

TRUSTBRIDGE, INC. AND AFFILIATES
West Palm Beach, Florida

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
TrustBridge, Inc. and Affiliates
West Palm Beach, Florida

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of TrustBridge, Inc. and Affiliates (the "Organization"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TrustBridge, Inc. and Affiliates as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets, consolidating statements of operations and changes in net assets, and consolidating statements of cash flows are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual affiliates, and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
April 17, 2018

TRUSTBRIDGE, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,977,231	\$ 8,226,613
Patient accounts receivable, net	14,088,947	13,952,486
Bequests receivable	281,017	93,889
Grants receivable from HFPBC	-	1,200,000
Other current assets	<u>2,616,712</u>	<u>2,488,093</u>
Total current assets	24,963,907	25,961,081
Investments	126,784,270	111,432,625
Interest rate swap asset	108,164	-
Interest in net assets of Hospice Foundation of Palm Beach County, Inc. ("HFPBC")	22,977,617	19,461,748
Property and equipment, net	29,803,527	30,437,890
Assets held in trust	777,318	721,901
Other assets	<u>104,990</u>	<u>104,990</u>
	<u>\$ 205,519,793</u>	<u>\$ 188,120,235</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt	\$ 624,996	\$ 11,882,486
Line of credit	-	3,500,000
Accounts payable	6,695,966	3,108,995
Accrued payroll and benefits	11,762,648	10,448,624
Accrued expenses and other current liabilities	5,278,816	5,349,024
Current portion of interest rate swap obligation	<u>72,011</u>	<u>-</u>
Total current liabilities	24,434,437	34,289,129
Long-term debt	<u>24,218,755</u>	<u>9,716,000</u>
	48,653,192	44,005,129
Net assets		
Unrestricted		
Undesignated	27,333,963	17,122,721
Board designated	<u>100,000,000</u>	<u>100,000,000</u>
Total unrestricted net assets	127,333,963	117,122,721
Temporarily restricted	25,742,160	23,257,324
Permanently restricted	<u>3,790,478</u>	<u>3,735,061</u>
Total net assets	<u>156,866,601</u>	<u>144,115,106</u>
	<u>\$ 205,519,793</u>	<u>\$ 188,120,235</u>

See accompanying notes to consolidated financial statements.

TRUSTBRIDGE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted net assets		
Revenues and other support		
Net patient service revenue	\$ 135,581,020	\$ 135,644,008
Resale of donated merchandise	1,542,403	1,561,796
Contributions, memorials, and bequests	5,346,759	7,821,279
Unrealized gain on interest rate swap agreement	36,153	-
Net assets released from restrictions	<u>2,026,879</u>	<u>992,214</u>
	144,533,214	146,019,297
Expenses		
Payroll and related	105,340,907	103,661,427
Patient related	15,507,638	14,279,291
Occupancy and equipment	20,999,926	21,339,906
Other operating	5,695,073	4,632,753
Grants	<u>31,158</u>	<u>23,590</u>
	<u>147,574,702</u>	<u>143,936,967</u>
Change in unrestricted net assets from operations	(3,041,488)	2,082,330
Nonoperating revenues and expenses		
Investment income, net of fees of \$817,228 in 2017 and \$736,285 in 2016	1,545,806	1,405,944
Net realized and unrealized gain on investments	12,234,745	4,620,569
Other non operating revenues	246,023	440,137
Interest and other fees	<u>(773,844)</u>	<u>(318,942)</u>
	<u>13,252,730</u>	<u>6,147,708</u>
Change in unrestricted net assets	10,211,242	8,230,038
Temporarily restricted net assets		
Grants and contributions	620,244	291,976
Grants from HFPBC	-	1,800,000
Investment income	46,985	41,863
Net realized and unrealized gain on investments	328,617	137,821
Change in interest in net assets of HFPBC	3,515,869	43,674
Net assets released from restrictions	<u>(2,026,879)</u>	<u>(992,214)</u>
Change in temporarily restricted net assets	2,484,836	1,323,120
Permanently restricted net assets		
Change in fair value of assets held in trust	<u>55,417</u>	<u>3,566</u>
Change in permanently restricted net assets	<u>55,417</u>	<u>3,566</u>
Change in net assets	12,751,495	9,556,724
Net assets at beginning of year	<u>144,115,106</u>	<u>134,558,382</u>
Net assets at end of year	<u>\$ 156,866,601</u>	<u>\$ 144,115,106</u>

See accompanying notes to consolidated financial statements.

TRUSTBRIDGE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 12,751,495	\$ 9,556,724
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	5,241,755	5,151,580
(Gain) loss on sale of property and equipment	10,907	(255,745)
Net realized and unrealized gain on investments	(12,563,362)	(4,758,390)
Unrealized gain on interest rate swap	(36,153)	-
Provision for uncollectible accounts	3,914,236	4,840,313
Loss on refinance of debt	112,242	-
Change in interest in net assets of HFPBC	(3,515,869)	(43,674)
Change in fair value of assets held in trust	(55,417)	(3,566)
Changes in assets and liabilities		
Patient accounts receivable	(4,050,697)	(5,043,914)
Bequests receivable	(187,128)	64,253
Grants receivable from HFPBC	1,200,000	(1,200,000)
Other current assets	(128,619)	(394,771)
Accounts payable	3,586,971	762,284
Accrued payroll and benefits	315,765	(120,953)
Accrued expenses and other current liabilities	<u>(70,208)</u>	<u>320,276</u>
Net cash from operating activities	6,525,918	8,874,417
 Cash flows from investing activities		
Proceeds from sales of investments	38,170,686	30,355,141
Purchases of investments	(39,960,710)	(40,948,611)
Purchases of property and equipment	(4,613,027)	(4,204,052)
Proceeds from sale of property and equipment	<u>-</u>	<u>968,967</u>
Net cash from investing activities	(6,403,051)	(13,828,555)
 Cash flows from financing activities		
Principal payments on long-term debt	(25,156,249)	-
Borrowings on long-term debt	28,284,000	2,508,000
Borrowings on line of credit	90,005,086	110,000,000
Payments on line of credit	<u>(93,505,086)</u>	<u>(110,000,000)</u>
Net cash from financing activities	<u>(372,249)</u>	<u>2,508,000</u>
 Net change in cash and cash equivalents	(249,382)	(2,446,138)
 Cash and cash equivalents at beginning of year	<u>8,226,613</u>	<u>10,672,751</u>
 Cash and cash equivalents at end of year	<u>\$ 7,977,231</u>	<u>\$ 8,226,613</u>
 Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 453,625	\$ 216,682

See accompanying notes to consolidated financial statements.

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: TrustBridge, Inc. ("TrustBridge"), is a non-stock, not-for-profit corporation organized in Florida. TrustBridge is a holding company and sole member for the following affiliates:

- Hospice of Palm Beach County, Inc. ("HPBC")
- Hospice by the Sea, Inc. ("HBTS")
- Hospice of Palm Beach County Foundation, Inc. ("HPBC Foundation")
- Harbor Palliative Care Services, Inc. ("HPCS")
- FocusCare Home Health, Inc. ("FCHH")

HPBC and HBTS provide a coordinated, comprehensive Hospice program including physical, psychosocial, spiritual, music, and bereavement support to terminally ill patients and their families in Palm Beach and Broward Counties, Florida. HPBC operates primarily in Palm Beach County and is a limited capacity in Broward County. HBTS operates primarily in Broward County and parts of Boca Raton in southern Palm Beach County. Both hospices share common administrative and functional resources through TrustBridge, Inc.

HPBC Foundation provides fundraising, investment management, grants, resale shop operations, and other support services to TrustBridge, Inc. and its affiliates. It also operates in Broward County under the d/b/a Hospice of Broward County Foundation.

HPCS is a consultative medical practice providing services in palliative medicine; specializing in medical care for people with life-limiting illnesses. HPCS has the largest group of board-certified palliative care physicians in South Florida, who consult with patients and their physicians to alleviate pain and other symptoms caused by illness and medical treatments.

FCHH is the organization's home health business, provided nursing and other clinical services to homebound patients.

Basis of Presentation: The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis of Consolidation: The accompanying consolidated financial statements include the accounts of TrustBridge, Inc. and Affiliates (collectively referred to as the "Organization"). All inter-organization accounts and transactions have been eliminated in consolidation.

Financial Statement Presentation: The consolidated financial statements report the changes in and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

Unrestricted net assets represent the part of the net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Organization. For the years ended December 31, 2017 and 2016, the temporarily restricted net assets are primarily restricted for patient-related care, therapeutic activities, and capital expenditures, in addition to unspent investment return from the Organization's donor-restricted endowments and the interest in net assets of HFPBC. All temporarily restricted net assets released from restriction relate to patient-related care and therapeutic activities.

Permanently restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. Permanently restricted net assets at December 31, 2017 and 2016 consist of endowment gifts and an interest in a perpetual trust. Income from this trust is available for supporting the operations of TrustBridge and its affiliates.

Use of Estimates: The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to \$250,000. At times these amounts may exceed federally insured limits. Additionally, for purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments of operating cash purchased with an original maturity of three months or less to be cash equivalents.

Patient Accounts Receivable: The patient accounts receivable balance represents the unpaid amounts billed to patients and third-party payors. Contractual adjustments, discounts, and an allowance for uncollectible accounts are recorded to report receivables at net realizable value. Past due receivables are determined based on contractual terms. The Organization does not accrue interest on any of its accounts receivable.

Allowance for Uncollectible Accounts: The allowance for uncollectible accounts is determined by management based on the Organization's historical losses, specific patient circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have failed in accordance with the Organization's collection policy. Management believes the allowance of \$1,128,532 and \$1,392,185 as of December 31, 2017 and 2016, respectively, is adequate to cover potential losses from uncollectible accounts.

Investments: All investments are valued at their fair values in the consolidated balance sheets. Unrealized gains and losses are included in the change in net assets. See Note 14 for additional information on the nature of the Organization's investments.

Interest in Net Assets of HFPBC: The interest in net assets of HFPBC is valued at fair value in the consolidated balance sheets. See Note 12 for additional information.

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment: Property and equipment are stated at cost or, if donated to the Organization, at fair value on the date of acquisition. Additions and improvements over \$5,000 are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets which range from three to thirty years and is computed on the straight-line method. All leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets.

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

The cost of property and equipment sold or otherwise disposed of and the accumulated depreciation applicable thereto are eliminated from the accounts, and any resulting gain or loss is reflected in the consolidated financial statements in the year of disposition.

Impairment of Long-Lived Assets: On an ongoing basis, the Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Organization considers potential impairment losses to exist if the undiscounted cash flow expected to be generated by the assets are less than carrying value. The impairment loss adjusts the assets to fair value. As of December 31, 2017 and 2016, management believes that no impairments exist.

Assets Held in Trust: Assets held in trust consist of perpetual charitable gift for which the Organization has been named as a beneficiary. The underlying assets have been placed with a financial institution that is serving as trustee. The assets held in trust are valued at fair value. At December 31, 2017 and 2016, the perpetual trust charitable gift was valued at \$777,318 and \$721,901, respectively, and is reported as permanently restricted net assets (Note 14).

Other Assets: Other assets represent artwork that was recorded at its fair value at date of donation and is reviewed for impairment on an annual basis. As of December 31, 2017 and 2016, management believes that no impairment existed.

Interest Rate Swap Agreement: The Organization entered into an interest rate swap agreement as part of its interest rate risk management strategy, not for speculation. The Organization has elected to report the instrument as a freestanding derivative with gains and losses included within change in unrestricted net assets from operations.

The derivative is separated into current and non-current assets or liabilities based on its expected cash flows. Cash in flows expected within one year, including derivative assets that the Organization intends to settle, are reported as current assets. Cash in flows expected beyond one year are reported as non-current assets. Cash out flows expected within one year, including derivative liabilities in which the counterparty has the contractual right to settle, are reported as current liabilities. Cash out flows expected beyond one year are reported as non-current liabilities.

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TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments: The fair values of financial instruments other than investments, which include cash and cash equivalents, patient accounts receivable, bequests receivable, grants receivable from HFPBC, accounts payable, interest rate swap agreement, and long-term debt, are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments (Level 1 inputs - market approach). In other cases, fair values have been estimated based on assumptions about the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk, which include the interest rate swap agreement (Level 2 inputs - income approach). Accordingly, the fair values may not represent actual values that could have been realized at year-end or that will be realized in the future. All other financial instruments' carrying values approximate fair value as of December 31, 2017 and 2016.

Net Patient Service Revenues: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Approximately 93% of the Organization's net patient service revenue was derived from the Medicare and Medicaid programs for the years ended December 31, 2017 and 2016. The Organization is paid by Medicare based on an estimate of patient days through bi-weekly interim payments. Settlements are made on a periodic basis to adjust the payment amounts to the actual utilization.

Provisions for estimated third-party payor settlements has been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the standard charges for services and estimated total payments to be received from third-party payors. These estimates are adjusted in future periods as final settlements are determined.

The Organization, like other health care providers, may be subject to investigations, regulatory action, lawsuits, and claims arising out of the conduct of its business, including the interpretation of laws and regulations governing the Medicare and Medicaid programs and other third-party payor agreements. Management intends to fully cooperate with any governmental agencies in requests for information. Noncompliance with laws and regulations can make the Organization subject to regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. HPBC had select Medicaid claims under a post-pay review by a Medicaid Integrity Contractor at December 31, 2016. HPBC settled this matter during 2017. HBTS and HPBC currently have select Medicare claims under a post-pay review by a Zone Program Integrity Contractor. HBTS and HPBC received demand letters noting settlement amounts for denied claims. A liability has been recorded in accounts payable as of December 31, 2017. HBTS and HPBC both intend to appeal the settlements.

Hospice organizations are subject to two specific payment limit caps under the Medicare program. One limit relates to inpatient care days that exceed 20% of the total days of hospice care provided for the year. The Organization did not exceed the 20% cap related to inpatient days in 2017. The second limit relates to an aggregate Medicare reimbursement cap calculated by the Organization. The Organization did not exceed the Medicare reimbursement cap for the years ended December 31, 2017 and 2016.

Charity Care: The Organization determines each patient's ability to pay during the admission process. When a patient meets certain criteria, part or all of the patient's charges are deemed charity care and are not billed for collection. Because the Organization does not pursue collection of amounts determined to qualify as charity care, those amounts are excluded from net patient service revenue. The cost of charity care provided was approximately \$2,251,000 and \$2,257,000 for the years ended December 31, 2017 and 2016, respectively. This cost estimate was based on the organization-wide cost to charge ratio.

Resale of Donated Merchandise: HPBC Foundation operates resale shops that sell primarily donated merchandise. The fair value of the donated merchandise sold approximates the revenue generated from its sale.

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions: Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence of donor restrictions and the nature of such restrictions, if they exist. Conditional promises to give are recognized in the consolidated statements of operations and changes in net assets only when the conditions on which they depend are substantially met and the promises become unconditional.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Donor restricted gifts that are received for which their restricted purpose is met during the same year are initially recorded as temporarily restricted net assets and then reported as net assets released from restrictions and reclassified as unrestricted net assets.

HPBC Foundation actively solicits contributions on behalf of TrustBridge and its affiliates.

Special Events: The following amounts relate to special events that are ongoing and major activities of the Organization for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Revenue	\$ 692,112	\$ 484,470
Expense	<u>202,511</u>	<u>260,668</u>
Net proceeds	<u>\$ 489,601</u>	<u>\$ 223,802</u>

Revenue is included in contributions, memorials, and bequests, and expenses are included in other operating expenses in the consolidated statements of operations and changes in net assets.

Income Taxes: TrustBridge and the affiliate organizations are exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes.

U.S. GAAP requires that a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The applicable Forms 990 have not been subject to examination by the Internal Revenue Service or the state of Florida for the last three years. The Organization does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Organization recognizes interest and/or penalties related to income tax matters in income tax expense. The Organization did not have any amounts accrued for interest and penalties at December 31, 2017 and 2016.

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncement: In May 2015, the FASB issued Accounting Standards Update No. 2015-07 ("ASU 2015-07"), "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)." ASU 2015-07 removes the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as a practical expedient. For non-public business entities, ASU 2015-07 is effective for fiscal years beginning after December 15, 2016. The Organization adopted ASU 2015-07 as of and for the year ended December 31, 2017. Accordingly, investments for which fair value is measured using net asset value per share as a practical expedient have not been categorized within the fair value hierarchy.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2017 to determine the need for any adjustments to and/or disclosures within the consolidated financial statements for the year ended December 31, 2017. Management has performed their analysis through April 17, 2018, which is the date the consolidated financial statements were available to be issued.

NOTE 2 - PATIENT ACCOUNTS RECEIVABLE

At December 31, patient accounts receivable by payor category consists of the following:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 12,112,941	\$ 12,946,706
Medicaid	5,281,384	5,854,482
Private insurance	1,251,816	2,035,230
Patients and others	<u>84,966</u>	<u>901,897</u>
	18,731,107	21,738,315
Medicare Periodic Interim Payments (PIP)	(3,513,628)	(6,393,644)
Allowance for uncollectible accounts	<u>(1,128,532)</u>	<u>(1,392,185)</u>
	<u>\$ 14,088,947</u>	<u>\$ 13,952,486</u>

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - PROPERTY AND EQUIPMENT

The Organization's property and equipment at December 31 is as follows:

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 2,281,296	\$ 2,281,296
Buildings and improvements	36,597,385	33,673,614
Leasehold improvements	4,855,854	4,705,151
Furniture and equipment	13,162,848	12,393,229
Technology costs	22,290,198	21,469,655
Equipment held for rent	1,600,881	1,339,810
Vehicles	605,276	605,276
Projects in progress	<u>971,026</u>	<u>1,317,456</u>
	82,364,764	77,785,487
Less: Accumulated depreciation	<u>(52,561,237)</u>	<u>(47,347,597)</u>
	<u>\$ 29,803,527</u>	<u>\$ 30,437,890</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$5,236,483 and \$5,143,672, respectively.

Projects in progress at December 31, 2017 primarily relate to a generator not yet placed into service for inpatient units at the Boca Care Center. The generator has an estimated cost of \$1,000,000 which is expected to be placed into service during the first quarter of 2018.

NOTE 4 - LINE OF CREDIT

The Organization maintains a \$14,000,000 line of credit with BB&T Bank that matures on December 19, 2018. The line of credit is guaranteed by HPBC, HBTS, and HPBC Foundation and carries an interest rate of one month LIBOR plus 0.70% (2.27% and 1.47% at December 31, 2017 and 2016, respectively). The Organization had borrowings on the line of credit totaling \$0 and \$3,500,000 at December 31, 2017 and 2016, respectively.

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 5 - LONG-TERM DEBT

A summary of long-term debt at December 31 is as follows:

	<u>2017</u>	<u>2016</u>
<p><u>HPBC</u>: In December 2001, HPBC entered into a loan agreement with Palm Beach County, Florida related to the issuance of \$12,000,000 in variable rate demand revenue bonds (Series 2001). The bonds were issued in connection with a project to expand HPBC's Gerstenberg Center facility. The entire bond issue was due October 1, 2031 and maintained interest at prevailing market rates determined by the remarketing agent, reset every seven (7) days (effective average interest rate of 0.50% for the year ended December 31, 2016). The bonds were fully paid during the year ended December 31, 2017, and the loan was closed.</p> <p>The Series 2001 Bonds were secured by an irrevocable transferable letter of credit issued by The Northern Trust Company. The letter of credit expired on October 1, 2017, and contained a guarantee from TrustBridge and HPBC Foundation, both related parties. The Series 2001 Bonds were classified as current at December 31, 2016 because, as of the report date, the letter of credit had not yet been renewed through January 1, 2018.</p> <p>The bonds contained covenants relating to ongoing operations and tax-exempt status. HPBC was in compliance with all financial covenants.</p>	\$	- \$ 12,000,000
<p><u>TrustBridge</u>: During March 2015, the Organization entered into a \$13,000,000 delayed draw term loan with BB&T Bank that was set to mature on March 4, 2020. The term loan was secured by affiliate guarantees of HPBC, HBTS, and HPBC Foundation, and carried an interest rate of one month LIBOR plus 0.90% (1.67% at December 31, 2016). The term loan was fully paid during the year ended December 31, 2017, and the loan was closed.</p>		- 9,716,000

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 5 - LONG-TERM DEBT (Continued)

	<u>2017</u>	<u>2016</u>
<u>TrustBridge:</u> In August 2017, the Organization entered into a loan agreement with Palm Beach County Health Facilities Authority relating to the issuance of \$25,000,000 in revenue bonds (Series 2017). The bond is due in monthly installments with a final maturity in September 2037 and bears interest at 68% of one-month LIBOR plus 0.78% per annum (1.71% for the year ended December 31, 2017).		
The bonds require the Organization to meet certain financial and non-financial covenants. At December 31, 2017, the Organization was in compliance with all such financial covenants.	\$ 24,843,751	\$ -
	<u>24,843,751</u>	<u>21,716,000</u>
Less unamortized deferred financing costs	<u>-</u>	<u>(117,514)</u>
	24,843,751	21,598,486
Less current maturities	<u>(624,996)</u>	<u>(12,000,000)</u>
	<u>\$ 24,218,755</u>	<u>\$ 9,716,000</u>

Scheduled principal repayments over the next five years are as follows:

2018	\$ 624,996
2019	624,996
2020	781,248
2021	1,250,004
2022	1,250,004

Interest expense was \$496,073 and \$216,682 for the years ended December 31, 2017 and 2016, respectively.

On August 28, 2017, the Organization issued \$25,000,000 Palm Beach County Health Facilities Authority Revenue Bonds, (Series 2017) tax-exempt bonds through the Palm Beach County Health Facilities Authority (the Issuer) and BB&T Community Holdings Co. (BBTCH). These bonds are bank-held, and, as such, there is no requirement for a letter of credit. Pursuant to a Bond and Loan Agreement among the Organization, the Issuer, and BBTCH, the proceeds were used by the Organization for the purpose of current and advanced refunding of the Palm Beach County, Florida variable rate demand revenue bonds Series 2001 (2001 bonds) and payment of the delayed draw term loan. The refunding of the 2001 bonds and the payment of delayed draw term loan is accounted for as an extinguishment of debt. Costs associated with the issuance of the Series 2001 Bonds were deferred and amortized on the straight-line method, which approximated the effective interest method, over the life of the related debt. Unamortized deferred bond issuance costs of \$112,242 related to the redeemed Series 2001 Bonds is recognized as a loss on refinance of debt, included with interest and other fees in the statements of operations and changes in net assets. Costs associated with the issuance of the Series 2017 Bonds were considered immaterial and expensed as incurred.

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 5 - LONG-TERM DEBT (Continued)

Interest Rate Swap Designated as a Hedge:

In conjunction with the Series 2017 bond issue, the Organization entered into an interest rate swap agreement (swap agreement) with BBTCH in order to modify the Organization's risk of interest rate changes with respect to the bonds. The swap agreement matures on September 1, 2037. Summary information about the interest rate swap accounted for as a freestanding derivative is as follows:

	<u>2017</u>
Notional amount	\$ 24,843,751
Weighted average pay rates (fixed)	1.51%
Weighted average receive rates (68% of 1 month LIBOR)	0.93%
Termination date (years)	9.7 years

Interest Rate Swap Fair Value: The following table presents the net amounts recorded in the consolidated statements of operations and changes in net assets relating to the interest rate swap agreement:

	<u>2017</u>
Unrealized gain on interest rate swap agreement	\$ 36,153
Net settlements on interest rate swap agreement	56,117

The net settlements on the interest rate swap agreement are included with interest and other fee in the consolidated statements of operations and changes in net assets.

The following table reflects the fair value and location in the consolidated balance sheets of the interest rate swap agreement:

	<u>2017</u>
Long-term assets	
Interest rate swap asset	\$ 108,164
Current liabilities	
Current portion of interest rate swap obligation	72,011

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 6 - NET ASSETS

The Organization's net assets at December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted		
Undesignated	\$ 27,333,963	\$ 17,122,721
Board designated		
Operating reserves	50,000,000	50,000,000
Asset additions and replacements	20,000,000	20,000,000
Unfunded programs	15,000,000	15,000,000
Charity care	5,000,000	5,000,000
Business combinations	<u>10,000,000</u>	<u>10,000,000</u>
	<u>100,000,000</u>	<u>100,000,000</u>
Temporarily restricted	25,742,160	23,257,324
Permanently restricted	<u>3,790,478</u>	<u>3,735,061</u>
	<u>\$ 156,866,601</u>	<u>\$ 144,115,106</u>

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Organization maintains a non-contributory defined contribution retirement plan covering substantially all of its full-time employees. For the years ended December 31, 2017 and 2016, the Organization contributed three percent of eligible employees' gross wages to the plan. Total retirement expense for the years ended December 31, 2017 and 2016 was \$1,984,346 and \$1,942,845, respectively.

The Organization offers a 457(b) deferred compensation plan and a 457(f) employer contribution plan. A select group of management and highly compensated employees are eligible to participate in the plan after one year of service. The plan provides for employer contributions based on a board approved percentage of each participant's contribution. The Organization contributed \$117,000 and \$119,000 to the plan for the years ended December 31, 2017 and 2016, respectively. The contributions are held in investment accounts, administered by a third party, pending distribution upon vesting portions and severance of employment of the participants. At December 31, 2017 and 2016, the Organization maintained approximately \$3,601,000 and \$2,603,000, respectively, in plan assets included within investments and approximately \$3,612,000 and \$2,618,000, respectively, due to plan participants included within accrued payroll and benefits on the consolidated balances sheets.

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 8 - SELF-FUNDED HEALTH INSURANCE

The Organization maintains a self-funded medical insurance plan for all full time employees and their eligible dependents of the TrustBridge affiliates. The amounts funded to the plan are based on medical claims processed and submitted for payment on a weekly basis by a third-party plan administrator. The Organization purchased a stop-loss liability insurance policy (reinsurance) that reimburses the Organization for individual participant claims incurred in excess of \$300,000 during the period October 1, 2017 through September 30, 2018, and \$275,000 during the period October 1, 2016 through September 30, 2017, with a maximum limit of liability of \$1,000,000. Medical claims incurred but not paid as of December 31, 2017 and 2016 are estimated at approximately \$770,000 and \$607,000, respectively, and are accrued and included in accrued payroll and benefits on the Organization's consolidated balance sheets. Expenses recognized under this plan for the years ended December 31, 2017 and 2016 were approximately \$9,221,000 and \$8,700,000, respectively.

NOTE 9 - OPERATING LEASE COMMITMENTS

The Organization leases various patient care facilities, resale shops, and office space under operating leases that extend through July 2023. Total rent expense, included in occupancy and equipment expenses, amounted to \$8,884,132 and \$8,604,324 for the years ended December 31, respectively.

Future minimum payments are as follows:

2018	\$ 7,410,763
2019	5,978,907
2020	3,659,473
2021	2,583,764
2022	2,206,811
Thereafter	<u>255,556</u>
	<u>\$ 22,095,274</u>

NOTE 10 - DONATED SERVICES

The Organization has estimated that during the years ended December 31, dedicated volunteers have donated hours of service as follows (unaudited):

	<u>2017</u>	<u>2016</u>
Patient care services	44,548	47,983
Clerical and other services	<u>35,184</u>	<u>37,375</u>
	<u>79,732</u>	<u>85,358</u>

Because the above donated services do not meet the recognition criteria of U.S. GAAP, their estimated values have not been recognized in the statements of operations and changes in net assets.

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 11 - FUNCTIONAL EXPENSES

The Organization provides services to terminally ill patients within its geographical service area. Functional expenses (including interest and fees) for the years ended December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Hospice and palliative care	\$ 115,925,828	\$ 113,160,381
General and administrative	29,051,623	27,896,115
Fundraising	2,025,560	1,891,095
Resale	<u>1,345,535</u>	<u>1,308,318</u>
	<u>\$ 148,348,546</u>	<u>\$ 144,255,909</u>

NOTE 12 - SUPPORT ORGANIZATION

HFPBC, an independently managed non-profit corporation, was established in 1985 to exclusively support the programs, services, activities, interest, and organization of HPBC. U.S. GAAP requires HPBC to recognize as an asset its interest in the net assets of HFPBC, and to reflect in its changes in net assets the changes in the net assets of HFPBC. Net assets held by HFPBC as of December 31, 2017 and 2016 amounted to \$22,977,617 and \$19,461,748, respectively. \$0 and \$1,800,000 of contribution revenue was recorded from HFPBC in 2017 and 2016, respectively, with a related receivable of \$0 and \$1,200,000 at December 31, 2017 and 2016, respectively.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Litigation: During the normal course of business, the Organization may be subject to various threatened claims related to professional liability and employment matters. The Organization has secured professional liability coverage from a commercial insurance carrier to insure against such risks. Management is not aware of any threatened claims that are not covered by its risk management programs or that would have a significant impact on the consolidated financial statements of the Organization.

NOTE 14 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Organization's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 14 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The following tables present the financial instruments carried at fair value on a recurring basis as of December 31, 2017 and 2016, by valuation hierarchy, all of which were based on the market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets. The tables also present alternative investments that are valued at net asset value and are not presented within the fair value hierarchy based on U.S. GAAP.

Assets Measured on a Recurring Basis:

Assets measured at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at December 31, 2017</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Assets					
Investments					
Cash and cash equivalents	\$ 3,599,391	\$ -	\$ -	\$ -	\$ 3,599,391
Money market funds	2,597,256	-	-	-	2,597,256
Equity securities - large cap	7,352,549	-	-	-	7,352,549
Hard assets	3,095,825	-	-	-	3,095,825
Mutual funds - equity	49,363,077	-	-	-	49,363,077
Mutual funds - fixed income	35,257,110	-	-	-	35,257,110
Mutual funds - hedge funds	2,578,639	-	-	-	2,578,639
Mutual funds - real assets	6,881,566	-	-	-	6,881,566
Common trust funds	-	-	-	863,463	863,463
Alternative - hedge funds:					
Event-driven equities funds	-	-	-	4,456,611	4,456,611
Future funds	-	-	-	2,270,031	2,270,031
Global equities funds	-	-	-	2,323,898	2,323,898
Global macro funds	-	-	-	6,144,854	6,144,854
Total investments	<u>110,725,413</u>	<u>-</u>	<u>-</u>	<u>16,058,857</u>	<u>126,784,270</u>
Interest in net assets of HFPBC	-	-	22,977,617	-	22,977,617
Assets held in trust	-	-	777,318	-	777,318
Interest rate swap	<u>-</u>	<u>108,164</u>	<u>-</u>	<u>-</u>	<u>108,164</u>
Total assets	<u>\$ 110,725,413</u>	<u>\$ 108,164</u>	<u>\$ 23,754,935</u>	<u>\$ 16,058,857</u>	<u>\$ 150,647,369</u>
Liabilities:					
Interest rate swap	<u>\$ -</u>	<u>\$ 72,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>\$ -</u>	<u>\$ 72,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 14 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

	<u>Fair Value Measurements at December 31, 2016</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Assets:					
Investments					
Cash and cash equivalents	\$ 4,085,217	\$ -	\$ -	\$ -	\$ 4,085,217
Equity securities - large cap	4,773,029	-	-	-	4,773,029
Hard assets	1,617,296	-	-	-	1,617,296
Mutual funds - equity	44,528,635	-	-	-	44,528,635
Mutual funds - fixed income	32,192,767	-	-	-	32,192,767
Mutual funds - hedge funds	1,987,304	-	-	-	1,987,304
Mutual funds - real assets	6,838,779	-	-	-	6,838,779
Common trust funds	-	-	-	801,089	801,089
Alternative - hedge funds:					
Event-driven equities funds	-	-	-	3,888,317	3,888,317
Futures funds	-	-	-	2,104,103	2,104,103
Global equities funds	-	-	-	1,886,666	1,886,666
Global macro funds	-	-	-	<u>6,729,423</u>	<u>6,729,423</u>
Total investments	<u>96,023,027</u>	-	-	<u>15,409,598</u>	<u>111,432,625</u>
Interest in net assets of HFPBC	-	-	19,461,748	-	19,461,748
Assets held in trust	-	-	<u>721,901</u>	-	<u>721,901</u>
Total assets	<u>\$ 96,023,027</u>	<u>\$ -</u>	<u>\$ 20,183,649</u>	<u>\$ 15,409,598</u>	<u>\$ 131,616,274</u>

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2017 and 2016:

	Interest in Net		
	<u>Assets of HFPBC</u>	<u>Assets Held in Trust</u>	<u>Total</u>
Assets at January 1, 2016	\$ 19,418,074	\$ 718,335	\$ 20,136,409
Change in fair value of assets held in trust	-	3,566	3,566
Change in beneficial interest in net assets of HFPBC	1,843,674	-	1,843,674
Grants to HPBCF	<u>(1,800,000)</u>	<u>-</u>	<u>(1,800,000)</u>
Assets at December 31, 2016	19,461,748	721,901	20,183,649
Change in fair value of assets held in trust	-	55,417	55,417
Change in beneficial interest in net assets of HFPBC	3,515,869	-	3,515,869
Grants to HPBCF	<u>-</u>	<u>-</u>	<u>-</u>
Assets at December 31, 2017	<u>\$ 22,977,617</u>	<u>\$ 777,318</u>	<u>\$ 23,754,935</u>

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Organization.

(Continued)

NOTE 14 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Inputs and Valuation Techniques

In determining fair value, management uses various valuation approaches. With respect to investments for which quoted prices in active markets are observable (Level 1 inputs), management determines fair value based on the quoted prices at the measurement date.

With respect to investments using significant observable inputs other than Level 1 prices (Level 2) or significant unobservable inputs (Level 3), management determines fair value using the net asset value ("NAV"), but incorporates information such as historical and current performance of underlying assets, cash flow projections, levels of subscription and redemption, liquidity, and financial trend analysis of individual investment managers. The NAVs of investment vehicles are determined on the accrual basis of accounting in conformity with U.S. GAAP. Investment managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values, and holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, appraisals, and/or the income approach.

In most instances, the Organization possesses the ability to redeem its investment at the NAV at the measurement date (Level 2 inputs), and in some instances additional restrictions on redemption, such as lock-ups and gates, are in place such that investment redemption at NAV is not possible at the measurement date (Level 3 inputs). The Organization's management has done considerable independent review of valuations reported by investment managers and determined that NAV is a reasonable and prudent estimate of fair value.

Money Market Funds

The fair values of equity securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Equity Securities

The fair values of equity securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Hard Assets

The fair values of hard assets are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Common Trust Funds

Common trust funds are not traded on an active market, and the Organization's management has reasonable visibility to the holdings of the funds, which consist entirely of cash and securities traded on active markets. The fair value of these funds is based on NAV, which is determined by the fund trustee based upon the market prices of the underlying holdings of the funds (NAV inputs). The objective of these funds is to provide income and appreciation, while maintaining the liquidity required to support annuity payments related to the Organization's charitable gift annuity program. The funds invest exclusively in equity and fixed income securities traded on active markets in the United States. There are no restrictions on redemption at December 31, 2017 and 2016.

(Continued)

NOTE 14 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Mutual Funds and Alternative Investments

The fair values of mutual funds, which are readily marketable, are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). For mutual funds and alternative investments not traded on an active market, and where the Organization's management has reasonable visibility to the holdings of the funds, the fair value of these investments is based on NAV, which is determined by the managers based upon the market prices of the underlying holdings of the funds (NAV inputs). For mutual funds and alternative investments not traded on an active market, and where the Organization's management does not have reasonable visibility to the holdings of the funds, the fair value of these investments is based on several valuation techniques including NAV reported by fund managers, which is determined by managers based on the value of underlying holdings of the funds (NAV inputs).

Alternative investments consist of private funds or limited partnerships invested in various vehicles with investment objectives focused on specific strategies, such as directional and non-directional hedging, commodities, and futures contracts. The alternatives consist of the following:

Event-Driven Equities Funds: The primary objective of these funds is to achieve consistent total returns by pursuing long/short strategies; investing globally in securities of companies affected by events such as capital and credit-oriented restructures, organizational changes, and mergers and acquisitions. There are no restrictions on redemption at December 31, 2017 and 2016.

Futures Funds: The objective of these funds is to achieve long term capital appreciation through compound growth by pursuing strategies of investing in futures, options, and forward contracts. These funds seek to achieve positive returns with low correlation to other markets over the long term. There are no restrictions on redemption at December 31, 2017 and 2016.

Global Equities Funds: The objective of these funds is to achieve long-term capital appreciation by investing globally, primarily in equities securities. Funds in this class employ long/short strategies paired, in certain instances, with sector-based strategies. There are no restrictions on redemption at December 31, 2017 and 2016.

Global Macro Funds: The objective of these funds is to generate attractive risk-adjusted returns through absolute return and alpha-generating macro strategies. Funds in this class employ both fundamental and systematic approaches in investing internationally in a variety of assets, and within specific economic environments. There are no restrictions on redemption at December 31, 2017 and 2016.

At December 31, 2017 and 2016, the Organization has no unfunded commitments to fund these investments.

Interest in Net Assets of HFPBC

The interest in the net assets of HFPBC is based on the underlying assets of HFPBC, which is not redeemable upon request by the Organization. The interest in the net assets of HFPBC is largely composed of underlying investments that have observable inputs and market activity allowing for pricing based on the market prices of the items in the investments (market approach valuation technique).

(Continued)

NOTE 14 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Assets Held in Trust

The trust assets are valued based upon the Organization's proportionate share of pooled investment portfolios and is valued using the market approach and income approach valuation techniques. Due to the illiquidity of the assets, they have been considered to be valued using Level 3 inputs. Assets held in trust represent primarily investments in equity and fixed income securities that are publicly traded.

Interest Rate Swap

The Organization's derivative, which is comprised of an interest rate swap agreement, is reported at fair value using Level 2 inputs. The Organization obtained the fair value from a financial institution which utilizes internal models with observable market data inputs to estimate the value of this instrument (market approach valuation technique).

NOTE 15 - ENDOWMENT ASSETS

Overview: As required by U.S. GAAP, the Organization's endowment funds are classified and reported based on the donor imposed restrictions as temporarily restricted net assets and permanently restricted net assets. The Organization does not separately report returns from individual investments. There are no quasi-endowment funds established pursuant to Board designations.

Interpretation of Relevant Law: The Organization's Board of Directors has determined the requirements of Florida's version of Uniform Prudent Management of Institutional Funds Act ("UPMIFA") to center around the preservation of the fair value of the original investment as of the date of the asset transfer. The investments resulting from donations directing that they be invested in perpetuity are classified as permanently restricted. There are no donor-imposed restrictions on the earnings or losses related to investment of endowment funds other than support for the programs of the TrustBridge affiliates, which is achieved through annual grants made to the affiliates from HPBC Foundation. Therefore, earnings or losses from the invested endowment funds are classified as temporarily restricted until appropriated each year for current operations. The Organization considers the following factors in making a determination to appropriate or accumulate its endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Return Objectives and Risk Parameters: The Organization's investment policy centers around the primary objective to preserve and protect its assets while seeking to earn a reasonable total return (income plus capital change) for each segment of its assets appropriate to meet the Organization's anticipated time horizon, liquidity needs, and risk tolerance for each segment.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 15 - ENDOWMENT ASSETS (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy: HPBC Foundation provides grants to the TrustBridge affiliates to assist with their programs and services. Grants are made in accordance with donor restrictions, if applicable.

Funds with Deficiencies: From time to time, the fair value of assets associated with the permanently restricted endowment fund may fall below the level that the donor requires the Organization to maintain. Deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2017 and 2016.

Endowment Net Asset Composition by Type of Fund: The Organization's composition of donor restricted endowment assets and changes in balances for the year ended December 31, 2017 and 2016 is as follows:

2017:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance	\$ 306,979	\$ 2,908,170	\$ 3,215,149
Interest and dividend income	46,985	-	46,985
Net realized and unrealized gain on investments	328,617	-	328,617
Appropriations for expenditure	<u>(306,979)</u>	<u>-</u>	<u>(306,979)</u>
Total endowment	<u>\$ 375,602</u>	<u>\$ 2,908,170</u>	<u>\$ 3,283,772</u>

Below is a reconciliation of the endowment assets with the total permanently restricted net assets reported in the consolidated balance sheet at December 31, 2017:

Endowment assets	\$ 2,908,170
Assets held in perpetual trust	777,318
Works of art	<u>104,990</u>
Total permanently restricted net assets	<u>\$ 3,790,478</u>

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 15 - ENDOWMENT ASSETS (Continued)

2016:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance	\$ 227,295	\$ 2,908,170	\$ 3,135,465
Interest and dividend income	41,863	-	41,863
Net realized and unrealized gain on investments	137,821	-	137,821
Appropriations for expenditure	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
Total endowment	<u>\$ 306,979</u>	<u>\$ 2,908,170</u>	<u>\$ 3,215,149</u>

Below is a reconciliation of the endowment assets with the total permanently restricted net assets reported in the consolidated balance sheet at December 31, 2016:

Endowment assets	\$ 2,908,170
Assets held in perpetual trust	721,901
Works of art	<u>104,990</u>
Total permanently restricted net assets	<u>\$ 3,735,061</u>

SUPPLEMENTARY INFORMATION

TRUSTBRIDGE, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
December 31, 2017

	<u>TrustBridge</u>	<u>HPBC</u>	<u>HPBC Foundation</u>	<u>HBTS</u>	<u>FCHH</u>	<u>HPCS</u>	<u>Eliminations</u>	<u>Totals</u>
ASSETS								
Current assets								
Cash and cash equivalents	\$ 1,791,932	\$ 1,400	\$ 6,182,759	\$ 1,140	\$ -	\$ -	\$ -	\$ 7,977,231
Patient accounts receivable, net	-	7,973,425	-	6,041,308	11,057	63,157	-	14,088,947
Bequests receivable	-	-	281,017	-	-	-	-	281,017
Due from affiliates	14,199,440	-	-	-	-	-	(14,199,440)	-
Other current assets	<u>1,787,036</u>	<u>750,981</u>	<u>52,664</u>	<u>26,031</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,616,712</u>
Total current assets	17,778,408	8,725,806	6,516,440	6,068,479	11,057	63,157	(14,199,440)	24,963,907
Investments	3,600,845	-	123,183,425	-	-	-	-	126,784,270
Interest rate swap asset	108,164	-	-	-	-	-	-	108,164
Interest in net assets of HFPBC	-	22,977,617	-	-	-	-	-	22,977,617
Investment in affiliates	168,806,168	-	-	-	-	-	(168,806,168)	-
Property and equipment, net	2,769,316	17,595,168	282,078	9,156,965	-	-	-	29,803,527
Assets held in trust	-	-	777,318	-	-	-	-	777,318
Other assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,990</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,990</u>
	<u>\$ 193,062,901</u>	<u>\$ 49,298,591</u>	<u>\$ 130,759,261</u>	<u>\$ 15,330,434</u>	<u>\$ 11,057</u>	<u>\$ 63,157</u>	<u>\$ (183,005,608)</u>	<u>\$ 205,519,793</u>
LIABILITIES AND NET ASSETS (DEFICIT)								
Current liabilities								
Current portion of long-term debt	\$ 624,996	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 624,996
Accounts payable	2,705,224	3,193,172	9,710	787,860	-	-	-	6,695,966
Accrued payroll and benefits	7,144,189	3,235,466	359,238	918,931	20,776	84,048	-	11,762,648
Accrued expenses and other current liabilities	1,431,125	2,359,009	167,664	1,321,018	-	-	-	5,278,816
Current portion of interest rate swap obligation	72,011	-	-	-	-	-	-	72,011
Due to affiliates	<u>-</u>	<u>6,278,110</u>	<u>843,357</u>	<u>1,347,884</u>	<u>1,027,923</u>	<u>4,702,166</u>	<u>(14,199,440)</u>	<u>-</u>
Total current liabilities	11,977,545	15,065,757	1,379,969	4,375,693	1,048,699	4,786,214	(14,199,440)	24,434,437
Long-term debt	<u>24,218,755</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,218,755</u>
	<u>36,196,300</u>	<u>15,065,757</u>	<u>1,379,969</u>	<u>4,375,693</u>	<u>1,048,699</u>	<u>4,786,214</u>	<u>(14,199,440)</u>	<u>48,653,192</u>
Net assets (deficit)								
Unrestricted	127,333,963	9,643,872	124,540,606	10,849,751	(1,037,642)	(4,723,057)	(139,273,530)	127,333,963
Temporarily restricted	25,742,160	24,588,962	1,153,198	-	-	-	(25,742,160)	25,742,160
Permanently restricted	<u>3,790,478</u>	<u>-</u>	<u>3,685,488</u>	<u>104,990</u>	<u>-</u>	<u>-</u>	<u>(3,790,478)</u>	<u>3,790,478</u>
Total net assets (deficit)	<u>156,866,601</u>	<u>34,232,834</u>	<u>129,379,292</u>	<u>10,954,741</u>	<u>(1,037,642)</u>	<u>(4,723,057)</u>	<u>(168,806,168)</u>	<u>156,866,601</u>
	<u>\$ 193,062,901</u>	<u>\$ 49,298,591</u>	<u>\$ 130,759,261</u>	<u>\$ 15,330,434</u>	<u>\$ 11,057</u>	<u>\$ 63,157</u>	<u>\$ (183,005,608)</u>	<u>\$ 205,519,793</u>

See accompanying independent auditor's report.

TRUSTBRIDGE, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
December 31, 2016

	<u>TrustBridge</u>	<u>HPBC</u>	<u>HPBC Foundation</u>	<u>HBTS</u>	<u>FCHH</u>	<u>HPCS</u>	<u>Eliminations</u>	<u>Totals</u>
ASSETS								
Current assets								
Cash and cash equivalents	\$ 1,638,013	\$ 1,400	\$ 6,585,675	\$ 1,525	\$ -	\$ -	\$ -	\$ 8,226,613
Patient accounts receivable, net	-	8,612,403	-	5,161,502	91,947	86,634	-	13,952,486
Bequests receivable	-	-	93,889	-	-	-	-	93,889
Grants receivable from HFPBC	-	-	1,200,000	-	-	-	-	1,200,000
Due from affiliates	13,500,069	-	-	-	-	-	(13,500,069)	-
Other current assets	<u>1,466,948</u>	<u>945,649</u>	<u>43,942</u>	<u>31,554</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,488,093</u>
Total current assets	16,605,030	9,559,452	7,923,506	5,194,581	91,947	86,634	(13,500,069)	25,961,081
Investments	2,602,586	-	108,830,039	-	-	-	-	111,432,625
Interest in net assets of HFPBC	-	19,461,748	-	-	-	-	-	19,461,748
Investment in affiliates	144,061,474	-	-	-	-	-	(144,061,474)	-
Property and equipment, net	3,355,655	17,662,504	311,950	9,107,781	-	-	-	30,437,890
Assets held in trust	-	-	721,901	-	-	-	-	721,901
Other assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,990</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,990</u>
	<u>\$ 166,624,745</u>	<u>\$ 46,683,704</u>	<u>\$ 117,787,396</u>	<u>\$ 14,407,352</u>	<u>\$ 91,947</u>	<u>\$ 86,634</u>	<u>\$ (157,561,543)</u>	<u>\$ 188,120,235</u>
LIABILITIES AND NET ASSETS (DEFICIT)								
Current liabilities								
Current portion of long-term debt	\$ -	\$ 11,882,486	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,882,486
Line of credit	3,500,000	-	-	-	-	-	-	3,500,000
Accounts payable	2,205,860	486,750	7,569	408,816	-	-	-	3,108,995
Accrued payroll and benefits	5,975,985	3,221,152	316,924	844,062	16,242	74,259	-	10,448,624
Accrued expenses and other current liabilities	1,111,794	2,724,334	136,263	1,376,633	-	-	-	5,349,024
Due to affiliates	<u>-</u>	<u>3,334,705</u>	<u>525,474</u>	<u>4,857,503</u>	<u>964,400</u>	<u>3,817,987</u>	<u>(13,500,069)</u>	<u>-</u>
Total current liabilities	12,793,639	21,649,427	986,230	7,487,014	980,642	3,892,246	(13,500,069)	34,289,129
Long-term debt	<u>9,716,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,716,000</u>
	<u>22,509,639</u>	<u>21,649,427</u>	<u>986,230</u>	<u>7,487,014</u>	<u>980,642</u>	<u>3,892,246</u>	<u>(13,500,069)</u>	<u>44,005,129</u>
Net assets (deficit)								
Unrestricted	117,122,721	3,961,184	110,986,864	6,815,348	(888,695)	(3,805,612)	(117,069,089)	117,122,721
Temporarily restricted	23,257,324	21,073,093	2,184,231	-	-	-	(23,257,324)	23,257,324
Permanently restricted	<u>3,735,061</u>	<u>-</u>	<u>3,630,071</u>	<u>104,990</u>	<u>-</u>	<u>-</u>	<u>(3,735,061)</u>	<u>3,735,061</u>
Total net assets (deficit)	<u>144,115,106</u>	<u>25,034,277</u>	<u>116,801,166</u>	<u>6,920,338</u>	<u>(888,695)</u>	<u>(3,805,612)</u>	<u>(144,061,474)</u>	<u>144,115,106</u>
	<u>\$ 166,624,745</u>	<u>\$ 46,683,704</u>	<u>\$ 117,787,396</u>	<u>\$ 14,407,352</u>	<u>\$ 91,947</u>	<u>\$ 86,634</u>	<u>\$ (157,561,543)</u>	<u>\$ 188,120,235</u>

See accompanying independent auditor's report.

TRUSTBRIDGE, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2017

	<u>TrustBridge</u>	<u>HPBC</u>	<u>HPBC Foundation</u>	<u>HBTS</u>	<u>FCHH</u>	<u>HPCS</u>	<u>Eliminations</u>	<u>Totals</u>
Unrestricted net assets								
Revenues and other support								
Net patient service revenues	\$ -	\$ 80,369,856	\$ -	\$ 54,939,104	\$ 202,255	\$ 69,805	\$ -	\$ 135,581,020
Grants from HPBC Foundation	1,348,459	2,780,940	-	1,527,856	-	-	(5,657,255)	-
Resale of donated merchandise	-	-	1,542,403	-	-	-	-	1,542,403
Contributions, memorials, and bequests	-	-	5,232,259	114,500	-	-	-	5,346,759
Unrealized gain on interest rate swap agreement	36,153	-	-	-	-	-	-	36,153
Charges to affiliates	47,794,817	-	-	-	-	-	(47,794,817)	-
Net assets released from restrictions	-	-	2,026,879	-	-	-	-	2,026,879
	<u>49,179,429</u>	<u>83,150,796</u>	<u>8,801,541</u>	<u>56,581,460</u>	<u>202,255</u>	<u>69,805</u>	<u>(53,452,072)</u>	<u>144,533,214</u>
Expenses								
Payroll and related	31,371,381	56,828,541	2,032,096	37,128,234	203,630	848,875	(23,071,850)	105,340,907
Patient related	167,500	12,716,794	-	6,012,817	62,881	583	(3,452,937)	15,507,638
Occupancy and equipment	12,462,309	13,478,045	551,900	5,400,933	-	-	(10,893,261)	20,999,926
Other operating	4,868,797	6,213,548	755,941	4,005,073	84,691	143,792	(10,376,769)	5,695,073
Grants	-	-	5,688,413	-	-	-	(5,657,255)	31,158
	<u>48,869,987</u>	<u>89,236,928</u>	<u>9,028,350</u>	<u>52,547,057</u>	<u>351,202</u>	<u>993,250</u>	<u>(53,452,072)</u>	<u>147,574,702</u>
Change in unrestricted net assets from operations	309,442	(6,086,132)	(226,809)	4,034,403	(148,947)	(923,445)	-	(3,041,488)
Nonoperating revenues and expenses								
Change in interest of affiliates	22,204,441	-	-	-	-	-	(22,204,441)	-
Investment income, net of fees	-	-	1,545,806	-	-	-	-	1,545,806
Net realized and unrealized gain on investments	-	-	12,234,745	-	-	-	-	12,234,745
Other non operating revenues	237,229	2,794	-	-	-	6,000	-	246,023
Interest and other fees	(539,870)	(233,974)	-	-	-	-	-	(773,844)
	<u>21,901,800</u>	<u>(231,180)</u>	<u>13,780,551</u>	<u>-</u>	<u>-</u>	<u>6,000</u>	<u>(22,204,441)</u>	<u>13,252,730</u>
Change in unrestricted net assets	22,211,242	(6,317,312)	13,553,742	4,034,403	(148,947)	(917,445)	(22,204,441)	10,211,242

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2017

	<u>TrustBridge</u>	<u>HPBC</u>	<u>HPBC Foundation</u>	<u>HBTS</u>	<u>FCHH</u>	<u>HPCS</u>	<u>Eliminations</u>	<u>Totals</u>
Temporarily restricted net assets								
Change in interest of affiliates	\$ 2,484,836	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,484,836)	\$ -
Grants and contributions	-	-	620,244	-	-	-	-	620,244
Investment income	-	-	46,985	-	-	-	-	46,985
Net realized and unrealized gain on investments	-	-	328,617	-	-	-	-	328,617
Change in interest in net assets of HFPBC	-	3,515,869	-	-	-	-	-	3,515,869
Net assets released from restrictions	-	-	(2,026,879)	-	-	-	-	(2,026,879)
Change in temporarily restricted net assets	2,484,836	3,515,869	(1,031,033)	-	-	-	(2,484,836)	2,484,836
Permanently restricted net assets								
Change in interest of affiliates	55,417	-	-	-	-	-	(55,417)	-
Change in fair value of assets held in trust	-	-	55,417	-	-	-	-	55,417
Change in permanently restricted net assets	55,417	-	55,417	-	-	-	(55,417)	55,417
Transfers (to) from affiliates	(12,000,000)	12,000,000	-	-	-	-	-	-
Change in net assets (deficit)	12,751,495	9,198,557	12,578,126	4,034,403	(148,947)	(917,445)	(24,744,694)	12,751,495
Net assets (deficit) at beginning of year	144,115,106	25,034,277	116,801,166	6,920,338	(888,695)	(3,805,612)	(144,061,474)	144,115,106
Net assets (deficit) at end of year	<u>\$ 156,866,601</u>	<u>\$ 34,232,834</u>	<u>\$ 129,379,292</u>	<u>\$ 10,954,741</u>	<u>\$ (1,037,642)</u>	<u>\$ (4,723,057)</u>	<u>\$ (168,806,168)</u>	<u>\$ 156,866,601</u>

See accompanying independent auditor's report.

TRUSTBRIDGE, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2016

	<u>TrustBridge</u>	<u>HPBC</u>	<u>HPBC Foundation</u>	<u>HBTS</u>	<u>FCHH</u>	<u>HPCS</u>	<u>Eliminations</u>	<u>Totals</u>
Unrestricted net assets								
Revenues and other support								
Net patient service revenues	\$ -	\$ 83,163,047	\$ -	\$ 52,083,003	\$ 241,966	\$ 155,992	\$ -	\$ 135,644,008
Grants from HPBC Foundation	952,697	2,224,617	-	514,474	-	-	(3,691,788)	-
Resale of donated merchandise	-	-	1,561,796	-	-	-	-	1,561,796
Contributions, memorials, and bequests	-	-	7,722,279	99,000	-	-	-	7,821,279
Charges to affiliates	46,573,330	-	-	-	-	-	(46,573,330)	-
Net assets released from restrictions	-	5,626	986,588	-	-	-	-	992,214
	<u>47,526,027</u>	<u>85,393,290</u>	<u>10,270,663</u>	<u>52,696,477</u>	<u>241,966</u>	<u>155,992</u>	<u>(50,265,118)</u>	<u>146,019,297</u>
Expenses								
Payroll and related	30,425,338	57,403,055	1,909,772	35,659,944	365,069	820,616	(22,922,367)	103,661,427
Patient related	161,760	12,158,552	-	5,786,753	25,363	6,714	(3,859,851)	14,279,291
Occupancy and equipment	13,125,721	13,273,285	558,067	5,509,616	-	-	(11,126,783)	21,339,906
Other operating	3,819,838	5,197,041	707,984	3,325,534	94,853	151,832	(8,664,329)	4,632,753
Grants	-	-	3,715,378	-	-	-	(3,691,788)	23,590
	<u>47,532,657</u>	<u>88,031,933</u>	<u>6,891,201</u>	<u>50,281,847</u>	<u>485,285</u>	<u>979,162</u>	<u>(50,265,118)</u>	<u>143,936,967</u>
Change in unrestricted net assets from operations	(6,630)	(2,638,643)	3,379,462	2,414,630	(243,319)	(823,170)	-	2,082,330
Nonoperating revenues and expenses								
Change in interest of affiliates	8,224,346	-	-	-	-	-	(8,224,346)	-
Investment income, net of fees	-	-	1,405,944	-	-	-	-	1,405,944
Net realized and unrealized gain (loss) on investments	-	-	4,624,064	(3,495)	-	-	-	4,620,569
Other non operating revenues (expenses)	177,273	7,119	(28,048)	283,793	-	-	-	440,137
Interest and other fees	(164,951)	(153,991)	-	-	-	-	-	(318,942)
	<u>8,236,668</u>	<u>(146,872)</u>	<u>6,001,960</u>	<u>280,298</u>	<u>-</u>	<u>-</u>	<u>(8,224,346)</u>	<u>6,147,708</u>
Change in unrestricted net assets	8,230,038	(2,785,515)	9,381,422	2,694,928	(243,319)	(823,170)	(8,224,346)	8,230,038

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2016

	<u>TrustBridge</u>	<u>HPBC</u>	<u>HPBC Foundation</u>	<u>HBTS</u>	<u>FCHH</u>	<u>HPCS</u>	<u>Eliminations</u>	<u>Totals</u>
Temporarily restricted net assets								
Change in interest of affiliates	\$ 1,323,120	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,323,120)	\$ -
Grants and contributions	-	-	291,976	-	-	-	-	291,976
Grants from HFPBC	-	-	1,800,000	-	-	-	-	1,800,000
Investment income	-	-	41,863	-	-	-	-	41,863
Net realized and unrealized gain on investments	-	-	137,821	-	-	-	-	137,821
Change in interest in net assets of HFPBC	-	43,674	-	-	-	-	-	43,674
Net assets released from restrictions	-	(5,626)	(986,588)	-	-	-	-	(992,214)
Change in temporarily restricted net assets	1,323,120	38,048	1,285,072	-	-	-	(1,323,120)	1,323,120
Permanently restricted net assets								
Change in interest of affiliates	3,566	-	-	-	-	-	(3,566)	-
Change in fair value of assets held in trust	-	-	3,566	-	-	-	-	3,566
Change in permanently restricted net assets	3,566	-	3,566	-	-	-	(3,566)	3,566
Transfers (to) from affiliates	-	-	(5,213,364)	5,213,364	-	-	-	-
Change in net assets (deficit)	9,556,724	(2,747,467)	5,456,696	7,908,292	(243,319)	(823,170)	(9,551,032)	9,556,724
Net assets (deficit) at beginning of year	<u>134,558,382</u>	<u>27,781,744</u>	<u>111,344,470</u>	<u>(987,954)</u>	<u>(645,376)</u>	<u>(2,982,442)</u>	<u>(134,510,442)</u>	<u>134,558,382</u>
Net assets (deficit) at end of year	<u>\$ 144,115,106</u>	<u>\$ 25,034,277</u>	<u>\$ 116,801,166</u>	<u>\$ 6,920,338</u>	<u>\$ (888,695)</u>	<u>\$ (3,805,612)</u>	<u>\$ (144,061,474)</u>	<u>\$ 144,115,106</u>

See accompanying independent auditor's report.

TRUSTBRIDGE, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF CASH FLOWS
Year ended December 31, 2017

	<u>TrustBridge</u>	<u>HPBC</u>	<u>HPBC Foundation</u>	<u>HBTS</u>	<u>FCHH</u>	<u>HPCS</u>	<u>Eliminations</u>	<u>Totals</u>
Cash flows from operating activities								
Change in net assets (deficit)	\$ 12,751,495	\$ 9,198,557	\$ 12,578,126	\$ 4,034,403	\$ (148,947)	\$ (917,445)	\$ (24,744,694)	\$ 12,751,495
Adjustments to reconcile change in net assets (deficit) to net cash from operating activities								
Depreciation and amortization	1,741,157	2,579,052	62,735	858,811	-	-	-	5,241,755
Loss on disposal of property and equipment	10,907	-	-	-	-	-	-	10,907
Net realized and unrealized gain on investments	-	-	(12,563,362)	-	-	-	-	(12,563,362)
Unrealized gain on interest rate swap	(36,153)	-	-	-	-	-	-	(36,153)
Provision for uncollectible accounts	-	2,385,905	-	1,513,713	6,779	7,839	-	3,914,236
Loss on refinance of debt	-	112,242	-	-	-	-	-	112,242
Change in interest of affiliates	(24,744,694)	-	-	-	-	-	24,744,694	-
Change in interest in net assets of HFPBC	-	(3,515,869)	-	-	-	-	-	(3,515,869)
Change in fair value of assets held in trust	-	-	(55,417)	-	-	-	-	(55,417)
Transfers to (from) affiliate	12,000,000	(12,000,000)	-	-	-	-	-	-
Change in assets and liabilities								
Patient accounts receivable	-	(1,746,927)	-	(2,393,519)	74,111	15,638	-	(4,050,697)
Bequest receivable	-	-	(187,128)	-	-	-	-	(187,128)
Grants receivable from HFPBC	-	-	1,200,000	-	-	-	-	1,200,000
Due to/from affiliates, net	(699,371)	2,943,405	317,883	(3,509,619)	63,523	884,179	-	-
Other current assets	(320,088)	194,668	(8,722)	5,523	-	-	-	(128,619)
Accounts payable	499,364	2,706,422	2,141	379,044	-	-	-	3,586,971
Accrued payroll and benefits	169,945	14,314	42,314	74,869	4,534	9,789	-	315,765
Accrued expenses and other current liabilities	319,331	(365,325)	31,401	(55,615)	-	-	-	(70,208)
Net cash from operating activities	1,691,893	2,506,444	1,419,971	907,610	-	-	-	6,525,918

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF CASH FLOWS
Year ended December 31, 2017

	<u>TrustBridge</u>	<u>HPBC</u>	<u>HPBC Foundation</u>	<u>HBTS</u>	<u>FCHH</u>	<u>HPCS</u>	<u>Eliminations</u>	<u>Totals</u>
Cash flows from investing activities								
Proceeds from sales of investments	\$ -	\$ -	\$ 38,170,686	\$ -	\$ -	\$ -	\$ -	\$ 38,170,686
Purchases of investments	-	-	(39,960,710)	-	-	-	-	(39,960,710)
Purchases of property and equipment	<u>(1,165,725)</u>	<u>(2,506,444)</u>	<u>(32,863)</u>	<u>(907,995)</u>	-	-	-	<u>(4,613,027)</u>
Net cash from investing activities	(1,165,725)	(2,506,444)	(1,822,887)	(907,995)	-	-	-	(6,403,051)
Cash flows from financing activities								
Principal payments on long-term debt	(25,156,249)	-	-	-	-	-	-	(25,156,249)
Borrowings on long-term debt	28,284,000	-	-	-	-	-	-	28,284,000
Borrowings on line of credit	90,005,086	-	-	-	-	-	-	90,005,086
Payments on line of credit	<u>(93,505,086)</u>	-	-	-	-	-	-	<u>(93,505,086)</u>
Net cash from financing activities	<u>(372,249)</u>	-	-	-	-	-	-	<u>(372,249)</u>
Net change in cash and cash equivalents	153,919	-	(402,916)	(385)	-	-	-	(249,382)
Cash and cash equivalents at beginning of year	<u>1,638,013</u>	<u>1,400</u>	<u>6,585,675</u>	<u>1,525</u>	-	-	-	<u>8,226,613</u>
Cash and cash equivalents at end of year	<u>\$ 1,791,932</u>	<u>\$ 1,400</u>	<u>\$ 6,182,759</u>	<u>\$ 1,140</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,977,231</u>
Supplemental disclosures of cash flow information								
Cash paid for interest	\$ 389,328	\$ 64,297	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 453,625
Noncash investing and financing activities								
Transfer of net assets to pay long-term debt	(12,000,000)	12,000,000	-	-	-	-	-	-

See accompanying independent auditor's report.

TRUSTBRIDGE, INC. AND AFFILIATES
SCHEDULE OF CONSOLIDATING STATEMENT OF CASH FLOWS
Year ended December 31, 2016

	TrustBridge	HPBC	HPBC Foundation	HBTS	FCHH	HPCS	Eliminations	Totals
Cash flows from operating activities								
Change in net assets (deficit)	\$ 9,556,724	\$ (2,747,467)	\$ 5,456,696	\$ 7,908,292	\$ (243,319)	\$ (823,170)	\$ (9,551,032)	\$ 9,556,724
Adjustments to reconcile the change in net assets to net cash provided by operating activities								
Depreciation and amortization	1,223,996	2,794,776	60,118	1,072,690	-	-	-	5,151,580
(Gain) loss on sale of property and equipment	-	-	28,048	(283,793)	-	-	-	(255,745)
Net realized and unrealized loss on investments	-	-	(4,761,885)	3,495	-	-	-	(4,758,390)
Provision for uncollectible accounts	-	2,437,053	-	2,394,262	204	8,794	-	4,840,313
Change in interest of affiliates	(9,551,032)	-	-	-	-	-	9,551,032	-
Change in interest in net assets of HFPBC	-	(43,674)	-	-	-	-	-	(43,674)
Change in fair value of assets held in trust	-	-	(3,566)	-	-	-	-	(3,566)
Transfers to (from) affiliates	-	-	5,213,364	(5,213,364)	-	-	-	-
Change in assets and liabilities								
Patient accounts receivable	-	(3,400,178)	-	(1,679,702)	35,161	805	-	(5,043,914)
Bequest receivable	-	-	64,253	-	-	-	-	64,253
Grants receivable from HFPBC	-	-	(1,200,000)	-	-	-	-	(1,200,000)
Due to/from affiliates, net	(2,691,319)	2,352,534	4,744,615	(5,412,626)	206,557	800,239	-	-
Other current assets	(536,064)	139,345	(4,949)	6,897	-	-	-	(394,771)
Accounts payable	375,401	172,850	(314)	214,347	-	-	-	762,284
Accrued payroll and benefits	(427,674)	177,447	66,354	48,191	1,397	13,332	-	(120,953)
Accrued expenses and other current liabilities	(33,720)	115,922	(24,104)	262,178	-	-	-	320,276
Net cash provided by operating activities	(2,083,688)	1,998,608	9,638,630	(679,133)	-	-	-	8,874,417
Cash flows from investing activities								
Proceeds from sales of investments	-	-	30,355,141	-	-	-	-	30,355,141
Purchases of investments	-	-	(40,948,611)	-	-	-	-	(40,948,611)
Purchases of property and equipment	(1,715,063)	(1,999,308)	(316,697)	(172,984)	-	-	-	(4,204,052)
Proceeds from sale of property and equipment	116,661	-	-	852,306	-	-	-	968,967
Net cash used in investing activities	(1,598,402)	(1,999,308)	(10,910,167)	679,322	-	-	-	(13,828,555)

(Continued)

TRUSTBRIDGE, INC. AND AFFILIATES
SCHEDULE OF CONSOLIDATING STATEMENT OF CASH FLOWS
Year ended December 31, 2016

	<u>TrustBridge</u>	<u>HPBC</u>	<u>HPBC Foundation</u>	<u>HBTS</u>	<u>FCHH</u>	<u>HPCS</u>	<u>Eliminations</u>	<u>Totals</u>
Cash flows from financing activities								
Borrowings on long-term debt	\$ 2,508,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,508,000
Borrowings on line of credit	110,000,000	-	-	-	-	-	-	110,000,000
Payments on line of credit	<u>(110,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(110,000,000)</u>
Net cash provided by financing activities	<u>2,508,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,508,000</u>
Net change in cash and cash equivalents	(1,174,090)	(700)	(1,271,537)	189	-	-	-	(2,446,138)
Cash and cash equivalents at beginning of year	<u>2,812,103</u>	<u>2,100</u>	<u>7,857,212</u>	<u>1,336</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,672,751</u>
Cash and cash equivalents at end of year	<u>\$ 1,638,013</u>	<u>\$ 1,400</u>	<u>\$ 6,585,675</u>	<u>\$ 1,525</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,226,613</u>
Supplemental disclosures of cash flow information								
Cash paid for interest	\$ 164,951	\$ 51,731	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 216,682
Noncash investing and financing activities								
Transfer of net assets to satisfy amounts due to (from) affiliate	-	-	5,213,364	(5,213,364)	-	-	-	-

See accompanying independent auditor's report.