerns continue to exist:
 - The State of Florida has not approved Medicaid expansion which has constrained state funding.
 - Changes to the 340B drug regulations will reduce cost savings achieved by the program for Halifax Health.
 - Bundled payment and value-based payment initiatives of the Medicare program may reduce net payments received by Halifax Health.
 - Federal legislative efforts, both directly and via tax reform, could significantly reduce access to individual insurance coverage currently provided under the ACA. In December 2017, Congress repealed the shared responsibility payment provisions of the ACA starting in 2019.
 - At the state level, the Medicaid managed care program has continued to expand and a prospective payment system for outpatient services has been implemented. These changes will limit the ability of local governments and related providers to positively affect Medicaid payment rates.
 - The State of Florida Low Income Pool Program has been extended to June 30, 2022. Payments from the LIP program have been limited to the cost of charity care services provided, meaning that LIP funds are not available to offset Medicaid costs in excess of Medicaid payments.

The uncertainties listed above may adversely impact future operating results and financial position. The estimated effects of these matters have been considered in the development of the fiscal year 2018 Halifax Health operating budget.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Statement of Net Position
September 30, 2017
(In thousands)**

Assets and Deferred Outflows

Current Assets:

Cash and cash equivalents	\$ 63,423
Investments	268,485
Current assets whose use is limited – Trustee-held self-insurance funds	551
Accounts receivable, patients, net of estimated uncollectibles of \$163,875	62,459
Inventories	14,186
Other current assets	16,183
Total current assets	<u>425,287</u>

Noncurrent Assets Whose Use is Limited:

Board-designated, funded depreciation	42,508
Trustee held funds	17
Restricted by donor	5,671
Board-designated, other	2,650
Restricted funds under indenture agreements for debt service	188

Depreciable Capital Assets, Net	288,420
Nondepreciable Capital Assets	68,566
Other Assets	10,963
Total assets	<u>844,270</u>

Deferred Outflows:

Interest rate swap	27,176
Pension, contribution after measurement	21,060
Pension, other	10,762
Loss on refunding of debt	16,455
Goodwill, net	2,549
Total deferred outflows	<u>78,002</u>

Total assets and deferred outflows	<u>\$ 922,272</u>
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(Continued)

Halifax Hospital Medical Center
d/b/a Halifax Health

Statement of Net Position (Continued)
September 30, 2017
(In thousands)

Liabilities, Deferred Inflows and Net Position

Current Liabilities:	
Accounts payable and accrued liabilities	\$ 55,417
Accrued payroll and personal leave time	20,959
Current portion of accrued self-insurance liability	4,736
Current portion of long-term debt	6,605
Other current liabilities	7,397
Total current liabilities	<u>95,114</u>
Noncurrent Liabilities:	
Long-term debt, less current portion	340,165
Premium on long-term debt, net	19,262
Net pension liability	88,753
Accrued self-insurance liability, less current portion	8,594
Other liabilities	26,096
Long-term value of interest rate swap	27,176
Total liabilities	<u>605,160</u>
Deferred Inflows Related to Pension	4,387
Total liabilities and deferred inflows	<u>609,547</u>
Net Position:	
Net investment in capital assets	42,223
Restricted for debt service	185
Restricted by donors, expendable	5,427
Restricted by donors, nonexpendable	244
Unrestricted	264,646
Total net position	<u>312,725</u>
Total liabilities, deferred inflows and net position	<u><u>\$ 922,272</u></u>

See Notes to Financial Statements.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2017
(In thousands)**

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Operating Revenues:	
Net patient service revenue, before provision for bad debts	\$ 587,972
Provision for bad debts	(79,613)
Net patient service revenue	<u>508,359</u>
Ad valorem tax revenue	11,252
Other revenue	24,288
Total operating revenues	<u>543,899</u>
Operating Expenses:	
Salaries and benefits	279,710
Supplies	101,430
Purchased services	78,891
Depreciation and amortization	24,038
Ad valorem tax-related expenses	7,417
Leases and rentals	6,589
Other	27,328
Total operating expenses	<u>525,403</u>
Income from operations	<u>18,496</u>
Nonoperating Revenues (Expenses):	
Interest expense	(16,814)
Investment income – net	8,687
Donation revenue	1,014
Nonoperating losses – net	16
Total nonoperating expenses	<u>(7,097)</u>
Increase in net position	11,399
Net Position:	
Beginning net position, as restated	301,326
End of year	<u>\$ 312,725</u>

See Notes to Financial Statements.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Statement of Cash Flows
Year Ended September 30, 2017
(In thousands)**

Cash Flows from Operating Activities:	
Receipts from third-party payors and patients	\$ 502,023
Payments to employees	(297,760)
Payments to suppliers	(184,239)
Ad valorem taxes	11,671
Other receipts	38,188
Other payments	(41,444)
Net cash provided by operating activities	<u>28,439</u>
Cash Flows from Noncapital Financing Activities:	
Proceeds from donations received	1,014
Payment of notes payable	(50)
Other nonoperating expenses	16
Net cash provided by noncapital financing activities	<u>980</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(21,956)
Principal paid on long-term debt	(7,531)
Transfer from trustee-held funds	12,722
Payment of interest on long-term debt	(16,803)
Net cash used in capital and related financing activities	<u>(33,568)</u>
Cash Flows from Investing Activities:	
Realized investment income	6,802
Purchase of investments and assets whose use is limited	(11,478)
Proceeds from sales and maturities of investments and assets whose use is limited	13,675
Net cash provided by investing activities	<u>8,999</u>
Net increase in cash and cash equivalents	4,850
Cash and Cash Equivalents:	
Beginning of year	58,573
End of year	<u>\$ 63,423</u>

(Continued)

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Statement of Cash Flows (Continued)
Year Ended September 30, 2017
(In thousands)**

Reconciliation of Income from Operations to Net Cash	
Provided by Operating Activities:	
Income from operations	\$ 18,496
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation and amortization expense	24,038
Unrealized losses on investments considered operating activity	(2,208)
Provision for bad debts	79,613
Changes in assets and liabilities:	
Accounts receivable, patients	(80,828)
Inventories and other current assets	(6,163)
Other assets	(19,541)
Accounts payable and accrued liabilities	3,607
Other liabilities	11,425
Net cash provided by operating activities	\$ 28,439
Noncash Investing Activities, unrealized gains on investments and assets whose use is limited	\$ 1,886

See Notes to Financial Statements.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Statement of Fiduciary Net Position
September 30, 2017
(In thousands)**

Assets:

Investments, at fair value:

Money market and mutual funds

\$ 266,359

Net position restricted for pension benefits

\$ 266,359

See Notes to Financial Statements.

Halifax Hospital Medical Center
d/b/a Halifax Health

Statement of Changes in Fiduciary Net Position
Year Ended September 30, 2017
(In thousands)

Additions:	
Investment results:	
Appreciation in fair value of investments	\$ 20,507
Interest and dividends	5,161
Net investment results	<u>25,668</u>
Employer contributions	21,060
Total additions	<u>46,728</u>
Deductions:	
Administrative expenses	74
Benefits paid directly to participants	20,439
Total deductions	<u>20,513</u>
Increase in net position restricted for pension benefits	26,215
Net Position Restricted for Pension Benefits:	
Beginning of year	240,144
End of year	<u>\$ 266,359</u>

See Notes to Financial Statements.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 1. Description of the Organization

Reporting Entity: Halifax Hospital Medical Center (the “Medical Center”) d/b/a Halifax Health was created by a special act of the Legislature of the State of Florida, Chapter 2003-374, Laws of Florida, as a special taxing district, a public body corporate and politic of the State of Florida and successor to Halifax Hospital District created pursuant to Chapter 112.72, Laws of Florida, Special Acts of 1925. The Medical Center’s Board of Commissioners (the “Board”) is empowered to levy ad valorem taxes for operating expenses, capital outlays, and other purposes.

The Medical Center, located in Daytona Beach, Florida, is a full-service, accredited, acute care hospital licensed to operate 678 beds. The Medical Center owns and operates three inpatient hospital facilities under one license and several ambulatory facilities. The main campus of the Medical Center is the inpatient referral center, providing Level II neonatal intensive care and a Level II state-certified trauma center, in addition to open-heart surgery, neurosurgery, and other specialty inpatient and outpatient services. The Port Orange campus, located ten miles south of the main campus, is a community hospital providing a broad range of services to the residents of Port Orange and Southeast Volusia County. The Halifax Behavioral Services campus, located two miles north of the main campus, provides child, adolescent, and adult inpatient and outpatient psychiatric services to the residents of Volusia and Flagler Counties.

As required by accounting principles generally accepted in the United States of America (“GAAP”), these financial statements represent the primary government, the Medical Center, and its component units. The component units discussed below are included because of the significance of their operational or financial relationships with the Medical Center. The Medical Center, together with its component units, is referred to as “Halifax Health.” All significant intercompany accounts and balances have been eliminated in the financial statements.

Component Units: East Volusia Health Services, Inc. (“EVHS”); Halifax Healthcare Systems, Inc. (“HHCSI”), HH Holdings, Inc. (“Holdings”); Halifax Healthy Families Corporation d/b/a Healthy Communities (“Healthy Communities”); Halifax Staffing, Inc. (“Staffing”); Patient Business & Financial Services, Inc. (“PBFS”); Halifax Hospice, Inc. d/b/a Halifax Health Hospice (“Hospice”); Halifax Management System, Inc. (“HMS”); Halifax Medical Center Foundation, Inc. (“Foundation”); and Volusia Health Ventures, Inc. d/b/a Volusia Health Network (“VHN”) are legally separate organizations for which the Medical Center is financially accountable and the nature and significance of their relationship to the Medical Center are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. With the exception of the Foundation, the Medical Center Board appoints the Board of Directors for the other component units, and each has a specific financial benefit or burden to the Medical Center. While the Foundation appoints its own Board of Directors, it also has a specific financial benefit to the Medical Center, and is fiscally dependent on the Medical Center. Accordingly, all of these organizations represent component units of the Medical Center.

Each component unit was established to provide administrative and other services for and on behalf of the Medical Center. In accordance with GASB Statement No. 80, which was adopted by the Medical Center in 2016, these entities are blended within the financial results of the Medical Center because they are organized as not-for-profit corporations and the Medical Center is the sole corporate member of each component unit, with the exception of HMS and VHN. HMS is blended within the financial results of the Medical Center in accordance with GASB Statement No. 61 because it has a specific financial benefit to the Medical Center, and management of the Medical Center have operational responsibility for the results of HMS. The activities of VHN are not considered material to the Medical Center.

EVHS is a not-for-profit corporation organized under the laws of Florida. EVHS was organized for the purpose of entering into joint-venture agreements to enhance the access and quality of patient care provided to the community.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 1. Description of the Organization (Continued)

HHCSI is a not-for-profit corporation organized under the laws of Florida. HHCSI was organized for the purpose of enhancing the access and quality of patient care provided to the community.

Holdings is a not-for-profit corporation organized under the laws of Florida that was established to manage the remaining assets that resulted from the sale of Florida Health Care Plan in 2008.

Healthy Communities is a not-for-profit corporation organized under the laws of Florida that coordinates the delivery of education, health resources, and direct assistance to the community. The services provided by Healthy Communities include administering Healthy Kids (child health insurance program), facilitating the provision of preventive care, and providing education and other activities relating to the general welfare of all children in Volusia and Flagler counties.

Staffing is a not-for-profit corporation organized under the laws of Florida, formed for the purpose of providing individuals to staff and manage the Medical Center, its component units, and any other related entities and facilities. The Medical Center is obligated to reimburse Staffing for all costs incurred in meeting its obligations under an agreement between the parties.

PBFS is a not-for-profit corporation that operates the patient accounting services for the Medical Center and employs certain staff for this function.

Hospice was organized in 1984 as a not-for-profit corporation under the laws of Florida. Hospice provides palliative medical care and treatment to patients who have less than six months to live via four inpatient care centers and in-home hospice services. The Port Orange care center is a 16-bed inpatient care center located in Port Orange. The West Volusia Care Center is an 18-bed center in Orange City. The Southeast Volusia care center is a 12-bed facility located in Edgewater. The Ormond Beach Care Center is a 12-bed facility.

HMS was organized in 1984 as a not-for-profit corporation under the laws of Florida. HMS owns and leases to the Medical Center two ambulatory facilities and one hospital facility. Facilities located in Ormond Beach and on the Medical Center's main campus in Daytona Beach provide outpatient hospital services and medical offices. The third facility located in Port Orange is an 80-bed inpatient hospital.

The Foundation was organized in 1988 as a not-for-profit corporation under the laws of Florida. The Foundation is the fund-raising organization for the Medical Center.

VHN was organized in 1984 as a not-for-profit corporation under Florida law. VHN operates a preferred provider network of physicians and hospitals in the service area and offers the network and certain related services to employers that are self-insured for the health insurance coverage of their employees.

Presented on the following pages are condensed combining schedules for the component units.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 1. Description of the Organization (Continued)

Condensed Combining Statement of Net Position
September 30, 2017
(In thousands)

	Blended Component Units										Intercompany Eliminations	Halifax Health
	Medical Center	Holdings	Staffing	PBFS	HHCSI	EVHS	Hospice	VHN	Foundation	HMS		
Assets and Deferred Outflows												
Current Assets	\$ 146,946	\$ 163,666	\$ -	\$ -	\$ 226	\$ 8,331	\$ 69,398	\$ 49	\$ 36,769	\$ -	\$ (98)	\$ 425,287
Noncurrent Assets Whose Use is Limited	42,525	-	-	-	-	-	2,650	-	5,671	188	-	51,034
Capital Assets, net	299,386	21,260	-	-	60	48	18,652	3	-	17,577	-	356,986
Other Assets and Deferred Outflows	76,394	-	-	-	-	5,399	6,907	-	256	9	-	88,965
Total assets and deferred outflows	\$ 565,251	\$ 184,926	\$ -	\$ -	\$ 286	\$ 13,778	\$ 97,607	\$ 52	\$ 42,696	\$ 17,774	\$ (98)	\$ 922,272
Liabilities, Deferred Inflows and Net Position												
Current Liabilities	\$ 84,757	\$ 979	\$ -	\$ -	\$ 1,612	\$ 2,378	\$ 1,466	\$ 1,099	\$ 152	\$ 2,769	\$ (98)	\$ 95,114
Long-Term Debt, less current portion	359,427	-	-	-	-	-	-	-	-	-	-	359,427
Other Liabilities and Deferred Inflows	147,450	-	-	-	-	-	5,244	-	2,312	-	-	155,006
Total liabilities and deferred inflows	591,634	979	-	-	1,612	2,378	6,710	1,099	2,464	2,769	(98)	609,547
Net Position:												
Net investment in capital assets	7,337	-	-	-	-	48	18,652	3	-	16,183	-	42,223
Restricted for debt service	-	-	-	-	-	-	-	-	-	185	-	185
Restricted by donors, expendable	-	-	-	-	-	-	-	-	5,427	-	-	5,427
Restricted by donors, nonexpendable	-	-	-	-	-	-	-	-	244	-	-	244
Unrestricted	(33,720)	183,947	-	-	(1,326)	11,352	72,245	(1,050)	34,561	(1,363)	-	264,646
Total net position	(26,383)	183,947	-	-	(1,326)	11,400	90,897	(1,047)	40,232	15,005	-	312,725
Total liabilities, deferred inflows and net position	\$ 565,251	\$ 184,926	\$ -	\$ -	\$ 286	\$ 13,778	\$ 97,607	\$ 52	\$ 42,696	\$ 17,774	\$ (98)	\$ 922,272

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 1. Description of the Organization (Continued)

Condensed Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2017
(In thousands)

	Blended Component Units										Intercompany Eliminations	Halifax Health
	Medical Center	Holdings	Staffing	PBFS	HHCSI	EVHS	Hospice	VHN	Foundation	HMS		
Operating Revenues	\$ 484,516	\$ 1,570	\$ -	\$ -	\$ 2,639	\$ 6,008	\$ 43,390	\$ 1,084	\$ 4,813	\$ 2,881	\$ (3,002)	\$ 543,899
Operating Expenses, before depreciation and amortization	428,418	96	232,638	23,973	3,546	3,049	43,432	1,164	628	61	(235,640)	501,365
Depreciation and Amortization	21,590	832	-	-	6	6	804	1	-	799	-	24,038
Total operating expenses	450,008	928	232,638	23,973	3,552	3,055	44,236	1,165	628	860	(235,640)	525,403
Income (loss) from operations	34,508	642	(232,638)	(23,973)	(913)	2,953	(846)	(81)	4,185	2,021	232,638	18,496
Nonoperating Revenues (Expenses)	(39,695)	1,077	232,638	23,973	-	-	7,652	-	-	(104)	(232,638)	(7,097)
Increase (decrease) in net position	\$ (5,187)	\$ 1,719	\$ -	\$ -	\$ (913)	\$ 2,953	\$ 6,806	\$ (81)	\$ 4,185	\$ 1,917	\$ -	\$ 11,399

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 1. Description of the Organization (Continued)

Condensed Combining Statement of Cash Flows

Year Ended September 30, 2017

(In thousands)

Net cash provided by (used in):	Blended Component Units											Intercompany Eliminations	Halifax Health
	Medical Center	Holdings	Staffing	PBFS	HHCSI	EVHS	Hospice	VHN	Foundation	HMS			
Operating Activities	\$ 281,500	\$ 1,334	\$ (232,638)	\$ (23,973)	\$ (977)	\$ 1,408	\$ (2,800)	\$ (63)	\$ 1,826	\$ 2,822	\$ -	\$ 28,439	
Noncapital Financing Activities	(253,257)	(4,455)	232,638	23,973	977	859	(722)	63	-	904	-	980	
Capital and Related Financing Activities	(26,703)	(2,763)	-	-	-	(48)	(328)	-	-	(3,726)	-	(33,568)	
Investing Activities	(54)	6,948	-	-	-	-	3,600	-	(1,495)	-	-	8,999	
Net increase (decrease) in cash and cash equivalents	1,486	1,064	-	-	-	2,219	(250)	-	331	-	-	4,850	
Cash and Cash Equivalents:													
Beginning of year	51,232	900	-	-	-	5,211	363	-	867	-	-	58,573	
End of year	<u>\$ 52,718</u>	<u>\$ 1,964</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,430</u>	<u>\$ 113</u>	<u>\$ -</u>	<u>\$ 1,198</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,423</u>	

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 1. Description of the Organization (Continued)

Fiduciary Fund Financial Statements: The Pension Trust Fund (the "Pension Fund"), the fiduciary fund, is used to account for the net position restricted for the pension benefits of certain employees of Staffing and Hospice.

Note 2. Significant Accounting Policies

A summary of the significant accounting policies used by Halifax Health follows:

Accounting Standards: These financial statements have been prepared in accordance with the Governmental Accounting Standards Board ("GASB") codification ("GASB Cod."). The financial statements of the component units are also prepared in accordance with the GASB codification, as they are established for the direct benefit of the Medical Center. The financial statements of the Medical Center and its component units have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents: All unrestricted highly liquid investments with maturities of three months or less when purchased are considered cash equivalents, excluding cash and cash equivalents included in assets whose use is limited. The Medical Center's cash deposits are fully collateralized and component unit cash accounts are insured up to FDIC limits.

Investments: Investments are reported at fair value or amortized cost, if not materially different from fair value. Investments are marketable securities representing the investment of cash available for current operations, and as such are reported as current assets. Interest and dividends, when earned, and realized and unrealized investment gains and losses are recorded as nonoperating revenue in the statements of revenues, expenses, and changes in net position, with the exception of Foundation. Interest and dividends, when earned, and realized and unrealized investment gains and losses of the Foundation are recorded as operating revenue in the accompanying statements of revenues, expenses, and changes in net position.

Net Patient Accounts Receivable: Net patient accounts receivable are reported at estimated net realizable amounts due from patients, third-party payors, and others for services rendered. The provision for bad debts is based on management's assessment of historical and expected net collections, considering business and economic conditions, trends in health care coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon these trends. The results of this review are then used to make any modifications to the provision for bad debts and to establish an appropriate estimated allowance for uncollectible accounts. Specific patient accounts identified as uncollectible are written off to the allowance for uncollectible accounts.

Assets Whose Use is Limited: Assets whose use is limited includes assets held for self-insurance funds, restricted funds under indenture agreements for debt service, Board-designated funded depreciation, donor restricted funds, and Board-designated assets set aside for other purposes. The Board may change these Board designations at its discretion.

Inventories: Inventories consist of medical supplies, which are stated at the lower of cost or market (on a first-in, first-out basis).

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Capital Assets: Purchases of real property and equipment greater than \$1,000 that have a useful life of longer than one year are capitalized at cost. The costs of replacement assets are capitalized in the same manner. Interest expense incurred during construction, net of investment gains on proceeds from issued debt, is capitalized. Interest cost incurred during construction for which no debt has been issued is evaluated based on the size and duration of the project for capitalization. The cost of minor equipment less than \$1,000 and repairs are recorded in operating expenses.

Capital assets are reviewed and considered for impairment whenever indicators of impairment are present, such as the decline in service utility of a capital asset that is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset.

Intangible Assets: Certain intangible assets are capitalized in accordance with GASB Cod. Sec. 1400, *Reporting Capital Assets*. Generally, those intangible assets would meet the same criteria for capitalization as other capital assets; cost greater than \$1,000 and a useful life of longer than one year.

Goodwill: Goodwill represents the purchase price in excess of the fair value of net assets acquired that is attributed to future years. Goodwill is included in deferred outflows on the accompanying statement of net position.

Depreciation and Amortization: Capital assets, excluding land and construction in progress, are depreciated on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives range from 5 to 20 years for building improvements, 10 to 40 years for buildings, 10 to 20 years for fixed equipment, and 3 to 20 years for major movable equipment. Capitalized intangible assets and goodwill are amortized over their estimated useful lives of three years and five years, respectively.

Derivative Instruments: The Medical Center has entered into an interest rate-swap agreement (the "Swap") and applies hedge accounting in accordance with GASB Cod. Sec. D40, *Derivative Instruments*. For effective hedging instruments, the change in fair value is recorded as a deferred outflow in noncurrent assets on the accompanying statement of net position, and the fair value of the Swap is reported in noncurrent liabilities. See Note 9 for more information on the Swap.

Deferred Outflows and Inflows: In addition to the Swap described above, certain pension costs and losses on refunding of debt in prior years are included in deferred outflows and inflows and amortized over a specified period. Amortization of pension related deferred outflows and inflows is included in salaries and benefits expense in the accompanying statement of revenues, expenses, and changes in net position. Amortization of losses on refunding of long-term debt is included in interest expense.

Personal Leave Time: Personal leave time, which includes holiday, sick, and vacation time, that is accrued but not used at September 30, 2017, is included in accrued payroll and personal leave time in the accompanying statement of net position.

Pension Plan: The Halifax Pension Plan (the "Plan") is a cost-sharing, multiple-employer, noncontributory defined benefit pension plan that covers certain employees of the two participating employers, Hospice and Staffing. The Plan is accounted for in accordance with GASB Cod. Sec. Pe5, *Pension Plans – Defined Benefit*. Contributions are made based on the minimum recommended contribution as determined by actuarial valuation. The Plan is considered a governmental plan exempt from Employee Retirement Income Security Act requirements based upon rulings received from the Internal Revenue Service. See Note 10 for more information on the Plan.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Self-Insurance: Halifax Health is self-insured for various risks of loss, including professional and general liability losses, workers' compensation claims, and employees' health claims. Estimated liabilities include known claims and claims that have been incurred but not reported. The noncurrent portion of estimated professional and general liability losses and workers' compensation claims have been discounted using a 4% interest rate for 2017. Estimated losses for employees' health claims are not discounted as all amounts are considered current liabilities. See Note 8 for more information on self-insurance liabilities.

Income Taxes: The Medical Center is tax exempt under Section 115 of the Internal Revenue Code ("IRC"). With the exception of VHN, all of the component units are not-for-profit corporations described in Section 501(c)(3) of the IRC and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the IRC and Chapter 220.13 of the Florida Statutes, respectively. VHN is a taxable Florida not-for-profit corporation. There was no material amount of tax expense or benefit for the year ended September 30, 2017.

Net Position: In accordance with GASB Cod. Sec. 2200, *Comprehensive Annual Financial Report*, net position is reported in three components: net investment in capital assets, restricted, and unrestricted. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any debt issued that is attributable to the acquisition, construction, or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

The restricted component of net position consists of restricted assets; assets that have constraints placed on them externally by creditors, grantors, contributors, or laws or regulations of other governments, or laws through constitutional provisions or enabling legislation, reduced by liabilities or deferred inflows related to those restricted assets.

The unrestricted component of net position consists of the net amount of assets, deferred outflows of resources and liabilities, and deferred inflows of resources that do not meet the definitions of the other two components of net position.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue and Expenses: For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions, such as interest expense, donations, and investment income are reported as nonoperating revenues, expenses, gains, and losses, with the exception of the Foundation. Interest and dividends when earned, and realized and unrealized investment gains and losses of the Foundation are recorded as operating revenue in the accompanying statements of revenues, expenses and changes in net position.

Ad valorem taxes levied and received by the Medical Center are designated by law to fund the Medical Center's operating expenses, which may include maintenance, construction, improvements, and repairs to the Medical Center or fund other expenses in carrying out the business of the Medical Center. The Medical Center considers ad valorem tax receipts to be ongoing and central to the provision of health care services and, accordingly, classifies these funds as operating revenue.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Ad valorem taxes received by the Medical Center are based on the assessed valuation of certain taxable real and personal property at the Board-approved millage rate for the year. Gross receipts of \$11.3 million are included in operating revenues in the accompanying statement of revenues, expenses, and changes in net position. Certain expenses directly attributable to the Medical Center's status as a taxing authority are classified as ad valorem tax-related expenses. These expenses, when added to the charity care and other uncompensated care provided to qualifying patients, exceed ad valorem taxes received and are considered by the Board when determining the tax levy.

Substantially all expenses, including those expenses directly attributable to the Medical Center's status as a taxing authority, are considered by management to be ongoing and central to the provision of health care services and, therefore, are reported as operating expenses. The excess of revenue over expenses is reported as income from operations in the accompanying statement of revenues, expenses, and changes in net position and excludes nonoperating revenues, expenses, gains, and losses.

When an expense is incurred for which both unrestricted and restricted resources are available, restricted resources are applied first.

Net Patient Service Revenue: The Medical Center and Hospice serve certain patients whose medical costs are not paid at established rates. These include patients sponsored under government programs, such as Medicare and Medicaid, patients sponsored under private contractual agreements, and uninsured patients who have limited ability to pay.

Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payors, and others when services are rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Approximately \$7.3 million in amounts due to Medicare and Medicaid relating to estimated future retroactive adjustments is recorded in accounts payable and accrued liabilities.

Revenue from the Medicare and Medicaid programs accounted for approximately 57% of net patient service revenue for the year ended September 30, 2017. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Adjustments to revenue related to prior periods increased net patient service revenue by approximately \$5.2 million for the year ended September 30, 2017.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

The Medical Center and Hospice classify a patient as charity based on established policies. These policies define charity services as those services for which no additional payment is anticipated. When assessing a patient's ability to pay, the Medical Center utilizes percentages of the federal poverty income levels, as well as the relationship between charges and the patient's income. Beginning fiscal year 2016, the Medical Center's policy was revised from 200% to 400% of the federal poverty income level. Hospice classifies charity patients as those whose income is at or below the federal poverty guidelines. Core services may be covered in full, or discounted based on income and a sliding scale. Charity care, based on estimated costs, totaled approximately \$32.9 million for the year ended September 30, 2017. Cost of charity care is calculated by applying the cost-to-charge ratio to the total amount of charity care deductions from gross revenue. The cost-to-charge ratio is calculated by taking the total expenses excluding bad debt and divided by gross charges of the Medical Center.

Net patient service revenue is reported net of charity adjustments, contractual adjustments, and provision for bad debts for the year ended September 30, 2017, as follows (in thousands):

Gross patient charges	\$ 1,873,199
Charity adjustments	(113,778)
Contractual adjustments	(1,171,449)
Net patient service revenue before provision for bad debts	<u>587,972</u>
Provision for bad debts	(79,613)
Net patient service revenue	<u><u>\$ 508,359</u></u>

Pending accounting pronouncements: In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will be effective for Halifax Health beginning with its year ending September 30, 2018. The Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and requires governments to report a liability on the face of the financial statements for the OPEB they provide and outlines the reporting requirements by governments for defined benefit OPEB plans administered through a trust, cost sharing OPEB plans administered through a trust and OPEB not provided through a trust. The Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances, called special funding situations, the Statement requires these governments to recognize in their financial statements a share of the other government's net OPEB liability. Halifax Health is evaluating the impact of this statement on its financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. This Statement requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. The lease assets and liabilities will be recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This standard is effective for fiscal years beginning after December 15, 2019. Halifax Health is evaluating the impact of this statement on its financial statements.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 3. Restatement

The Medical Center restated net position as of October 1, 2016. Net position was restated to adjust the net pension liability in accordance with GASB requirements. The Medical Center previously accounted for service costs at the date of adoption rather than recognizing them over the remaining employment term of active employees in the Pension Plan. The impact of the restatement is as follows (in thousands):

Beginning net position, as previously reported	\$ 282,676
Decrease in total pension liability and change in net deferred outflows (inflows)	18,650
Beginning net position, as restated	<u>\$ 301,326</u>

Note 4. Investments and Assets Whose Use is Limited

Halifax Health measures and records its investments and assets whose use is limited using fair value measurement guidelines established by GASB Statement No. 72. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1*: Quoted prices for identical investments in active markets;
- *Level 2*: Observable inputs other than quoted market prices; and,
- *Level 3*: Unobservable inputs.

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 are valued using the following approaches:

- U.S. Agencies, and Commercial Paper: quoted prices for identical securities in markets that are not active;
- Corporate and Municipal Bonds: quoted prices for similar securities in active markets;

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 4. Investments and Assets Whose Use is Limited (Continued)

The composition and fair value classification of investments and assets whose use is limited of Halifax Health at September 30, 2017, is set forth in the following table (in thousands).

	Assets Whose Use is Limited and Restricted Assets								Total
	Investments	Trustee- Held Self- Insurance Funds	Trustee- Held Funds for Capital Projects	Trustee-Held Funds under Indenture Agreements for Debt Service	Board- Designated Funded Depreciation	Restricted by Donor	Board Designated Other		
<u>Level 1</u>									
Money market funds	\$ 2	\$ 551	\$ 17	\$ 188	\$ 91	\$ -	\$ -	\$ -	\$ 849
Mutual funds:									
DFA Emerging Markets Value Portfolio	1,690	-	-	-	-	399	95	-	2,184
DFA International Value Portfolio	4,337	-	-	-	-	887	227	-	5,451
DFA Small Cap Value Portfolio	7,333	-	-	-	-	1,856	430	-	9,619
DFA U.S. Large Cap Value Portfolio	16,749	-	-	-	-	2,284	868	-	19,901
Vanguard Energy Fund Admiral Shares	138	-	-	-	-	-	52	-	190
Vanguard Energy Index	742	-	-	-	-	-	-	-	742
Vanguard Health Care Fund	588	-	-	-	-	-	60	-	648
Vanguard Large Cap Growth Index Fund	7,502	-	-	-	-	-	-	-	7,502
Vanguard Short-Term Federal Admiral Fund	65	-	-	-	-	-	-	-	65
Vanguard Short-Term Investment Grade Inst Fund	108,712	-	-	-	-	-	918	-	109,630
Vanguard Small Cap Growth Index Fund	7,811	-	-	-	-	-	-	-	7,811
U.S. Treasury obligations	73,427	-	-	-	2,079	-	-	-	75,506
Total Level 1	229,096	551	17	188	2,170	5,426	2,650	-	240,098
<u>Level 2</u>									
U.S. Government-sponsored enterprises:									
Federal National Mortgage Association	-	-	-	-	10,464	-	-	-	10,464
Federal Home Loan Bank	4,384	-	-	-	21,313	-	-	-	25,697
Federal Home Loan Mortgage Corporation	3,013	-	-	-	8,478	-	-	-	11,491
Corporate bonds	24,612	-	-	-	-	-	-	-	24,612
Other	7,380	-	-	-	83	245	-	-	7,708
Total Level 2	39,389	-	-	-	40,338	245	-	-	79,972
Total	\$ 268,485	\$ 551	\$ 17	\$ 188	\$ 42,508	\$ 5,671	\$ 2,650	\$ -	\$ 320,070

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 4. Investments and Assets Whose Use is Limited (Continued)

All investments of the Halifax Pension Plan were classified as Level 1 at September 30, 2017. The composition of investments in the Halifax Pension Plan at September 30, 2017, is set forth in the following table (in thousands):

Money market funds	\$	304
Mutual funds:		
DFA Emerging Markets Value Portfolio		11,170
DFA International Value Portfolio		33,979
DFA U.S. Large Cap Value Portfolio		21,401
DFA U.S. Small Cap Value Portfolio		21,499
Vanguard Energy Fund Admiral Shares		4,389
Vanguard Energy Index Fund		4,777
Vanguard Growth Index Fund		13,526
Vanguard Health Care Fund		9,448
Vanguard Short-Term Investment Grade Inst Fund		132,312
Vanguard Small Cap Growth Index Fund		13,554
Total	\$	266,359

Assets whose use is limited for obligations classified as current liabilities are reported as current assets.

The Medical Center invests in money market and mutual funds that qualify as fixed-income securities in accordance with its investment policy described in Note 5. At September 30, 2017, the Medical Center was invested in one money market fund, the Wells Fargo Advantage Government Money Market Fund, and the following mutual funds:

- Vanguard Short-Term Federal Admiral Fund (VSGDX) invests at least 80% of its portfolio in short-term debt securities issued by the U.S. government, its agencies and U.S. government-sponsored enterprises. The fund had an average duration of 2.4 years as of September 30, 2017.
- Vanguard Short-Term Investment-Grade Institutional Fund (VFSIX) invests at least 80% of its portfolio in short and intermediate-term investment grade securities. The fund had an average duration of 2.6 years as of September 30, 2017.

At September 30, 2017, the Medical Center held debt securities in U.S. Treasury Obligations and U.S. Government-sponsored enterprises including Federal National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation.

Investment income on assets whose use is limited, restricted assets, and investments for the year ended September 30, 2017, was \$8.7 million and includes unrealized gains of \$1.9 million. Investment income of the Foundation includes unrealized gains of approximately \$2.2 million and is included in other operating revenue.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 5. Deposits and Investment Risk

GASB Cod. Sec. 150, *Investments*, requires disclosures related to investment and deposit risks, including risks related to credit risk, consisting of custodial credit risk and concentrations of credit risk, interest rate risk, and foreign currency risk. GASB Cod. Sec. 150 also requires the disclosure of the credit quality of investments in debt securities, except for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.

Investment Risk: Investment policies were established in order to control and diversify risk by limiting specific security types and/or concentration with individual financial institutions. Specific investment types are limited to a percentage of the total investment portfolio and maximum maturity date. Investment strategies are influenced by relative market yields and the cash needs of Halifax Health. Excess funds of the Medical Center and its component units may be invested in accordance with the respective investment policies. Excess funds of the Medical Center may be invested in, but are not limited to:

- U.S. Government securities and repurchase agreements;
- U.S. Government agency and U.S. Government-sponsored enterprises;
- Domestic bank certificates of deposit provided that any such investments are in Federal Deposit Insurance Corporation guaranteed accounts or deposits collateralized by U.S. Government securities or obligations;
- Securities of, or other interests in, any management-type investment company or investment trust registered under the Investment Company Act of 1940, as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the U.S. Government or any agency or instrumentality thereof; and
- Repurchase agreements with reputable financial institutions, which are fully secured by U.S. Government obligations.
- Mutual funds of registered investment advisors may be purchased to invest in the permissible securities listed above.

The Halifax Pension Plan's investment policy provides guidelines for the types of investments that can be acquired in order to provide maximum diversity and reduce risk. Specific asset classes are limited to a percentage of the total investment portfolio. Specific investment strategies are influenced by relative market yields and the cash needs of the Halifax Pension Plan. The Halifax Pension Plan may be invested in, but not limited to:

- Local government investment pool;
- U.S. Government securities and repurchase agreements;
- U.S. Government agency and U.S. Government-sponsored enterprises;
- Domestic Bank Certificates of Deposit provided that any such investments are in Federal Deposit Insurance Corporation ("FDIC") guaranteed accounts or deposits collateralized by U.S. Government securities or obligations;
- Repurchase agreements with reputable financial institutions, which are fully secured by U.S. Government obligations;
- Commercial Paper and Stocks; limited to issuers with an A rating or better; and
- Mutual funds of registered investment advisors may be purchased to invest in the permissible securities listed above.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 5. Deposits and Investment Risk (Continued)

All investment decisions are made based on reasonable research as to credit quality, liquidity, and counterparty risk prior to the investment. An investment advisory firm is utilized to monitor the investment of all funds and quarterly performance of the portfolio is reported to management and the Investment Committee of the Board.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, Halifax Health and the Halifax Pension Plan will not be able to recover its deposits. At September 30, 2017, Halifax Health and the Halifax Pension Plan's deposits, consisting primarily of cash and cash equivalents, were covered by federal depository insurance, collateralized with U.S. Treasury Securities and Federal agency securities or guaranteed 100% by the State of Florida and collateralized through the Florida Bureau of Collateralization.

Credit Risk: The investment policy provides guidelines to investment managers that restrict investments in debt securities to those with an A- or A rating or better for Halifax Health and the Halifax Pension Plan, respectively, and established asset allocation limits to reduce the concentration of credit risk. Guidelines are provided to investment managers and monitored by the investment advisory firm and management for compliance. As of September 30, 2017, Halifax Health has an investment in debt securities with Federal Home Loan Bank totaling approximately \$25.7 million, representing 8.03% of total investments. At September 30, 2017, the money market fund at Halifax Health had a credit rating of Aaa-mf, and other debt securities each had credit ratings of Aaa from Moody's Investors Service Inc.

As of September 30, 2017, the Halifax Pension Plan did not have investments in debt securities in any one issuer that represents 5% or more of the Halifax Pension Plan's fiduciary net position. The Halifax Pension Plan's investment in a mutual fund that primarily invests in debt securities had a credit rating of Aaa-mf from Moody's Investor Services.

Interest Rate Risk: Changes in interest rates can adversely affect the fair value of an investment. Halifax Health and the Halifax Pension Plan manage exposure to interest rate risk by limiting investment maturities and diversifying its investment portfolios.

As of September 30, 2017, Halifax Health had investments, assets whose use is limited and restricted assets maturing as follows (in thousands):

	Fair Value	No Maturity Date or		
		Less than 1 Year	1 – 5 Years	6 – 10 Years
Money market funds	\$ 849	\$ 849	\$ -	\$ -
Mutual funds	163,743	163,743	-	-
U.S. Government securities	75,506	73,427	-	2,079
U.S. Government-sponsored enterprises	47,652	32,184	12,473	2,995
Corporate bonds	24,612	2,378	14,538	7,696
Other	7,708	7,708	-	-
Total	\$ 320,070	\$ 280,289	\$ 27,011	\$ 12,770

At September 30, 2017, all of the Halifax Pension Plan's investments had maturity dates within one year or no maturity date.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 6. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

- Long-term debt related to bonds payable is reported at historical value. The carrying value of long-term debt, net of unamortized premiums and discounts at September 30, 2017, is approximately \$346.7 million and the fair value at September 30, 2017, is approximately \$366 million.
- The fair value of the Swap was approximately \$27.2 million at September 30, 2017, as determined by an independent source. In accordance with GASB Statement No. 72, the fair value measurement of the Swap is classified as Level 2 and is valued using matrix pricing based on the securities' relationship to benchmark quoted prices. See Note 10 for more information about the Swap.

Note 7. Capital Assets

Capital assets are recorded at cost and presented net of accumulated depreciation in the accompanying statements of net position. Projects in progress includes primarily short-term capitalizable projects that were not yet in service as of September 30, 2017. No interest related to these projects was capitalized during the year. A summary of the activities for the year ended September 30, 2017, is presented below (in thousands):

	Balance at September 30, 2016	Increases/ Transfers	Decreases/ Transfers	Balance at September 30, 2017
Capital Assets — at cost:				
Land	\$ 49,162	\$ -	\$ 536	\$ 48,626
Land improvements	4,242	2,058	-	6,300
Buildings	397,129	6,384	84	403,429
Fixed equipment	19,292	6,533	1	25,824
Major moveable equipment	89,220	9,808	2,777	96,251
Computers and software	22,433	3,750	398	25,785
Projects in progress	22,594	37,928	40,582	19,940
Total capital assets — at cost	604,072	66,461	44,378	626,155
Accumulated Depreciation:				
Land improvements	3,170	303	2	3,471
Buildings	144,161	13,312	19	157,454
Fixed equipment	11,977	3,010	6	14,981
Major moveable equipment	70,579	6,803	4,583	72,799
Computers and software	17,844	3,031	411	20,464
Total accumulated depreciation	247,731	26,459	5,021	269,169
Capital assets — net	\$ 356,341	\$ 40,002	\$ 39,357	\$ 356,986

The Medical Center was issued a certificate of need for an establishment of a 96 licensed bed acute care hospital to be located in the City of Deltona, Florida. Construction of the hospital at the Halifax Crossing Development, a mixed use medically focused development site, has begun with a targeted completion date near the end of calendar year 2019. The estimated cost of the first phase of the hospital, consisting of 42 acute care beds, including development, building and equipment costs, is \$105 million. Obtaining long-term financing for the project is a process. In April 2017, the Medical Center opened a free-standing emergency room located at the Halifax Crossing Development.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 8. Self-Insurance and Insurance

Self-Insurance: The Medical Center is self-insured for various risks of loss, including professional and general liability losses, workers' compensation claims, and employees' health claims. Certain component units participate in the Medical Center's employee health and workers' compensation self-insurance programs. Self-insurance funds are held by a trustee bank and recorded as assets whose use is limited.

The Medical Center, as a subdivision of the State of Florida, has sovereign immunity in tort actions. Therefore, in accordance with Chapter 768.28, Laws of Florida, the Medical Center and its component units are not liable to pay a claim by or judgment to any one person which exceeds the sum of \$200,000 or any claim or judgment, or portions thereof, which when totaled with all other claims or judgments paid by the state or its agencies or subdivisions arising out of the same incident or occurrence exceeds the sum of \$300,000. Chapter 768.28 also provides that judgments may be claimed or rendered in excess of these limits; however, these amounts must be reported to and approved by the Florida Legislature.

Professional and general liability losses are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Accrued self-insurance liabilities include an amount for claims that have been incurred but not reported based on actuarial determinations. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liabilities does not necessarily result in actual claim amounts. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The liabilities for employees' health insurance and workers' compensation claims are estimated based on historical data. The Medical Center has commercial insurance policies for health insurance and workers' compensation for cases that exceed certain limits. The health insurance policy includes an 80% indemnity of cases that exceed \$325,000 and a \$1 million lifetime maximum. Specific excess coverage for workers' compensation includes retention of \$750,000 per incident.

Changes in the accrued self-insurance liabilities for the years ended September 30, 2017 and 2016 are as follows (in thousands):

	Balance at September 30, 2016	Current Year Claims and Changes in Estimates	Claim Payments	Balance at September 30, 2017
Employee health	\$ 905	\$ 9,235	\$ (9,040)	\$ 1,100
Professional liability	9,420	1,331	(1,021)	9,730
Workers' compensation	2,650	1,481	(1,631)	2,500
Total	\$ 12,975	\$ 12,047	\$ (11,692)	\$ 13,330

	Balance at September 30, 2015	Current Year Claims and Changes in Estimates	Claim Payments	Balance at September 30, 2016
Employee health	\$ 1,355	\$ 7,286	\$ (7,736)	\$ 905
Professional liability	7,390	2,645	(615)	9,420
Workers' compensation	3,964	(238)	(1,076)	2,650
Total	\$ 12,709	\$ 9,693	\$ (9,427)	\$ 12,975

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 8. Self-Insurance and Insurance (Continued)

Certain matters of litigation against Halifax Health arise in the normal course of business. Losses in excess of amounts accrued may occur although an estimate of such excess cannot be made. It is the opinion of management that the ultimate liability, if any, resulting from these matters will not have a material adverse effect on Halifax Health's financial statements.

Note 9. Long-Term Debt

Long-term debt at September 30, 2017, consists of the following (in thousands):

	Current Portion of Long-Term Debt	Long-Term Debt	Premium
Bonds payable:			
Series 2008	\$ -	\$ 70,000	\$ -
Series 2010	1,295	-	-
Series 2015	3,720	107,860	9,824
Series 2016	1,590	162,305	9,438
Total bonds payable	\$ 6,605	\$ 340,165	\$ 19,262

Bonds Payable: Halifax Health has outstanding \$366.0 million of debt, which was issued to refund prior debt and to provide funding for capital projects. The debt is organized with outstanding principal balances as follows: \$70 million of tax-exempt, variable-rate demand-obligation ("VRDO") bonds ("Series 2008"), secured by a letter of credit; \$111.5 million of tax-exempt, fixed rate bonds ("Series 2015"), \$163.9 million of tax-exempt, fixed rate bonds ("Series 2016"), and \$1.3 million of conduit indebtedness ("Series 2010"). Pursuant to the terms of the Master Trust Indenture ("MTI") under which the bonds were issued (excluding conduit indebtedness), principal and interest on each bond series are payable from and secured by a pledge of net revenues of the Obligated Group. The members of the Obligated Group are the Medical Center and Holdings. In accordance with generally accepted accounting principles, certain component units are blended with the accounts of the Medical Center in the Obligated Group's financial information, including EVHS, Staffing, HHCSI and PBFS.

The Series 2015 bonds and Series 2016 have maturities starting on June 1, 2017 and extending through 2046. Interest rates range from 3.0% to 5.0%.

The Series 2008 bonds are tax-exempt, variable-rate securities with a weekly interest-rate period. The Series 2008 bonds have final maturities of June 1, 2048, subject to the demand provisions described below. The net proceeds of the Series 2008 bonds were used to advance refund a portion of the Medical Center's outstanding indebtedness, to provide funds for future capital projects, and for reimbursement of prior capital expenditures.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 9. Long-Term Debt (Continued)

The Series 2008 bonds are subject to purchase from time to time at the option of the owners thereof and are required to be purchased in certain circumstances. As such, the bonds are supported by a remarketing agreement and an irrevocable direct pay letter of credit with a bank in the aggregate amount of \$70 million at September 30, 2017. The remarketing agreement generally provides the Medical Center the option to market the obligations at the then-prevailing short-term rate, as determined by the remarketing agent. The obligations were marketed weekly during 2017, with interest rates ranging from 0.54% to 0.95%. The term of the letter of credit expires November 17, 2020. The letter of credit is secured by an interest in any bonds purchased with draws on the letter of credit and amounts payable under the MTI. The Medical Center did not draw on the letter of credit during 2017. In the event that the Series 2008 bonds are unable to be remarketed, the Medical Center would be required to draw on the letter of credit. Repayments of principal and interest would begin one year after the date of the draw, and be made in 12 equal quarterly installments and any amounts outstanding at the termination date of the letter of credit would be due and payable at that date. Therefore, the entire outstanding amount drawn on the letter of credit would become due by November 15, 2021. Pursuant to the terms of the letter of credit, the Medical Center is required to comply with certain provisions regarding additional borrowings, capital expenditures, and the maintenance of certain financial ratios.

The Medical Center has a \$70 million notional-amount fixed-pay percentage of the London InterBank Offered Rate ("LIBOR") interest rate swap on the Series 2008 bonds (the "Swap"). The variable interest paid on the Series 2008 bonds is expected to correlate very closely with the rate that is received on the related Swap. The effective interest rate on the Swap is a synthetic fixed rate of interest of 3.94% at September 30, 2017. See Note 10 for further information on the Swap.

The Obligated Group is required to comply with certain provisions regarding additional borrowings and the maintenance of certain minimum debt service coverage, liquidity, and indebtedness ratios.

The Medical Center issued conduit indebtedness in 1998 on behalf of HMS, and refunded that debt with the issuance of the Halifax Hospital Medical Center Health Care Facility Revenue Refunding Bonds (Halifax Management System, Inc. Project) Series 2010 ("Series 2010") bonds on December 28, 2010. The total debt issued was approximately \$14.6 million. The Series 2010 bonds are payable solely from, and secured by a pledge of, rental payments to be received from a lease agreement between the Medical Center and HMS. The bonds do not constitute a debt or pledge of the faith and credit of the Medical Center.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 9. Long-Term Debt (Continued)

A summary of bond issues follows (in thousands):

Fixed Rate Bonds

Series	Date Issued/ Converted	Term Bonds			Serial Bonds		
		Original Issue Amount	Interest Rate	Maturity Date	Original Issue Amount	Interest Rate	Maturity Date
Series 2010	December 28, 2010	\$ 14,630	2.99	June 1, 2018			
Series 2015	April 29, 2015	57,795	5.00 4.00 4.00 5.00	June 1, 2035 June 1, 2038 June 1, 2041 June 1, 2046	\$ 57,350	3.00%–5.00%	June 1, 2030
Series 2016	March 28, 2016	48,430	4.00 5.00 3.38	June 1, 2018 June 1, 2030 June 1, 2031	117,060	3.75%–5.00%	June 1, 2046

Variable-Rate Bonds

Series	Date Issued	Original Issue Amount	Interest Rate at September 30, 2017*	Maturity Date	Interest Rate Period
Series 2008	September 18, 2008	\$ 70,000	0.93%	June 1, 2048	7 days

* This rate is the remarketed interest rate in effect as of September 30, 2017. The Medical Center also has a fixed-pay interest rate as part of the Swap. See Note 10 for more information on the Swap.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 9. Long-Term Debt (Continued)

Listed below are the debt service payments for Halifax Health for each of the five years ending September 30, 2018 through 2022, and in five-year increments thereafter (in thousands). The principal shown on the Series 2008 bonds is based on scheduled repayments; however, as described above the principal is subject to call by the bondholders, in which case the principal may be due by 2021. The interest rate used to calculate interest on the Series 2008 bonds was the remarketed interest rate in effect at September 30, 2017.

	Series 2008		Series 2015		Series 2016		Total Debt Secured by Obligated Group		Series 2010		Total Halifax Health	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ -	\$ 651	\$ 3,720	\$ 5,318	\$ 1,590	\$ 7,216	\$ 5,310	\$ 13,185	\$ 1,295	\$ 12	\$ 6,605	\$ 13,197
2019	-	651	4,350	5,169	1,170	7,152	5,520	12,972	-	-	5,520	12,972
2020	-	651	4,570	4,952	1,225	7,094	5,795	12,697	-	-	5,795	12,697
2021	-	651	4,785	4,723	1,305	7,032	6,090	12,406	-	-	6,090	12,406
2022	-	651	5,025	4,484	1,365	6,967	6,390	12,102	-	-	6,390	12,102
2023 – 2027	-	3,255	24,775	18,386	12,310	33,745	37,085	55,386	-	-	37,085	55,386
2028 – 2032	-	3,255	11,490	13,977	35,610	28,140	47,100	45,372	-	-	47,100	45,372
2033 – 2037	-	3,255	14,615	10,837	44,920	18,849	59,535	32,941	-	-	59,535	32,941
2038 – 2042	18,990	2,823	19,145	7,475	35,300	9,541	73,435	19,839	-	-	73,435	19,839
2043 – 2047	36,290	1,530	19,105	2,365	29,100	3,032	84,495	6,927	-	-	84,495	6,927
2048	14,720	-	-	-	-	-	14,720	-	-	-	14,720	-
Total	\$ 70,000	\$ 17,373	\$ 111,580	\$ 77,686	\$ 163,895	\$ 128,768	\$ 345,475	\$ 223,827	\$ 1,295	\$ 12	\$ 346,770	\$ 223,839

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 9. Long-Term Debt (Continued)

Long-Term Notes Payable and Other Indebtedness: HMS has a promissory note payable in the amount of \$2.3 million to the Medical Center. The note payable is due on a level debt service basis with an interest rate of 5.85%. The outstanding principal at September 30, 2017 was \$98,000.

Long-term debt activity for the year ended September 30, 2017, consisted of the following (in thousands):

	Balance at September 30, 2016	Additions (Reductions) Net of Amortization of Original Issue Discounts and Premium	Balance at September 30, 2017
Series 2008	\$ 70,000	\$ -	\$ 70,000
Series 2010	3,470	(2,175)	1,295
Series 2015	125,308	(3,904)	121,404
Series 2016	175,259	(1,926)	173,333
Total	\$ 374,037	\$ (8,005)	\$ 366,032

Note 10. Interest Rate Swap

The Medical Center has previously entered into a Swap agreement with a notional amount of \$70 million in conjunction with the issuance of the Series 2008 bonds that effectively converts the variable rate bonds to a fixed rate. Under the terms of the Swap, the Medical Center pays to the counterparty a fixed rate of interest equal to 3.837% of the remaining notional amount. In turn, the Medical Center receives a payment of variable interest equal to 67% of LIBOR. The termination date of this Swap agreement is June 1, 2048, which coincides with the maximum maturity of the Series 2008 bonds. Payments under the Swap agreement are insured by AGMC. For the year ended September 30, 2017, the Medical Center made approximately \$2.7 million in payments under the Swap agreement to the counterparty and received approximately \$410,000 in payments under the Swap agreement from the counterparty, the net of which is reported as interest expense. Payments made and received under the Swap agreement are included in interest expense on the accompanying statement of revenues, expenses and changes in net position.

In accordance with GASB Cod. Sec. D40, the Medical Center applies hedge accounting for its Swap. At September 30, 2017, the fair value of the Swap liability of approximately \$27.2 million was included in other long-term liabilities, with the current-year change in fair value of approximately \$12.3 million recorded as an increase in deferred outflows in noncurrent assets. The fair value of the Swap is determined by an independent source, based on an analysis of discounted cash flows.

Interest Rate Risk: The Medical Center is exposed to interest rate risk on the Swap. As LIBOR decreases, the Medical Center's net payment on the Swap increases.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 10. Interest Rate Swap (Continued)

Basis Risk: The Medical Center is exposed to basis risk on the Swap because the variable-rate interest payments it receives on the Swap is based on a rate other than the interest rate the Medical Center pays on its hedged, variable rate debt, which is remarketed every seven days. As of September 30, 2017, the interest rate on the hedged variable-rate debt is 0.93% and 67% of LIBOR is 0.83%.

Termination Risk: The Medical Center or its counterparty may terminate the Swap if the other party fails to perform under the terms of the agreement. If, at the time of termination, the Swap is in a liability position, the Medical Center would be liable to the counterparty for payment equal to the liability, subject to net settlement.

The following table summarizes the Medical Center's anticipated net cash flows from outstanding variable rate debt and the related Swap at September 30, 2017 (in thousands). The interest rates used to calculate interest on the variable rate debt and the variable portion of the Swap were the respective interest rates in effect at September 30, 2017. The rate used for the fixed-pay portion of the Swap is the actual interest rate of 3.837%.

Years Ending September 30,	Principal	Interest	Net Interest on Swap	Total Interest
2018	\$ -	\$ 651	\$ 2,105	\$ 2,756
2019	-	651	2,105	2,756
2020	-	651	2,105	2,756
2021	-	651	2,105	2,756
2022	-	651	2,105	2,756
2023 – 2027	-	3,255	10,525	13,780
2028 – 2032	-	3,255	10,525	13,780
2033 – 2037	-	3,255	10,525	13,780
2038 – 2042	18,990	2,823	9,127	11,950
2043 – 2047	36,290	1,530	4,946	6,476
2048	14,720	-	-	-
Total	\$ 70,000	\$ 17,373	\$ 56,173	\$ 73,546

Note 11. Pension Plan and Other Postemployment Benefits

Defined Benefit Pension Plan: Certain employees participate in the Halifax Pension Plan, which is a cost-sharing, multiple-employer, noncontributory defined benefit pension plan (the "Plan") with two participating employers, Staffing and Hospice. The Plan is treated as a single employer plan for the purposes of making contributions and paying pension benefits, determining whether there has been any termination of service, and applying the maximum benefit limitation. Plan provisions are established and may be amended by the Board of Staffing, the Plan's sponsor. The Plan issues stand-alone financial statements that can be obtained by contacting the Plan's sponsor or by accessing Halifax Health's website at www.halifaxhealth.org. The Plan's financial statements are prepared using the accrual basis of accounting.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 11. Pension Plan and Other Postemployment Benefits (Continued)

The Plan covers all eligible employees who have attained the age of 21 and have more than one year of service. Eligibility for the Plan was closed to all employees whose initial hire date or rehire date was on or after October 1, 2000. Halifax Health assumed the unfunded portion of the past service liability for employees who participated and were not vested in the prior pension benefit programs. As of September 30, 2016, the measurement date, the Plan included 513 active employees, 539 terminated but vested participants, and 957 retired participants and beneficiaries.

Pension plan benefits are based on the number of years of service and the employee's highest three-year average annual compensation. Effective October 1, 2013 the Plan was frozen and as such, participants of the Plan will no longer accrue credit for years of service and, upon eligibility, calculation of benefits will be made based on compensation information through October 1, 2013. Participants may elect to receive pension plan benefits as a monthly annuity or as one lump-sum payment for an amount equal to the present value of future benefits, as calculated by an actuary. Beneficiaries receive an annual, automatic 3% cost of living adjustment.

The Medical Center is obligated by contractual agreement to fund contributions on behalf of Staffing. The contribution rate is determined on an actuarial basis. Halifax Health contributed \$21 million to the Plan in fiscal year 2017. In accordance with GASB Statement No. 68, that amount is recorded on the statement of net position as a deferred outflow at September 30, 2017. Staffing's proportionate share of the contribution, expense and net pension liability is 94.37% and Hospice's proportionate share is 5.63% for fiscal years 2017 and 2016. The proportionate share calculation is based on the present value of future salaries for active employees of Staffing and Hospice.

Significant assumptions of the Plan are presented in the following table:

Actuarial Methods and Assumptions

Mortality table	RP-2014 Mortality Table (sex-distinct), Scale MP2016
Interest rate	6.75% annually, compounded
Pay increase	N/A
Cost of living adjustment	3%
Measurement date	September 30, 2016
Valuation date	October 1, 2015
Allocation of Plan assets	40-70% Equities 30-60% Fixed income
Real rate of return	Overall - 10.42%, arithmetic mean Equities - 19.36% Fixed income - 1.36%
Experience study date	October 1, 2016

The discount rate used in measuring the total pension liability was 6.75% for fiscal years 2017 and 2016. The long-term expected rate of return on plan assets is 6.75%. The discount rates and rate of return are based on the long-term rate of return on pension plan investments expected to finance the payment of benefits into the future. Net pension liability at September 30, 2017 using a discount rate of 5.75% would have been \$125.2 million, and using a discount rate of 7.75% would have been \$57.7 million.

Notes to Financial Statements

Note 11. Pension Plan and Other Postemployment Benefits (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the table above.

The projection of cash flows used to determine the discount rate assumed that contributions from the Medical Center and Hospice will continue into the future and that the Plan will eventually be fully funded. It is also assumed that 25% of benefit payments will be paid out as one-time, lump-sum payments. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 11. Pension Plan and Other Postemployment Benefits (Continued)

The net pension liability at September 30, 2017 using a discount rate of 6.75% was \$88.8 million. Since the last measurement date, September 30, 2015, the Plan updated its assumptions regarding mortality tables to the same assumption as used by the actuary for the Florida Retirement System Pension Plan per Florida Statutes. Changes in the pension accounts since the last valuation date, and pension expense, are as follows (in thousands):

	Deferred Outflow -			Deferred Inflow -		Total Pension	Plan Fiduciary	Net Pension	Pension
	Pension	Deferred Outflow -	Deferred Outflow -	Change in	Liability	Net Position	Liability	Expense	
	Contributions	Investment Gains	Liability Loss	Assumptions					
Balance at September 30, 2016, as previously reported	\$ 21,236	\$ 14,909	\$ 2,221	\$ (1,330)	\$ (344,053)	\$ 214,911	\$ (129,142)	\$ -	
Decrease in total pension liability and change in net deferred outflows (inflows)	-	2,062	(1,923)	(2,700)	21,209	-	21,209	-	
Balance at September 30, 2016, as restated	21,236	16,971	298	(4,030)	(322,844)	214,911	(107,933)	-	
Service cost	-	-	-	-	(4,441)	-	(4,441)	4,441	
Interest cost	-	-	-	-	(21,234)	-	(21,234)	21,234	
Difference in expected and actual experience	-	(5,687)	1,996	-	(1,996)	5,687	3,691	-	
Changes of assumptions	-	-	-	(4,800)	4,800	-	4,800	-	
Projected investment income	-	-	-	-	-	15,205	15,205	(15,205)	
Benefit payments	-	-	-	-	16,818	(16,818)	-	-	
Expenses	-	-	-	-	-	(77)	(77)	77	
Contributions recognized in Plan Fiduciary Net Position	(21,236)	-	-	-	-	21,236	21,236	-	
Contributions made after measurement date	21,060	-	-	-	-	-	-	-	
Amortization of deferred inflows	-	(2,069)	(747)	4,443	-	-	-	(1,627)	
Balance at September 30, 2017	\$ 21,060	\$ 9,215	\$ 1,547	\$ (4,387)	\$ (328,897)	\$ 240,144	\$ (88,753)	\$ 8,920	

Proportionate share of the above balances as of September 30, 2017:

Medical Center	\$ 19,873	\$ 8,696	\$ 1,460	\$ (4,140)	\$ (310,381)	\$ 226,624	\$ (83,757)	\$ 8,417
Hospice	1,187	519	87	(247)	(18,516)	13,520	(4,996)	503
	\$ 21,060	\$ 9,215	\$ 1,547	\$ (4,387)	\$ (328,897)	\$ 240,144	\$ (88,753)	\$ 8,920

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 11. Pension Plan and Other Postemployment Benefits (Continued)

The following table shows the balances of deferred inflows and outflows for the Plan as of September 30, 2017, the amount of deferred outflows to be realized in future years and the amount of deferred inflows to be recognized in future years' pension expense as follows (in thousands):

	Deferred Outflow - Contributions	Deferred Outflow - Investment Gains	Deferred Outflow - Liability Loss	Deferred Inflow - Change in Assumptions	To Be Recognized in Future Pension Expense
Balance at September 30, 2017	\$ 21,060	\$ 9,215	\$ 1,547	\$ (4,387)	\$ -
2018	(21,060)	(2,071)	(1,251)	3,673	(351)
2019	-	(4,328)	(296)	714	3,910
2020	-	(3,951)	-	-	3,951
2021	-	1,135	-	-	(1,135)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,375</u>

Defined Contribution Pension Plan: Eligible employees may participate in a 403(b) defined contribution pension plan (the "Contribution Plan"). The Contribution Plan covers all eligible employees who have attained the age of 18 and have completed 30 days of employment. Employee contributions are matched dollar-for-dollar up to 3% of annual salary. Employees vest 20% per year of employment for employer matched funds.

Total expense of the Contribution Plan for the year ended September 30, 2017, was approximately \$4.4 million and is included in salaries and benefits in the accompanying statement of revenues, expenses, and changes in net position. Participants contributed approximately \$9.1 million to the Contribution Plan for the year ended September 30, 2017.

Other Postemployment Benefit Plans: Qualified retired employees are eligible for certain postretirement benefit plans other than pensions ("OPEB"). All employees with ten years of benefited service as a participant in the Halifax Pension Plan or the Florida Retirement System are eligible to receive a subsidy for health insurance premiums ("Insurance Subsidy OPEB"). The Insurance Subsidy OPEB is a multi-employer defined benefit plan. The participant must present, at the time of retirement, evidence of health insurance coverage, either through an insurance company or Medicare. The Insurance Subsidy OPEB is calculated based on the number of years of service and is limited to a maximum annual benefit of \$1,800 per participant. The Insurance Subsidy OPEB does not issue stand-alone financial statements. It is included in the financial statements and required supplementary information of the Medical Center.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 11. Pension Plan and Other Postemployment Benefits (Continued)

The following table shows the components of the annual Insurance Subsidy OPEB cost for the year ended September 30, 2017 (in thousands):

ARC and Annual OPEB Cost

ARC	\$ 1,076
Plus interest on net OPEB obligation	230
Less adjustment to annual required contribution	<u>(332)</u>
Annual OPEB cost	974
 Contributions made	 <u>(750)</u>
Increase in net OPEB obligation	224
 Net OPEB obligation:	
Beginning of year	5,739
End of year	<u><u>\$ 5,963</u></u>

Benefits for participants are funded from contributions made by Halifax Health, on a pay-as-you-go basis. The annual Insurance Subsidy OPEB cost for fiscal year 2017 is approximately \$974,000. The net OPEB obligation was \$6.0 million as of September 30, 2017, and is included in other liabilities on the accompanying statement of net position. The percentage of OPEB cost contributed during fiscal year 2017 was 70%. The annual cost history for the Insurance Subsidy OPEB plan is summarized below (in thousands):

Years Ended September 30,	OPEB Cost	Percent of OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 974	70%	\$ 5,963
2016	934	73	5,739
2015	947	69	5,487

Additional information as of the latest actuarial valuation follows:

Valuation date	October 1, 2016
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amounts
 Remaining amortization period	 30 years, open
 Actuarial assumptions:	
Investment rate of return	4%

These actuarial assumptions are based on the presumption that the Insurance Subsidy OPEB will continue. 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.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 11. Pension Plan and Other Postemployment Benefits (Continued)

Calculations are based on the benefits provided under the terms of the substantive plan as of the valuation date and on the sharing of costs between the employer and plan members as of that date. In addition, assumptions on employee withdrawal and retirement rates were used. Mortality is assumed to follow the sex-distinct Blue Collar RP-2014 Mortality Table for employees and health annuitants, adjusted to 2006 using scale MP-2014 and then projected mortality improvements using scale MP-2016 on a fully-generational basis.

Information about the funded status of the Insurance Subsidy OPEB plan from the most recent actuarial valuation is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
October 1, 2016	\$ -	\$ 18,603	\$ 18,603	0%	\$ 38,361	48%

Health insurance is also offered to certain retirees at the same cost as active employees, in a benefit plan called the "Implicit Rate Subsidy OPEB," a single-employer defined benefit OPEB plan. The Implicit Rate Subsidy OPEB is offered through the Halifax Health Plan, which provides medical care and prescription drug coverage to full-time employees and specified part-time employees. The Implicit Rate Subsidy OPEB does not issue stand-alone financial statements. It is included in the financial statements and required supplementary information of the Medical Center.

The following table shows the annual Implicit Rate Subsidy OPEB cost and change in OPEB obligation for the year ended September 30, 2017 (in thousands):

Annual OPEB cost	\$ 476
Contributions made	<u>(321)</u>
Increase in net OPEB obligation	155
Net OPEB obligation:	
Beginning of year	<u>3,430</u>
End of year	<u><u>\$ 3,585</u></u>

Benefits for participants are funded from contributions made by Halifax Health and plan members on a pay-as-you-go basis. The cost of the plan is a blended rate of active employees and retirees. Retired employees contribute both the employee and employer rates, but do not pay a separate rate based solely on retiree costs to the plan. Therefore, this OPEB provides an implicit rate subsidy to retirees in the plan.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 11. Pension Plan and Other Postemployment Benefits (Continued)

The annual Implicit Rate Subsidy OPEB cost for fiscal year 2017 is approximately \$476,000. The Implicit Rate Subsidy OPEB obligation was \$3.6 million as of September 30, 2017, and is included in other liabilities in the accompanying statement of net position. The percentage of OPEB cost contributed during fiscal year 2017 is 62%. The annual cost history for the Implicit Rate Subsidy OPEB plan is summarized below (in thousands):

Year Ended September 30,	OPEB Cost	Percent of OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 476	62%	\$ 3,585
2016	442	66	3,430
2015	582	56	3,281

Additional information as of the latest actuarial valuation follows:

Valuation date	October 1, 2016
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amounts
Remaining amortization period	30 years, open
Actuarial assumptions:	
Investment rate of return	4%
Healthcare trend rate	8%

These actuarial assumptions are based on the presumption that the Implicit Rate Subsidy OPEB will continue. 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.

Calculations are based on the benefits provided under the terms of the substantive plan as of the valuation date and on the sharing of costs between the employer and plan members as of that date. In addition, assumptions on employee withdrawal and retirement rates were used. Mortality is assumed to follow the sex-distinct Blue Collar RP-2014 Mortality Table for employees and health annuitants, adjusted to 2006 using scale MP-2014 and then projected mortality improvements using scale MP-2016 on a fully-generational basis.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 11. Pension Plan and Other Postemployment Benefits (Continued)

Information about the funded status of the Implicit Rate Subsidy OPEB plan from the recent actuarial valuation is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
October 1, 2016	\$ -	\$ 5,204	\$ 5,204	0%	\$ 38,361	14%

Schedules of funding progress regarding both OPEB plans are included in the required supplementary information section of the financial statements and presents information about whether the value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 12. Commitments and Contingencies

Leases: The Medical Center is committed under various noncancelable operating leases. These expire in various years through 2028. Future minimum operating lease payments are as follows (in thousands):

Years Ending September 30,	
2018	\$ 5,209
2019	3,331
2020	2,686
2021	1,658
2022	1,368
2023 – 2028	7,988
Total minimum lease payments required	<u>\$ 22,240</u>

Contingencies: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in significant fines and penalties, including repayments for patient services previously reimbursed.

During fiscal year 2017, The Health Resources and Services Administration, Office of Pharmacy Affairs conducted a 340B Drug Pricing Program audit at the Medical Center. The Medical Center is vigorously defending the audit findings and at the current time, a loss cannot be reasonably estimated and is not considered probable.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Financial Statements

Note 13. Concentrations of Credit Risk

The Medical Center and Hospice grant credit without collateral to its patients, most of who are local residents that are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at September 30, 2017, was as follows:

Medicare	20%
Medicaid	13%
Other third-party payors	62%
Self-pay patients	5%
Total	<u><u>100%</u></u>

Note 14. Joint Ventures

EVHS has a 50% equity interest in a joint-venture to operate East Central Florida Outpatient Imaging, LLC (ECFOI). During the year ended September 30, 2017, EVHS received distributions of \$2.6 million from ECFOI and recognized its proportionate share of ECFOI's net income or loss by adjusting its equity interest balance. At September 30, 2017, EVHS had \$1.0 million recorded as an equity interest in ECFOI that is included in other assets in the accompanying financial statements. ECFOI issues stand-alone financial statements.

EVHS has a 50% equity interest in a joint-venture to operate HB Rehabilitative Services, Inc. (HB). During the year ended September 30, 2017, EVHS received no distributions from HB, and at September 30, 2017, EVHS had \$3.9 million recorded as an equity interest in HB that is included in other assets in the accompanying financial statements. HB does not issue stand-alone financial statements.

EVHS acquired an additional 45% interest in Daytona Area Senior Services ("DASS") from Council on Aging ("COA") in May 2017. As a result EVHS has a 95% equity interest in DASS d/b/a Halifax Health Care at Home, which provides home health services to the residents of the local area, and DASS' financial activity is now included in these financial statements. In consideration of this transfer of ownership, COA forgave a \$50,000 debt owed to them by DASS and EVHS forgave a prior funding obligation owed by COA.

Required Supplementary Information

**Halifax Hospital Medical Center
d/b/a Halifax Health
Halifax Pension Plan**

**Required Supplementary Information (Unaudited)
Schedule of Changes in Net Pension Liability
Year Ended September 30, 2017
(In thousands)**

	Total Pension Liability, as restated (a)	Plan Fiduciary Net Pension, as restated (b)	Net Pension Liability, as restated (a) - (b)
Balance, September 30, 2014	\$ 311,814	\$ 207,198	\$ 104,616
Service cost	2,776	-	2,776
Interest	20,547	-	20,547
Difference between expected and actual experience	(2,241)	-	(2,241)
Contributions - employer	-	20,000	(20,000)
Net investment income	-	12,954	(12,954)
Benefit payments	(15,077)	(15,077)	-
Plan administrative expenses	-	(59)	59
Balance, September 30, 2015	317,819	225,016	92,803
Service cost	4,282	-	4,282
Interest	20,943	-	20,943
Difference between expected and actual experience and assumption changes	(4,845)	-	(4,845)
Contributions - employer	-	15,218	(15,218)
Net investment income	-	(9,853)	9,853
Benefit payments	(15,355)	(15,355)	-
Plan administrative expenses	-	(115)	115
Balance, September 30, 2016	322,844	214,911	107,933
Service cost	4,441	-	4,441
Interest	21,234	-	21,234
Difference between expected and actual experience and assumption changes	(2,804)	-	(2,804)
Contributions - employer	-	21,236	(21,236)
Net investment income	-	20,892	(20,892)
Benefit payments	(16,818)	(16,818)	-
Plan administrative expenses	-	(77)	77
Balance, September 30, 2017	<u>\$ 328,897</u>	<u>\$ 240,144</u>	<u>\$ 88,753</u>

Source: BPAS Actuarial and Pension Services.

**Halifax Hospital Medical Center
d/b/a Halifax Health
Halifax Pension Plan**

**Required Supplementary Information (Unaudited)
Schedule of Funding Progress
Year Ended September 30, 2017
(In thousands)**

Actuarial Valuation Date	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a-b)	Medical Center Proportionate Share (a-b) * 94.37%	Hospice Proportionate Share (a-b) * 5.63%	Covered Payroll (c)	Fiduciary Net Position as a % of Net Pension Liability (b/a)	Net Pension Liability as a % of Covered Payroll
October 1, 2015	\$ 328,897	\$ 240,144	\$ 88,753	\$ 83,757	\$ 4,996	\$ 38,361	73%	231%
October 1, 2014, as restated	322,844	214,911	107,933	101,856	6,077	42,387	67	255
October 1, 2013, as restated	317,819	225,016	92,803	87,578	5,225	43,613	71	213
October 1, 2012, as restated	311,814	207,198	104,616	98,726	5,890	46,960	66	223

Source: BPAS Actuarial and Pension Services.

**Halifax Hospital Medical Center
d/b/a Halifax Health
Halifax Pension Plan**

**Required Supplementary Information (Unaudited)
Schedule of Actuarially Determined Contributions
Year Ended September 30, 2017
(In thousands)**

Actuarial Valuation Date	Actuarially Determined Contributions (a)	Contributions Recognized During the year (b)	Difference of Actuarially Determined and Recognized Contributions (a-b)	% Contributions Recognized to Contributions Actuarially Determined (b/a)	Covered Payroll (c)	Contributions as a % of Covered Payroll (b/c)
October 1, 2015	\$ 21,060	\$ 21,236	\$ (176)	101%	\$ 38,361	55%
October 1, 2014	21,236	15,218	6,018	72	42,387	36
October 1, 2013	15,218	20,000	(4,782)	131	43,613	46
October 1, 2012	17,278	12,688	4,590	73	46,960	27

Source: BPAS Actuarial and Pension Services.

**Halifax Hospital Medical Center
d/b/a Halifax Health**

Notes to Required Supplementary Information – Halifax Pension Plan (Unaudited)

Note 1. Key Assumptions

The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	October 1, 2015
Actuarial cost method	Traditional Unit Credit
Amortization method	10 year, closed
Remaining amortization period	Varies
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	NA
Cost-of-living adjustments	3.00%
Mortality	RP-2014 Mortality Table (sex-distinct), Scale MP2016
Retirement age	62

These actuarial assumptions are based on the presumption that the Plan will continue. Should the Plan terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits. Also, changes in actuarial assumptions and methods may affect the amounts reported and information presented in the required supplemental schedules.

Since the last measurement date, September 30, 2015, the Plan updated its assumptions regarding mortality tables. A recent update to the Florida Statutes requires the use of the same assumption as used by the actuary for the Florida Retirement System Pension Plan. This change in Plan assumption resulted in a decrease in the pension liability of approximately \$4.8 million at September 30, 2017.

In accordance with GASB Cod. Sec. Pe5, *Pension Plans – Defined Benefit*, Halifax Health is required to present ten years of data in the required supplemental schedules; however, only four years of information is available since implementing GASB Statement No. 68 at October 1, 2014. Annual Plan information will be added until the required ten years is presented.

**Halifax Hospital Medical Center
d/b/a Halifax Health
Halifax Insurance Subsidy OPEB**

**Required Supplementary Information (Unaudited)
Schedule of Funding Progress
Year Ended September 30, 2017
(In thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL – Projected Unit Credit (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
October 1, 2016	\$ -	\$ 18,603	\$ 18,603	0%	\$ 38,361	48%
October 1, 2015	-	17,842	17,842	0%	42,387	42%
October 1, 2014	-	17,974	17,974	0%	43,613	41%
October 1, 2013	-	17,738	17,738	0%	46,960	38%
October 1, 2012	-	16,681	16,681	0%	51,283	33%
October 1, 2011	-	17,023	17,023	0%	55,573	31%

Source: BPAS Actuarial and Pension Services.

**Halifax Hospital Medical Center
d/b/a Halifax Health
Halifax Implicit Rate Subsidy OPEB**

**Required Supplementary Information (Unaudited)
Schedule of Funding Progress
Year Ended September 30, 2017
(In thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL – Projected Unit Credit (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
October 1, 2016	\$ -	\$ 5,204	\$ 5,204	0%	\$ 38,361	14%
October 1, 2015	-	4,998	4,998	0%	42,387	12%
October 1, 2014	-	5,587	5,587	0%	43,613	13%
October 1, 2013	-	5,069	5,069	0%	46,960	11%
October 1, 2012	-	6,649	6,649	0%	51,283	13%
October 1, 2010	-	4,991	4,991	0%	56,311	9%

Source: BPAS Actuarial and Pension Services.

Other Supplementary Information

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Supplementary Information
Schedule of Net Position – Obligated Group
September 30, 2017
(In thousands)**

Assets and Deferred Outflows

Current Assets:	
Cash and cash equivalents	\$ 62,112
Investments	166,536
Current assets whose use is limited:	
Trustee-held self-insurance funds	551
Accounts receivable, patients, net of estimated uncollectibles of \$163,462	59,728
Inventories	14,074
Other current assets	16,168
Total current assets	<u>319,169</u>
Noncurrent Assets Whose Use is Limited:	
Board-designated funded depreciation	42,508
Trustee-held funds	17
Depreciable Capital Assets, net	255,436
Nondepreciable Capital Assets	65,221
Investment in Affiliates	138,277
Other Assets	5,593
Total assets	<u>826,221</u>
Deferred Outflows:	
Interest rate swap	27,176
Pension, contribution after measurement date	19,873
Pension, other	10,156
Loss on refunding of debt	16,446
Goodwill, net	2,549
Total deferred outflows	<u>76,200</u>
Total assets and deferred outflows	<u><u>\$ 902,421</u></u>

(Continued)

Halifax Hospital Medical Center
d/b/a Halifax Health

Supplementary Information
Schedule of Net Position – Obligated Group (Continued)
September 30, 2017
(In thousands)

Liabilities, Deferred Inflows and Net Position

Current Liabilities:	
Accounts payable and accrued liabilities	\$ 53,632
Accrued payroll and personal leave time	19,955
Current portion of accrued self-insurance liability	4,736
Current portion of long-term debt	5,310
Other current liabilities	6,091
Total current liabilities	89,724
Noncurrent Liabilities:	
Long-term debt, less current portion	340,165
Net pension liability	83,757
Accrued self-insurance liability, less current portion	8,594
Other liabilities	43,046
Long-term value of interest rate swap	27,176
Total liabilities	592,462
Deferred Inflows Related to Pension	4,140
Total liabilities and deferred inflows	596,602
Net Position:	
Net investment in capital assets	(9,060)
Unrestricted	314,879
Total net position	305,819
Total liabilities, deferred inflows and net position	\$ 902,421

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Supplementary Information
Schedule of Revenues, Expenses and Changes in Net Position – Obligated Group
Year Ended September 30, 2017
(In thousands)**

Operating Revenues:	
Net patient service revenue, before provision for bad debts	\$ 545,295
Provision for bad debts	(78,354)
Net patient service revenue	<u>466,941</u>
Ad valorem taxes	11,252
Other revenue	16,540
Total operating revenues	<u>494,733</u>
Operating Expenses:	
Salaries and benefits	254,738
Supplies	98,664
Purchased services	65,994
Depreciation and amortization	22,434
Ad valorem tax-related expenses	7,417
Leases and rentals	7,498
Other	24,771
Total operating expenses	<u>481,516</u>
Income from operations	<u>13,217</u>
Nonoperating Revenues (Expenses):	
Interest expense	(16,710)
Investment income — net	1,890
Donation revenue	159
Nonoperating gains (losses) — net	16
Income from affiliates	12,827
Total nonoperating expenses	<u>(1,818)</u>
Increase in net position	11,399
Net Position:	
Beginning net position, as restated	294,420
End of year	<u>\$ 305,819</u>

**Halifax Hospital Medical Center
d/b/a Halifax Health**

**Supplementary Information
Note to Schedules – Obligated Group**

Note 1. Summary of Significant Accounting Policies

Obligated Group: The members of the Obligated Group are the Medical Center and Holdings. In accordance with generally accepted accounting principles, certain component units are blended with the accounts of the Medical Center in the Obligated Group financial information, including EVHS, Staffing, HHCSI and PBFS. In addition, Hospice, VHN, Foundation and HMS are accounted for under the equity method in the Obligated Group financial information. The Medical Center has an equity interest in these entities, which are expected to produce income, appreciation in value, or other economic benefit. The net investment in capital assets and unrestricted components of the net position of the affiliates are included in equity interest in affiliates on the schedule of net position and income from affiliates is separately disclosed on the schedule of revenues, expenses, and changes in net position. In accordance with the MTI, the Obligated Group does not have ownership rights to the affiliates' restricted component of net position; therefore, they are excluded from the equity interest in affiliates.

The affiliates are not members of the Obligated Group and are not required to pay operating expenses or debt service of the Obligated Group. Except as may be requested by the Medical Center of Hospice, subject to certain limitations, to avoid or remedy a payment or covenant default, affiliates are not required to make any payments with respect to the outstanding indebtedness of the Medical Center or the Obligated Group.

Note 2. Restatement

The Obligated Group restated net position as of October 1, 2016. Net position was restated to adjust the net pension liability in accordance with GASB requirements. The Medical Center previously accounted for service costs at the date of adoption rather than recognizing them over the remaining employment term of active employees in the Pension Plan. The impact of the restatement is as follows (in thousands):

Beginning net position, as previously reported	\$ 276,822
Decrease in total pension liability and change in net deferred outflows (inflows)	17,598
Beginning net position, as restated	<u>\$ 294,420</u>

