BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Financial Statements and Combining Information

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Table of Contents

KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors' Report

The Board of Trustees
BayCare Health System, Inc. and Affiliates:

We have audited the accompanying combined financial statements of BayCare Health System, Inc. and Affiliates (the Organization), which comprise the combined balance sheets as of December 31, 2015 and 2014, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly in all material respects, the financial position of BayCare Health System, Inc. and Affiliates as of December 31, 2015 and 2014, and the changes in their net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

March 7, 2016
Certified Public Accountants

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Balance Sheets

December 31, 2015 and 2014

(In thousands)

Assets		**2015**	**2014**
Current assets:			
Cash and cash equivalents	$	98,585	138,062
Collateral received for securities lending transactions		195,426	297,893
Investments held on behalf of others		27,868	28,547
Assets limited as to use		2,440	2,315
Accounts receivable, less allowance for uncollectible accounts of approximately $300,948 and $272,324, respectively		403,010	371,143
Inventories		78,792	65,613
Prepaid and other current assets		116,389	50,330
Total current assets		922,510	953,903
Investments		2,986,167	2,746,726
Assets limited as to use		135,251	193,179
Property and equipment, net		1,967,402	1,904,376
Beneficial interest in net assets of foundations		143,729	150,090
Other assets		82,242	86,848
Total assets	$	6,237,301	6,035,122
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	207,951	206,535
Employee compensation and benefits		250,838	216,225
Estimated third-party settlements		91,095	114,718
Current portion of long-term debt		89,393	22,961
Long-term debt, subject to short-term put arrangements		195,965	208,465
Liabilities for investments held on behalf of others		27,868	28,547
Liabilities under securities lending transactions		195,426	297,893
Total current liabilities		1,058,536	1,095,344
Long-term debt, less current portion		734,724	746,077
Other liabilities		373,409	359,806
Total liabilities		2,166,669	2,201,227
Net assets:			
Unrestricted		3,961,644	3,725,112
Temporarily restricted		76,579	79,511
Permanently restricted		32,409	29,272
Total net assets		4,070,632	3,833,895
Total liabilities and net assets	$	6,237,301	6,035,122

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2015 and 2014

(In thousands)

		2015	2014
Operating revenue:			
Patient service revenue (net of contractual adjustments and discounts)	$	3,475,537	3,092,623
Provision for bad debts		(267,239)	(202,554)
Net patient service revenue less provision for bad debts		3,208,298	2,890,069
Other revenue		123,951	107,476
Total operating revenue		3,332,249	2,997,545
Operating expenses:			
Salaries and benefits		1,686,937	1,504,416
Supplies		592,410	525,060
Other expenses		533,717	485,507
Depreciation and amortization		197,003	190,156
Interest		30,452	26,493
Loss on sale of businesses		7,046	—
Total operating expenses		3,047,565	2,731,632
Operating income		284,684	265,913
Nonoperating (losses) gains, net:			
Investment (loss) income, net		(44,982)	129,491
Loss on interest rate swaps		(2,020)	(44,502)
Loss on extinguishment of debt		(36)	(23)
Other nonoperating gains, net		1,413	6,724
Total nonoperating (losses) gains, net		(45,625)	91,690
Excess of revenue and gains over expenses	$	239,059	357,603

(Continued)

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2015 and 2014

(In thousands)

		2015	2014
Unrestricted net assets:			
Excess of revenue and gains over expenses	$	239,059	357,603
Net unrealized (losses) gains on other-than-trading securities		(21)	3
Contributions for capital equipment		2,437	3,233
Amortization of accumulated hedge accounting losses		458	458
Pension-related changes other than net periodic pension cost		(3,448)	(28,333)
Other		(1,953)	(1,979)
Increase in unrestricted net assets		236,532	330,985
Temporarily restricted net assets:			
Contributions		2,320	854
Net unrealized losses on other-than-trading securities		(162)	(97)
Change in beneficial interest in net assets of foundations		(4,820)	(1,814)
Net assets released from restrictions for operations		(273)	(426)
Other		3	1
Decrease in temporarily restricted net assets		(2,932)	(1,482)
Permanently restricted net assets:			
Change in beneficial interest of net assets of foundations		3,137	484
Increase in permanently restricted net assets		3,137	484
Increase in net assets		236,737	329,987
Net assets at beginning of year		3,833,895	3,503,908
Net assets at end of year	$	4,070,632	3,833,895

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Cash Flows

Years ended December 31, 2015 and 2014

(In thousands)

		2015	2014
Cash flows from operating activities:			
Increase in net assets	$	236,737	329,987
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains:			
Provision for bad debts		267,239	202,554
Depreciation and amortization		197,003	190,156
Amortization of bond premiums, net		(1,878)	(2,011)
Amortization of bond issue costs		686	770
Loss on extinguishment of debt		36	23
Loss on sale of property and equipment		2,342	2,214
Loss on sale of businesses		7,046	—
Gain on capital lease termination		—	(145)
Change in net unrealized losses on investments		164,234	14,368
Change in realized gains on investments		(61,830)	(89,642)
Loss on interest rate swaps		1,562	44,043
Change in beneficial interest in net assets of foundations		6,361	618
Restricted contributions		(2,158)	(854)
Pension-related changes other than net periodic pension cost		3,448	28,333
Changes in:			
Accounts receivable, net		(299,106)	(251,049)
Inventories		(13,179)	(5,837)
Prepaid expenses and other current assets		(66,059)	(3,393)
Accounts payable and accrued expenses		(5,810)	28,631
Employee compensation and benefits		34,613	31,859
Estimated third-party settlements		(23,623)	15,255
Other liabilities		8,534	23,667
Net cash provided by operating activities and nonoperating gains		456,198	559,547
Cash flows from investing activities:			
Purchases of property and equipment		(253,967)	(286,597)
Proceeds from sales of property and equipment		134	3,813
Payment for acquired businesses		—	(641)
Proceeds from sale of businesses		2,425	—
Cash received from business acquisition		—	128
Purchases of assets limited as to use and investments		(1,417,222)	(2,511,711)
Proceeds from sales of assets limited as to use and investments		1,133,180	2,333,474
Decrease in other assets		(5,911)	(4,631)
Net cash used in investing activities		(541,361)	(466,165)
Cash flow from financing activities:			
Restricted contributions		2,158	854
Payment of debt issue costs		(338)	(1,474)
Proceeds from the issuance of debt		426,975	140,130
Repayments of long-term debt		(383,109)	(145,535)
Net cash provided by (used in) financing activities		45,686	(6,025)
(Decrease) increase in cash and cash equivalents		(39,477)	87,357
Cash and cash equivalents at beginning of year		138,062	50,705
Cash and cash equivalents at end of year	$	98,585	138,062
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	31,576	33,161
Purchase of equipment under capital lease obligations		207	164
Disposal of equipment under capital lease obligations		—	463
Acquisition of property and equipment through accrued expenses		7,226	3,583

See accompanying notes to combined financial statements.

(1) Organization

BayCare Health System, Inc. (BayCare), a not-for-profit corporation exempt from state and federal income taxes, was formed effective July 1, 1997, pursuant to a joint operating agreement (JOA) among Trinity Health BayCare Participants (Trinity Health), Morton Plant Mease Health Care, Inc. (MPMHC), South Florida Baptist Hospital, Inc. (SFB) (collectively, the Members), and BayCare.

The Members executed the JOA to develop a regional healthcare network providing for a collaborative effort in the areas of community healthcare delivery, enhanced access to healthcare services for the poor, and the sharing of other common goals. The JOA is effective for a period of 50 years.

The JOA provides for the Members to maintain ownership of their assets while agreeing to operate as one organization with common governance and management. All entities managed by BayCare are included in these combined financial statements. Terms of the JOA provide that residual free cash flow, as defined, and funding for capital expenditures are allocated among the Members based on predetermined percentages. Such allocations are eliminated in combination.

The Members' entities and BayCare operate a number of acute care hospital facilities in the Tampa Bay, Florida area, as well as a rehabilitation facility, a life care facility, home health agency, ambulatory care sites, and physician practices. The accompanying combined financial statements include the Members and various entities controlled by the Members, a wholly owned insurance company, and other related entities, hereafter referred to as the Organization.

All significant intercompany transactions and balances among these entities and other wholly owned subsidiaries have been eliminated from the combined financial statements.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

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

(b) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with a maturity of three months or less when purchased, except those classified as assets limited as to use and as investments that are held in the Organization's investment management program (Investment Pool).

(c) Securities Lending Transactions

The Organization participates in securities lending transactions whereby a portion of investments and assets limited as to use are loaned to various brokers in return for cash and securities from the brokers as collateral for the securities loaned. Pursuant to these arrangements, the collateral received must always equal at least 102% of the market value of the securities loaned, which is determined at the end of each business day. Collateral received for securities lending transactions and the related liabilities are considered Level 1 investments (note 2(p) for discussion of Level 1, Level 2, and Level 3 valuation methods). The collateral held for the securities loaned and related payable of equal value at December 31, 2015 and 2014 have been reflected in the accompanying combined balance sheets.

The securities on loan are included in the following classifications (in thousands):

		December 31	
		2015	**2014**
Equity securities:			
U.S.	$	45,505	56,941
Global		36,748	19,735
U.S. Fixed income securities		106,572	213,786
Total	$	188,825	290,462

The Organization recorded net investment income of approximately $503,000 and $557,000 on these transactions for the years ended December 31, 2015 and 2014, respectively. Net investment income represents the amount received as investment income on the securities received as collateral, offset by the fees paid to the various brokers, and the investment earnings on the securities loaned to the brokers.

(d) Investments and Investment Income

The Organization has designated substantially all of its investments as trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices. Investments in limited partnerships are reported using the estimated net asset value based on information provided by the respective partnership. Investments in closed-end limited partnerships where capital is called over time, redemptions are limited, and the Organization does not have significant influence over the partnerships, are recorded using the cost method of accounting. The Organization has committed $200,000,000 and $150,000,000 in capital to these limited partnerships, HarbourVest, Metropolitan Real Estate, and Park Street, as of December 31, 2015 and 2014, with $75,720,000 and $43,645,000 unfunded as of each year end, respectively.

Investment income (including realized gains and losses, unrealized gains and losses on trading securities, interest, and dividends) is included in excess of revenue and gains over expenses unless such earnings are subject to donor-imposed restrictions. Investment income restricted by donor stipulations is reported as an increase in temporarily restricted net assets. Unrealized gains and losses on investments classified as other-than-trading are reported as a change in unrestricted net assets.

The Organization holds certain investments on behalf of others in the Investment Pool. Certain affiliated, uncombined not-for-profit foundations are participants in the Investment Pool. The combined financial statements present investments held on behalf of others, at fair value, as a current asset with a corresponding current liability representing the obligation to return the value of the investments to the foundations in the Investment Pool. The investments held, and related liability of equal value at December 31, 2015 and 2014, have been reflected in the accompanying combined balance sheets.

(e) Assets Limited as to Use

Assets limited as to use include investments held by BCHS Insurance, Ltd. (Captive), a wholly owned insurance captive, as well as assets held by the life care facility as required under Florida Statutes, contractual obligation, or donor restrictions. Amounts required to meet current liabilities of the Organization have been classified as current assets in the combined balance sheets.

Assets limited as to use are set aside and designated as follows (in thousands):

		December 31	
		2015	**2014**
Captive	$	127,737	185,424
Other		9,954	10,070
		137,691	195,494
Less amount included in current assets		2,440	2,315
	$	135,251	193,179

(f) Inventories

Inventories consist primarily of medical and surgical supplies and pharmaceuticals and are valued at lower of cost (first-in, first-out method) or market.

(g) Property and Equipment

Property and equipment are recorded at historical cost at the date of acquisition or fair value at the date of donation.

Depreciation and amortization expense is calculated using the straight-line method over the estimated useful lives of the property and equipment or the lease term, whichever is less. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized. Interest cost on borrowed funds during the construction period is capitalized as a component of the cost of the assets.

Property and equipment consist of the following (in thousands):

		December 31	
		2015	2014
Land	$	139,665	139,485
Land improvements		59,528	56,166
Buildings and improvements		2,286,328	2,008,867
Equipment		1,489,638	1,343,542
		3,975,159	3,548,060
Less accumulated depreciation and amortization		2,146,183	1,970,061
		1,828,976	1,577,999
Construction in progress		138,426	326,377
Property and equipment, net	$	1,967,402	1,904,376

The Organization recorded approximately $195,256,000 and $184,675,000 for depreciation expense for the years ended December 31, 2015 and 2014, respectively. Interest costs of approximately $1,334,000 and $6,708,000 were capitalized during the years ended December 31, 2015 and 2014, respectively. Included in buildings and equipment are assets leased under capital leases of approximately $7,684,000 and $8,956,000, net of accumulated amortization of approximately $9,526,000 and $8,654,000, at December 31, 2015 and 2014, respectively. Approximately $2,552,000 and $39,473,000 of fully depreciated assets were removed from the combined balance sheets in 2015 and 2014, respectively, as these assets were no longer utilized by the Organization.

The Organization had construction and information technology commitments of approximately $162,606,000 relating to various projects as of December 31, 2015. The Organization expects to fund a portion of the commitments from bond funds, with the remaining to be funded through operations and unrestricted assets.

The Organization reviews whether events and circumstances have occurred to indicate if the remaining useful life of long-lived assets may warrant revision or that the remaining balance of an asset may not be recoverable. If such an event occurs, an assessment of possible impairment is based on whether the carrying amount of the assets exceeds the expected total undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the undiscounted cash flows are less than the net book value of the assets, an impairment loss based on the fair value of the assets is recognized. No impairments were recorded in 2015 and 2014.

The determination of fair value of long-lived assets involves certain judgments and estimates. These fair value estimates can change by material amounts in subsequent periods due to future financial conditions, changes in healthcare trends, and/or regulations and the nature of the ultimate disposition of such assets. In some cases, the fair value estimates assume the highest and best possible future use of assets to a marketplace participant. Accordingly, the ultimate cash realized from the assets could be

(Continued)

significantly different than their impaired value should the assets be sold or should the use be discontinued or changed.

(h) Beneficial Interest in Net Assets of Foundations

Beneficial interest in net assets of foundations primarily represents contributions received by affiliated fund-raising foundations on behalf of the Organization, net of expenses incurred by the foundations. The beneficial interest in net assets of foundations is recorded at fair value.

(i) Self-Insurance

The Organization is self-insured for professional liability, automobile insurance, workers' compensation, and employee health benefits. The provisions for estimated self-insured claims include estimates of the ultimate costs for both reported claims and claims incurred, but not reported, based on an evaluation of pending claims and past experience.

(j) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are maintained primarily for the purposes of patient care related services, capital improvements, and research and education. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity, the income from which is expendable to support the Organization's operations.

(k) Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. The Organization provides discounts to uninsured patients who do not qualify for Medicaid, charity care, or county funding.

Revenue from the Medicare and Medicaid programs accounted for approximately 34% and 9% and 35% and 8%, respectively, of the Organization's net patient service revenue for the years ended December 31, 2015 and 2014, respectively. The composition of patient service revenue (net of contractual adjustments and discounts) but before the provision for bad debts recognized from these major payor sources is as follows (in thousands):

	December 31 2015	December 31 2014
Third-party payors	$ 3,360,046	2,957,091
Self-pay	115,491	135,532
Total all payors	$ 3,475,537	3,092,623

The Organization analyzes its past collection history and identifies trends by each of its major payor sources of patient service revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about the major payor sources of patient service revenue in evaluating the adequacy of the allowance for doubtful accounts.

The Organization analyzes contractual amounts due from patients who have third-party coverage and provides an allowance for doubtful accounts and a provision for bad debts. For self-pay patients, which includes those patients without insurance coverage and patients with deductibles and copayment balances for which third-party coverage exists for a portion of the bill, the Organization records a significant provision for bad debts for patients that are unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted. The Organization follows established guidelines for placing certain past-due patient balances with a collection agency.

The Organization's allowance for uncollectible accounts for self-pay patients was 77% and 75% of self-pay accounts receivable as of December 31, 2015 and 2014, respectively. The Organization has not experienced significant changes in write-off trends and has not changed its uninsured discount or charity care policies for the years ended December 31, 2015 and 2014.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term. As a result, provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined or as years are no longer subject to audits, reviews, and investigations. Net patient service revenue increased approximately $15,219,000 and $14,267,000 during the years ended December 31, 2015 and 2014, respectively, due to final settlements on open cost report filings, specific settlement of certain appeal issues, and changes in recorded estimates for retroactive adjustments.

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net patient accounts receivable included approximately $130,558,000 or 32% and $104,336,000 or 28% due from the Medicare program and approximately $43,439,000 or 11% and $31,466,000 or 8% due from the Medicaid program as of December 31, 2015 and 2014, respectively. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services.

(l) Community Commitment

The Organization exists to meet the healthcare needs of the community. Patients who are uninsured or underinsured and cannot pay for hospital services are eligible for either traditional or hardship charity consideration.

The Agency for Health Care Administration (AHCA) defines traditional charity care eligibility at 200% of the federal poverty guidelines, unless the amount due from the patient exceeds 25% of annual family income limited to four times the poverty level. In an effort to meet its mission, the Organization affords its patients a hardship charity, which is defined as 250% of the federal poverty guidelines. Accordingly, services are being provided to the community at no charge or for which costs exceed the payments received. Because payment is not pursued from patients meeting these guidelines, such amounts are not reported as net patient service revenue.

Payments received from Medicaid and other means-tested (based on patients' income level) programs are significantly less than established patient charges and are less than management's estimate of the costs of providing those services. These payments reduce the community commitment costs. An assessment of 1.0% to 1.5% of certain operating revenue earned and recorded is paid by several of the Organization's Hospitals to help fund the Florida Medicaid and indigent care program. The assessment has been included in the Medicaid and other means-tested program amounts below. Reimbursement received under the uncompensated and indigent care programs is included as subsidized costs.

Unbilled community services represent management's estimate of the cost of providing various programs to the community at no or little charge. These programs include health screenings, educational programs, sponsorships, and research.

The tables below summarize the Organization's community commitment as measured by unreimbursed costs (estimated by the Organization's cost accounting system) (in thousands):

		December 31, 2015			
		Charity care	**Medicaid and other means-tested programs**	**Unbilled community services**	**Total**
Community commitment	$	98,879	158,334	16,736	273,949
Subsidized costs		(2,178)	(4,572)	(940)	(7,690)
Net community commitment	$	96,701	153,762	15,796	266,259

		December 31, 2014			
		Charity care	**Medicaid and other means-tested programs**	**Unbilled community services**	**Total**
Community commitment	$	119,429	143,150	10,996	273,575
Subsidized costs		(2,121)	(4,122)	(889)	(7,132)
Net community commitment	$	117,308	139,028	10,107	266,443

(m) Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that adopt and use electronic health records (EHR) in a meaningful way. Meaningful use is demonstrated by meeting established criteria that focus on capturing and using electronic health information to improve healthcare quality, efficiency, and patient safety.

The Organization records incentive payments under the grant accounting model. Revenue is recorded at the end of the EHR reporting period when it is reasonably assured that it has met the meaningful use requirements. The Organization recognized approximately $11,796,000 and $20,021,000 of incentive payments in other revenue for the years ended December 31, 2015 and 2014, respectively. Incentive payment revenue is subject to change as the result of audits of compliance with meaningful use criteria and Medicare cost reports, with changes recorded in the period they occur.

(n) Excess of Revenue and Gains over Expenses and Changes in Unrestricted Net Assets

Activities deemed by the Organization to be a provision of healthcare services are reported as operating revenue and expenses. Other activities that are peripheral to providing healthcare services are reported as nonoperating gains and losses. Consistent with industry practice, other changes in unrestricted net assets are excluded from excess of revenue and gains over expenses.

(o) Income Taxes

The majority of the affiliates within the Organization are not-for-profit organizations described in Section 501(c)(3) of the Internal Revenue Code, and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code, and are also exempt from state income taxes. Management believes that the unrelated business income generated by the Organization and its exempt affiliates is not material to the combined financial statements.

(p) Fair Value Measurements

Fair value guidance defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability under current market conditions, in the principal or most advantageous market to the asset or liability, in an orderly transaction between market participants on the measurement date. It requires assets and liabilities to be grouped into three categories based on certain criteria as noted below:

- Level 1: Fair value is determined by using quoted prices for identical assets or liabilities in active markets.

  The Organization’s Level 1 assets and liabilities include cash, trading and other-than-trading investments in U.S. and international equities, and mutual funds and are valued at quoted market prices.

- Level 2: Fair value is determined by using quoted prices for identical assets or liabilities in inactive markets, quoted prices for similar assets or liabilities in active markets, observable inputs other than quoted prices, and market corroborated inputs.

The Organization's Level 2 assets include U.S. and international equities, U.S. Treasuries, treasury inflation-protected securities, other government securities, corporate debt securities, global securities, derivatives, equity swaps, and asset-backed securities with fair values modeled by external pricing vendors. Level 2 liabilities include the Organization's interest rate swaps valued using widely accepted models that incorporate readily observable inputs in active markets (note 5).

- Level 3: Fair value is determined by using inputs based on various assumptions that are not directly observable.

  The Organization's Level 3 assets include international equities, fixed income investments, and beneficial interest in net assets of foundations.

(q) Adoption of New Accounting Standards and Reclassifications

During 2015, the Organization early adopted FASB ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs*. Accordingly, the Organization has revised the classification of debt issuance costs from other assets to long-term debt in the Combined Balance Sheets in the amount of $6,162,000 and $6,547,000 for 2015 and 2014, respectively. Prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications do not materially affect the previously reported combined balance sheets and have no effect on the previously reported combined statements of operations and changes in net assets and the combined statements of cash flows.

During 2015, the Organization also early adopted ASU 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities that Calculate Net Asset Value (NAV) per Share*. The fair value hierarchy tables presented in note 3 and note 8 have been updated to remove these investments from the leveling, and added as a reconciling item to tie to investments on the combined balance sheets. Prior year amounts have been reclassified for consistency with the current year presentation.

(3) Assets Limited as to Use, Investments, and Investments Held on Behalf of Others

The table below summarizes the fair values of assets limited as to use, investments, and investments held on behalf of others as of December 31, 2015 (in thousands). See note 2(p) for a discussion of valuation methodologies.

	December 31, 2015	Fair value measurements at reporting date Level 1	Level 2	Level 3
Asset class:				
Cash	$ 5,158	5,158	—	—
Equity securities:				
U.S.	439,467	437,992	1,475	—
International	116,120	116,076	—	44
Fixed income securities:				
Core holdings	706,414	13,470	691,580	1,364
Treasury Inflation (TIPS)	11,640	—	11,640	—
Other types of investments:				
Hedge funds	108	—	108	—
	1,278,907	572,696	704,803	1,408
Accrued income	8,318			
Recorded at net asset value	1,779,471			
Recorded at cost basis	85,030			
	3,151,726			
Less amount included in current assets	30,308			
	$ 3,121,418			

The table below summarizes the changes in Level 3 assets for the year ended December 31, 2015 (in thousands):

	Level 3 Fixed income securities	Other	Total
Beginning balance	$ 1,467	24	1,491
Total (losses) gains (realized/unrealized) included in excess of revenues and gains over expenses	(45)	44	(1)

	Level 3		
	Fixed income securities	Other	Total
Purchases	$ 9	—	9
Sales	(9)	—	(9)
Settlements	(58)	(24)	(82)
Transfers into Level 3	—	—	—
Ending balance	$ 1,364	44	1,408

During 2015, there were no transfers into or out of levels 1, 2, or 3. Transfers between Level 1 and Level 2 during the year are considered insignificant to the financial statements as a whole.

The table below summarizes the fair values of assets limited as to use, investments, and investments held on behalf of others as of December 31, 2014 (in thousands). See note 2(p) for a discussion of valuation methodologies.

	December 31, 2014	Fair value measurements at reporting date		
		Level 1	Level 2	Level 3
Asset class:				
Cash	$ 4,890	4,890	—	—
Equity securities:				
U.S.	432,480	432,480	—	—
International	113,530	113,506	—	24
Fixed income securities:				
Core holdings	534,309	13,321	519,521	1,467
Treasury Inflation (TIPS)	19,346	—	19,346	—
Other types of investments:				
Hedge funds	82	—	82	—
	1,104,637	564,197	538,949	1,491
Accrued income	7,178			
Recorded at net asset value	1,779,274			
Recorded at cost basis	79,678			
	2,970,767			
Less amount included in current assets	30,862			
	$ 2,939,905			

The table below summarizes the changes in Level 3 assets for the year ended December 31, 2014 (in thousands):

		Level 3		
		Fixed income securities	Other	Total
Beginning balance	$	14,480	24	14,504
Total (losses) gains (realized/unrealized) included in excess of revenues and gains over expenses		(192)	24	(168)
Purchases		1,980	—	1,980
Sales		(6,151)	—	(6,151)
Settlements		(8,680)	(24)	(8,704)
Transfers into Level 3		30	—	30
Ending balance	$	1,467	24	1,491

During 2014, approximately $25,000 of securities held within the actively managed TIPS account and $5,000 of securities within the actively managed core fixed income account were transferred from Level 2 to Level 3 during the year due to the industry pricing vendor no longer tracking public pricing. Transfers between Level 1 and Level 2 during the year are considered insignificant to the financial statements as a whole.

The following investments have been estimated using the net asset value per share of the investments as of December 31, 2015 and 2014 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2015 and 2014.

		December 31		Redemption	Redemption
		2015	2014	frequency	notice period
Asset category:					
U.S. equity index funds (a)	$	323,946	310,920	Daily	None
International small cap equity partnership (b)		125,024	106,247	Monthly	15 days
International emerging markets equity partnership (c)		113,629	108,103	Monthly	10 days
International equity commingled funds (d)		14,299	21,763	Daily	None
International equity partnership (e)		119,715	105,957	Monthly	15 days
Fixed income high yield bond partnership (f)		—	138,432	Monthly	10 days
Fixed income bond index fund (g)		460,020	417,980	Daily	None

	December 31 2015	December 31 2014	Redemption frequency	Redemption notice period
TIPS commingled fund (h)	$ 124,622	105,797	Daily	None
Hedge fund of funds (i)	193,479	177,580	Semiannually	95 days
Real asset partnership (j)	18,565	18,922	Monthly	30 days
Global fixed income partnership (k)	164,336	145,901	Monthly	15 days
Private real estate investment trust (l)	77,482	60,767	Quarterly	90 days
Master limited partnership (MLP) (m)	44,354	60,905	Monthly	30 days
	$ 1,779,471	1,779,274		

(a) The primary objective of the U.S. equity index funds is to match the risk and return characteristics of the S&P 500 Index. Funds that participate in the securities lending program have a twice per month redemption restriction, and a total redemption would require the Organization to fund its portion of any collateral shortfall.

(b) The international small cap equity partnership's investment objective is to outperform the MSCI EAFE Small Cap Market Index by investing in a portfolio of non-U.S. small cap equities. Full redemptions from these funds may be paid out over the course of time to prevent large withdrawals from having adverse impacts on the partnership.

(c) The investment objective of the international emerging markets equity partnership is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S. emerging market equities. Full redemptions from these funds may be paid out over the course of time to prevent large withdrawals from having adverse impacts on the partnership.

(d) The primary objective of the international equity commingled funds is to provide a rate of return prudently achievable from investments in non-U.S. common stocks and other equity-related investments in common stocks and other equity-related markets.

(e) The primary objective of the international equity partnership is to achieve long-term total return by investing in value equity securities of non-U.S. issuers, including emerging markets.

(f) The fixed income high yield bond partnership's primary investment objective is to achieve a high total return as compared to both the relevant high yield bond indices and the investment grade bond market by investing in high yield fixed income securities and/or debt of issuers who are organized or have a substantial portion of their assets or business located in the United States and Canada. As a secondary objective, the fund seeks to provide high current income consistent with moderate risk. Minimum redemptions from this fund are $100,000. In the case of a redemption of 90% or more of the net asset value of a partner's units as determined by the general partner, the partnership will distribute 90% of the estimated net asset value within two business days following the valuation date on which such withdrawal was made and the balance on or before 10 business days following such withdrawal.

(g) The primary objective of the fixed income bond index fund is to hold a portfolio representative of the overall U.S. bond and debt market, as characterized by the Barclays Aggregate Bond Index. Funds that participate in the securities lending program have a twice per month redemption restriction, and a total redemption would require the Organization to fund its portion of any collateral shortfall.

(h) The primary investment objective of the TIPS commingled fund is to match the risk and return characteristics of the Barclays Capital TIPS Index. This fund may participate in securities lending.

(i) The hedge fund of funds' objective is to develop and actively maintain an investment portfolio of long-term returns, with low volatility and downside protection qualities.

(j) The real asset partnership seeks to generate a total return in the long-term through investments in commodity-related instruments globally.

(k) The investment objective of the global fixed income partnership is to outperform the Barclays Capital Multiverse Index by including exposure to the emerging market debt plus the ability to invest in other markets.

(l) The private real estate investment trust's primary objective is to invest in established core real estate with a diversified portfolio of high quality buildings in the most liquid markets in the United States.

(m) The master limited partnership's investment objective is to seek absolute total return by investing directly or via long only equity swaps without leverage in income-producing publicly traded MLPs, with a particular focus on energy sector MLPs.

Investment income and gains and losses on assets limited as to use and investments comprise the following (in thousands):

		Year ended December 31	
		2015	**2014**
Investment (loss) income:			
Interest and dividends	$	57,239	53,454
Realized gains, net		61,830	90,598
Change in losses on trading investments		(164,051)	(14,561)
		(44,982)	129,491
Other changes in net assets:			
Changes in net unrealized (losses) gains on other-than-trading securities		(183)	3
		(183)	3
Total investment return	$	(45,165)	129,494

Investment income is recorded net of investment expense, which was approximately $7,377,000 and $7,206,000 during the years ended December 31, 2015 and 2014, respectively.

(4) Debt and Capital Leases

BayCare has $125,000,000 available under a line of credit with a bank. At December 31, 2015, $66,300,000 of the available line of credit had been drawn. Interest on the line of credit is based on the LIBOR daily floating rate plus a spread, which was approximately 0.80% as of December 31, 2015, and is payable monthly.

The Organization has a BayCare Obligated Group, which consists of certain members of the Organization (collectively, the Obligated Entities). The BayCare Obligated Group includes BayCare; St. Joseph's Health Care Center, Inc.; St. Joseph's Hospital, Inc.; St. Anthony's Hospital, Inc.; MPMHC; Morton Plant Hospital Association, Inc.; Trustees of Mease Hospital, Inc.; SFB; and Winter Haven Hospital, Inc. All of the outstanding bonds of the Obligated Entities are subject to the Master Trust Indenture and constitute BayCare Obligated Group indebtedness. The covenants in connection with the long-term debt agreements described below provide for the maintenance of certain levels of debt coverage and working capital, certain restrictions on additional indebtedness, and certain types and amounts of insurance protection.

The Organization is obligated under long-term debt as follows (in thousands):

	December 31	
	2015	2014
Polk County Industrial Development Authority Health System Revenue Bonds, Series 2014A, interest rate determined on a weekly basis (approximately 0.21% at December 31, 2015) payable through 2044 (net of unamortized debt issuance costs)	$ 98,540	98,489
City of Tampa, Florida, Health System Revenue Bonds, Series 2012A, at rates from 3.25% to 5.00%, payable through 2033 (net of unamortized premium and debt issuance costs)	196,569	197,086
City of Tampa, Florida, Health System Revenue Bonds, Series 2012B, interest rate determined on a weekly basis (approximately 0.21% at December 31, 2015) payable through 2033 (net of unamortized debt issuance costs)	76,594	76,560
City of Tampa, Florida, Health System Revenue Bonds, Series 2012 C, D, and E, interest rate determined on a monthly basis (approximately 0.91% at December 31, 2015) payable through 2034 (net of unamortized debt issuance costs)	176,975	176,926
City of Tampa, Florida, Health System Revenue Bonds, Series 2010, at rates from 3.25% to 5.00%, payable through 2023 (net of unamortized premium and debt issuance costs)	159,605	176,443

		December 31 2015	December 31 2014
Pinellas County Health Facilities Authority Revenue Bonds, Series 2009A, interest rate determined on a weekly basis (approximately 0.20% at December 31, 2015) payable through 2038 (net of unamortized debt issuance costs)	$	199,673	199,795
Pinellas County Health Facilities Authority Revenue Bonds, Series 2003A, at rates from 0.30% to 5.00%, payable through 2033 (net of unamortized premium and debt issuance costs)		35,429	39,219
Other		76,697	12,985
		1,020,082	977,503
Less current portion of long-term debt		(89,393)	(22,961)
Less long-term debt subject to short-term put arrangements		(195,965)	(208,465)
Long-term debt, less current portion and debt subject to short-term put arrangements	$	734,724	746,077

Aggregate scheduled maturities of long-term debt and capital lease obligations as of December 31, 2015 follow (in thousands):

2016	$	89,393
2017		23,944
2018		24,181
2019		24,874
2020		26,076
Thereafter		824,765
		1,013,233
Unamortized premium, net		6,849
	$	1,020,082

In May 2014, the Organization issued $100,000,000 of Polk County Industrial Development Authority Health System Revenue Bonds (the Series 2014A Bonds). The Series 2014A Bonds were used to refund the taxable bridge loan that was used to refund Winter Haven's outstanding bonds in connection with the August 30, 2013 acquisition, as well as to reimburse the costs of construction of a new satellite hospital of the Organization. The Series 2014A Bonds were issued as window variable rate demand bonds (VRDB). These bonds are subject to long-term amortization periods and may be put to the Organization at the option of the bondholders in connection with certain remarketing arrangements. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after December 31, 2015, the principal amount of such bonds has been classified as a current obligation in the accompanying combined financial statements.

The 2012B Bonds were issued as window variable rate demand bonds. These bonds are subject to long-term amortization and may be put to the Organization at the option of the bondholders in connection with certain remarketing arrangements. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after December 31, 2015, the principal amount of such bonds has been classified as a current obligation in the accompanying combined financial statements.

The principal and interest payments on the Series 2009A Bonds are secured by credit facilities with "banks," which expire in 2020 and 2022, unless extended by agreement between the banks and the Organization. Amounts drawn on the 2009A1 credit facility agreement are payable by the Organization in eight equal quarterly installments commencing on the three hundred sixty-seventh (367th) day following the date on which amounts are drawn. Amounts drawn on the 2009A2 credit facility agreement are payable by the Organization in 12 equal quarterly installments commencing on the first day of the fourth month following the date on which amounts are drawn. These amounts have been classified as a current obligation in the accompanying combined financial statements. The 2009A-3 bonds had a mode conversion in December 2015 from a weekly VRDB to a direct placement that expires in 2025.

The table below summarizes the carrying amount and fair value of the Organization's debt as of December 31, 2015 and 2014 (in thousands):

	2015		2014	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Debt	$ 1,020,082	1,047,779	977,503	1,011,372

Fair values of the Organization's debt are based upon the quoted market prices for the same or similar issues or on the current rates offered to the Organization for debt and capital lease obligations of the same remaining maturities.

Debt issue costs, net of accumulated amortization, are being amortized utilizing methods that approximate the effective interest method over the life of the debt. Amortization of debt issuance costs is included in interest expense. Unamortized debt issue costs are included with the related debt in the combined balance sheets.

Bond discounts and premiums are being amortized using the effective interest method over the life of the related debt. Amortization of bond discounts and premiums is included in interest expense. Unamortized bond premiums are included with the related debt in the combined balance sheets.

(5) Interest Rate Swap Agreements

The Organization uses interest rate swaps to manage net exposure to interest rate changes related to its borrowings and to manage its overall borrowing costs. These swaps are recorded as other liabilities at fair value.

The Organization's interest rate swap contracts are as follows:

Expiration date	The Organization pays fixed payor rate	The Organization receives	Notional amount 2015	Notional amount 2014
November 2033	3.669%	67% of 3-month USD-LIBOR	$ 77,215,000	77,215,000
November 2033	3.669	67% of 3-month USD-LIBOR	77,215,000	77,215,000
September 2034	3.476	67% of 1-month USD-LIBOR	6,149,220	6,615,930
September 2034	5.076	67% of 1-month USD-LIBOR plus 160 bps	18,449,780	19,850,070
September 2034	3.457	67% of 1-month USD-LIBOR	12,301,000	13,234,000
September 2036	3.841	67% of 1-month USD-LIBOR	13,900,000	14,100,000
November 2038	2.222	67% of 3-month USD-LIBOR	75,000,000	75,000,000
November 2038	2.222	67% of 3-month USD-LIBOR	75,000,000	75,000,000
November 2038	2.222	67% of 3-month USD-LIBOR	50,000,000	50,000,000
			$ 405,230,000	408,230,000

An interest rate swap is an agreement in which two parties agree to exchange, at specified intervals, interest payment streams calculated on an agreed upon notional principal amount with at least one stream based upon a specified floating rate index. The differential to be paid or received as interest rates change is recognized as an adjustment to interest expense, which amounted to an increase of approximately $11,222,000 and $11,474,000 for the years ended December 31, 2015 and 2014, respectively.

The fair value of the interest rate swap agreements at December 31 is as follows (see note 2(p) for a discussion of valuation methodologies):

Derivatives not designated as hedging instruments	Counterparty	Balance sheet location	2015	2014
Interest rate swap contracts	Morgan Stanley	Other liabilities	$ 44,987,000	45,242,000
Interest rate swap contracts	Goldman Sachs	Other liabilities	23,174,000	21,358,000

During 2008, the Organization discontinued hedge accounting for all swaps previously designated as hedges as the swaps were no longer considered to be highly effective. The Organization continues to carry the swaps at fair value with the subsequent changes in fair value included in nonoperating (losses) gains, net. Losses of approximately $8,131,000 and $8,589,000 at December 31, 2015 and 2014, respectively, that were accumulated in unrestricted net assets prior to the discontinuance of hedge accounting are being amortized in nonoperating (losses) gains, net using the straight-line method over the remaining life of the swaps.

The change in fair value of the interest rate swaps resulted in losses of approximately $1,562,000 and $44,043,000 for the years ended December 31, 2015 and 2014, respectively, included in nonoperating (losses) gains, net.

(Continued)

(6) Goodwill

Goodwill of approximately $11,301,000 and $17,262,000 at December 31, 2015 and 2014, respectively, included in other assets, results from the excess of the amount paid over the fair value of identifiable assets and liabilities of acquired healthcare businesses. The Organization reviews goodwill for impairment at least annually or whenever events or circumstances indicate that the carrying value may not be recoverable in accordance with the provisions of Accounting Standards Codification Topic 350, *Intangibles Goodwill and Other*.

The annual impairment test was completed for the years ended December 31, 2015 and 2014 and it was determined that no impairment existed. No recent events or circumstances have occurred to indicate that impairment may exist.

(7) Commitments and Contingencies

(a) Professional Liability

The nature of the Organization's business inherently subjects the Organization to the risks of professional liability litigation. Estimated losses arising from events identified under the Organization's incident reporting system have been recorded in the accompanying combined financial statements. In addition, an accrual for possible losses attributable to incidents that may have occurred, but that have not been identified under the incident reporting system has been estimated. The estimate is valued at the undiscounted expected future cash flows based on historical experience, relevant trend factors, and advice from consulting actuaries. The Organization is presently a defendant in various professional liability related legal actions. The Organization may be liable for losses in excess of the amount recorded at December 31, 2015; however, in the opinion of management, adequate provision has been made for estimated losses from asserted and unasserted claims.

The Organization's entities are insured through an insurance agreement with the Captive. The Captive also provides professional liability insurance for Florida-licensed, practicing physicians, and allied healthcare professionals who meet the company's underwriting requirements and have privileges to treat patients at the Organization's affiliated facilities.

Claims of approximately $155,849,000 and $159,463,000 at December 31, 2015 and 2014, respectively, are accrued based upon the expected ultimate costs of the experience to date of the Captive (including a provision for unknown incidents) at December 31, 2015 and 2014, and are included in other long-term liabilities.

(b) Litigation and Investigations

Certain of the Organization's affiliated entities currently are the subject of litigation other than professional liability litigation, as well as inquiries by federal agencies. The litigation generally involves matters of healthcare and employment law, as well as certain matters that arise in the ordinary course of business. The inquiries generally involve the application of complex healthcare regulations. The Organization is fully cooperating with the federal agencies in connection with their inquiries. Based on current information, management believes at this time that the results of the litigation and inquiries are not likely to have a material adverse effect on the combined financial position and results of the Organization.

 (Continued)

(c) Operating Leases

The Organization has entered into noncancelable operating lease agreements for the rental of building space, computer software, and equipment. Future minimum lease payments associated with these lease agreements (with initial or remaining lease terms in excess of one year) for each of the five years subsequent to December 31, 2015 are (in thousands) as follows:

2016	$	13,755
2017		12,555
2018		9,981
2019		8,274
2020		7,309
Thereafter		22,785
Total	$	74,659

Rental expense for operating leases totaled approximately $25,748,000 and $25,777,000 for the years ended December 31, 2015 and 2014, respectively.

(8) Retirement Plans

(a) Pension Plan – BayCare

Effective October 1, 2001, the Organization's board of trustees approved a system wide BayCare Health System Retirement Plan (Retirement Plan), a defined contribution plan that covers substantially all employees who meet certain service requirements. For these employees, the Retirement Plan provides that the Organization will contribute 2% of wages and also match 50% of the employee's contributions up to 6% of the contributing employee's wages. Prior existing defined contribution plans were rolled into the Retirement Plan. Contribution expense attributable to the defined contribution plan was approximately $45,529,000 and $40,405,000 for the years ended December 31, 2015 and 2014, respectively.

Employees who were participants in the Organization's defined benefit pension plan were given a one-time option to remain in the defined benefit pension plan or participate in the Retirement Plan. For participants who elected to participate in the Retirement Plan, the Organization froze their benefits so the participants no longer earn additional benefits for future services in the defined benefit pension plan.

The authoritative guidance for the accounting of defined benefit pension and other postretirement plans requires recognition in the combined balance sheets of the funded status of defined benefit pension plans and the recognition in unrestricted net assets of unrecognized gains or losses, prior service costs or credits, and transition assets or obligations existing at the time of adoption. The funded status is measured as the difference between the fair value of the defined benefit pension plan's assets and the projected benefit obligation of the plan. The valuation of plan assets and the calculation of benefit obligations and funded status utilized a measurement date of December 31, 2015 and 2014.

The following are deferred pension costs, which have not yet been recognized in periodic pension expense, but instead are accrued in unrestricted net assets as of December 31, 2015 (in thousands):

		Amounts recognized in unrestricted net assets at December 31, 2015	Amounts in unrestricted net assets to be recognized during the next fiscal year
Net actuarial loss	$	34,078	5,507

Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

The following table sets forth changes to the defined benefit pension plan's benefit obligation, plan assets, and funded status (included in other noncurrent liabilities) as of December 31, 2015 and 2014, the measurement dates (in thousands):

		Year ended December 31 2015	2014
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	(173,768)	(154,185)
Service cost		(1,564)	(1,519)
Interest cost		(6,400)	(6,926)
Actuarial (loss) gain		3,597	(20,314)
Benefits paid		7,995	9,176
Projected benefit obligation at end of year		(170,140)	(173,768)
Change in plan assets:			
Fair value of plan assets at beginning of year		122,404	121,780
Actual return on plan assets		(1,318)	7,142
Contributions made		1,500	2,658
Benefits paid		(7,995)	(9,176)
Fair value of plan assets at end of year		114,591	122,404
Net amount recognized as accrued pension cost included in other noncurrent liabilities	$	(55,549)	(51,364)

The accumulated benefit obligation for the pension plan was approximately $168,263,000 and $172,025,000 at December 31, 2015 and 2014, respectively.

The following table summarizes components of net periodic pension cost of the defined benefit pension plan (in thousands):

		Year ended December 31	
		2015	2014
Service cost	$	1,564	1,519
Interest cost		6,400	6,926
Expected return on plan assets		(6,531)	(7,532)
Amortization of net actuarial loss		2,192	—
Net periodic pension cost	$	3,625	913

Weighted average assumptions used to determine net periodic pension cost of the defined benefit pension plan are as follows:

	Year ended December 31	
	2015	2014
Discount rate	3.81%	4.67%
Projected rate of increase in future compensation levels	3.00	3.00
Expected long-term rate of return on plan assets	5.60	6.50

Weighted average assumptions used to determine benefit obligations of the defined benefit pension plan are as follows:

	Year ended December 31	
	2015	2014
Discount rate	4.22%	3.81%
Projected rate of increase in future compensation levels	3.00	3.00

The Organization does not expect to contribute to the defined benefit pension plan in 2016.

The benefits expected to be paid in each year from 2016 to 2020 are approximately $13,065,000, $12,702,000, $11,990,000, $12,113,000, and $12,330,000, respectively. The aggregate benefits expected to be paid in the five years from 2021 to 2025 are approximately $57,755,000. The expected benefits to be paid are based on the same assumptions used to measure the Organization's benefit obligation at December 31, 2015 and include estimated future employee service.

The investment objective of the defined benefit plan is to produce a return on investment that is based upon levels of liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions, which allows for payments of benefits to participants and their beneficiaries. The investment objective also incorporates the financial condition of the plan, future growth of active and retired participants, inflation, and the rate of salary increases. The defined benefit plan's investment committee has selected market-based benchmarks to monitor the performance of the investment strategy and performs periodic reviews of investment performance.

The investment strategy has a current target asset allocation policy as follows: 35% fixed income, 30% domestic equities, 20% international equities, 10% hedge funds, and 5% Treasury Inflation Protected TIPS. The expected long-term rate of return on plan assets is based primarily on expectations of future returns for the defined benefit plan's investments, based upon the target asset allocation. Additionally, the historical returns on comparable equity and fixed income investments are considered in the estimate of the expected long-term rate of return on plan assets.

The table below summarizes the fair values of pension plan assets as of December 31, 2015 (in thousands) (note 2(p) for discussion of valuation methods):

		December 31, 2015	Fair value measurements at reporting date: Level 1	Level 2
Asset category:				
Cash	$	80	80	—
U.S. Equity securities		6,143	6,030	113
		6,223	6,110	113
Accrued income		2		
Recorded at net asset value		108,366		
Total	$	114,591		

There was a transfer of US equities from level 1 to level 2 during the year due to pricing being available from an industry vendor instead of an exchange.

The table below summarizes the fair values of pension plan assets as of December 31, 2014 (in thousands):

		December 31, 2014	Fair value measurements at reporting date: Level 1
Asset category:			
Cash	$	66	66
U.S. Equity securities		7,405	7,405
		7,471	7,471
Recorded at net asset value		114,933	
Total	$	122,404	

There were no transfers between levels during the year.

The following pension plan assets have been estimated using the net asset value per share of the investments as of December 31, 2015 and 2014 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2015 and 2014.

	December 31 2015	December 31 2014	Redemption frequency	Redemption notice period
Asset category:				
U.S. equity index fund (a)	$ 27,700	29,102	Daily	None
International small cap equity partnership (b)	6,105	5,891	Monthly	15 days
International emerging markets equity partnership (c)	5,169	6,350	Monthly	10 days
International equities fund (d)	5,879	6,062	Daily	None
International equities partnership (e)	5,923	5,861	Monthly	15 days
TIPS commingled fund (f)	4,804	5,944	Daily	None
Long duration core fixed income commingled fund (g)	15,078	16,599	Daily	None
Fixed Income bond index fund (h)	25,171	26,997	Daily	None
Hedge fund of funds (i)	12,537	12,127	Semiannually	95 days
	$ 108,366	114,933		

(a) The primary objective of the U.S. equity index fund is to approximate the risk and return characteristics of the S&P 500 Index. This index is commonly used to represent the large-cap segment of the U.S. equity market. This fund may participate in securities lending.

(b) The international small cap equity partnership's investment objective is to outperform the MSCI EAFE Small Cap Market Index by investing in a portfolio of non-U.S. small cap equities.

(c) The investment objective of the international emerging markets equity partnership is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S. emerging market equities.

(d) The international equities fund seeks capital appreciation through investments in an international portfolio of equity securities of issuers located in countries of developed markets.

(e) The primary objective of the international equities partnership is to achieve long-term total return by investing in value equity securities of non-U.S. issuers, including emerging markets.

(f) The primary investment objective of the TIPS commingled fund is to match the risk and return characteristics of the Barclays Capital TIPS Index. This fund may participate in securities lending.

(g) The primary objective of the long duration core fixed income commingled fund is to outperform the total return of the Barclays Capital Long Government/Credit Index.

(h) The primary objective of the fixed income bond index fund is to hold a portfolio representative of the overall U.S. bond and debt market, as characterized by the Barclays Aggregate Bond Index. Funds that participate in the securities lending program have a twice per month redemption restriction, and a total redemption would require the Organization to fund its portion of any collateral shortfall.

(i) The hedge fund of funds' objective is to develop and actively maintain an investment portfolio of long-term returns, with low volatility and downside protection qualities.

(b) Pension Plan – Winter Haven

Qualified employees of Winter Haven participate in the Mid-Florida Medical Services, Inc. Pension Plan (the Plan) – a cash balance hybrid multiemployer plan. A qualified employee is one who is over the age of 21, has received credit for at least 1,000 hours of service in a 12-month period, and was not over the age of 60 when hired. The Plan is funded to at least the minimum required Employee Retirement Income Security Act (ERISA) contribution.

On November 26, 2013, the Organization's board approved the curtailment of the Plan, effective December 31, 2013. The terms of the curtailment generally provide that no further benefit accrual under the Plan is provided for service after the effective date nor will new entrants into the Plan be permitted after the effective date.

The following are deferred pension costs, which have not yet been recognized in periodic pension expense, but instead are accrued in unrestricted net assets as of December 31, 2015 (in thousands):

	Amounts recognized in unrestricted net assets at December 31, 2015	Amounts in unrestricted net assets to be recognized during the next fiscal year
Net actuarial gain	$ 1,810	729

Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

The following table sets forth changes to the Plan's benefit obligation, plan assets, and funded status (included in other noncurrent liabilities) as of December 31, 2015 and 2014, the measurement dates (in thousands):

		Year ended December 31	
		2015	**2014**
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	(61,180)	(55,200)
Service cost		(250)	(250)
Interest cost		(2,152)	(2,485)
Actuarial gain (loss)		1,810	(7,377)
Plan settlements		5,343	3,720
Benefits paid		377	412
Projected benefit obligation at end of year		(56,052)	(61,180)
Change in plan assets:			
Fair value of plan assets at beginning of year		49,887	49,560
Actual return on plan assets		(895)	2,695
Contributions made		—	1,764
Plan settlements		(5,343)	(3,720)
Benefits paid		(377)	(412)
Fair value of plan assets at end of year		43,272	49,887
Net amount recognized as accrued pension cost included in other noncurrent liabilities	$	(12,780)	(11,293)

The accumulated benefit obligation for the Plan was approximately $56,051,000 and $61,180,000 at December 31, 2015 and 2014, respectively.

The following table summarizes components of net periodic pension cost of the Plan (in thousands):

		Year ended December 31	
		2015	**2014**
Service cost	$	250	250
Interest cost		2,152	2,485
Expected return on plan assets		(2,703)	(2,957)
Settlement loss		602	312
Net periodic pension cost	$	301	90

(Continued)

Weighted average assumptions used to determine net periodic pension cost of the Plan are as follows:

	Year ended December 31	
	2015	**2014**
Discount rate	3.65%	4.67%
Projected rate of increase in future compensation levels	N/A	N/A
Expected long-term rate of return on plan assets	5.70	6.10

Weighted average assumptions used to determine benefit obligations of the Plan are as follows:

	Year ended December 31	
	2015	**2014**
Discount rate	3.97%	3.65%
Projected rate of increase in future compensation levels	N/A	N/A

Winter Haven expects to contribute $1,300,000 to the defined benefit pension plan in 2016.

The benefits expected to be paid in each year from 2016 to 2020 are approximately $3,933,000, $3,204,000, $3,039,000, $3,246,000, and $3,259,000, respectively. The aggregate benefits expected to be paid in the five years from 2021 to 2025 are approximately $17,276,000. The expected benefits to be paid are based on the same assumptions used to measure Winter Haven's benefit obligation at December 31, 2015 and include estimated future employee service.

The plan assets are administered by a trustee and are invested in the following percentages in various instruments at December 31, 2015: 40% fixed income, 30% domestic equities, 20% international equities, and 10% hedge funds.

The table below summarizes the fair values of pension plan assets as of December 31, 2015 (in thousands) (note 2(p) for discussion of valuation methods):

		Fair value measurements at reporting date	
	December 31, 2015	**Level 1**	**Level 2**
Asset category:			
Cash	$ 22	22	—
U.S. Equity securities	2,258	2,216	42
	2,280	2,238	42
Accrued income	2		
Recorded at net asset value	40,990		
Total	$ 43,272		

There was a transfer of US equities from level 1 to level 2 during the year due to pricing being available from an industry vendor instead of an exchange.

The table below summarizes the fair values of pension plan assets as of December 31, 2014 (in thousands):

		December 31, 2014	Fair value measurements at reporting date Level 1
Asset category:			
Cash	$	32	32
U.S. Equity securities		3,159	3,159
		3,191	3,191
Recorded at net asset value		46,696	
Total	$	49,887	

There were no transfers between levels during the year.

The following pension plan assets have been estimated using the net asset value per share of the investments as of December 31, 2015 and 2014 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2015 and 2014.

		December 31		Redemption	Redemption
		2015	2014	frequency	notice period
Asset category:					
U.S. equity index fund (a)	$	10,180	12,414	Daily	None
International small cap equity partnership (b)		2,332	2,266	Monthly	15 days
International emerging markets equity partnership (c)		1,975	2,443	Monthly	10 days
International equities fund (d)		2,246	2,332	Daily	None
International equities partnership (e)		2,262	2,255	Monthly	15 days
Long duration core fixed income commingled fund (g)		6,306	7,612	Daily	None
Passive core fixed-income commingled fund (g)		10,527	12,380	Daily	None
Hedge fund of funds (h)		5,162	4,994	Semiannually	95 days
	$	40,990	46,696		

(a) The primary objective of the U.S. equity index fund is to approximate the risk and return characteristics of the S&P 500 Index. This index is commonly used to represent the large-cap segment of the U.S. equity market. This fund may participate in securities lending.

(b) The international small cap equity partnership's investment objective is to outperform the MSCI EAFE Small Cap Market Index by investing in a portfolio of non-U.S. small cap equities.

(c) The investment objective of the international emerging markets equity partnership is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S. emerging market equities.

(d) The international equities fund seeks capital appreciation through investments in an international portfolio of equity securities of issuers located in countries of developed markets.

(e) The primary objective of the international equities partnership is to achieve long-term total return by investing in value equity securities of non-U.S. issuers, including emerging markets.

(f) The primary objective of the long duration core fixed income commingled fund is to outperform the total return of the Barclays Capital Long Government/Credit Index.

(g) The primary objective of the passive core fixed-income commingled fund is to seek a return that approximates the performance of the Barclays U.S. Aggregate Bond Index, before expenses. This fund may participate in securities lending.

(h) The hedge fund of fund's objective is to develop and actively maintain an investment portfolio of long-term returns, with low volatility and downside protection qualities.

(9) Functional Expenses

The Organization's expenses are primarily related to providing healthcare services to the community. The Organization receives substantially all of its resources from providing healthcare services in a manner similar to a business enterprise, and its accounting policies conform to U.S. generally accepted accounting principles applicable to healthcare organizations.

(10) Subsequent Events

The Organization has evaluated events and transactions occurring subsequent to December 31, 2015 as of March 7, 2016, which is the date the combined financial statements were issued. Management believes that no material events have occurred since December 31, 2015 that require recognition or disclosure in the combined financial statements, except as disclosed below.

Bartow Regional Medical Center – The Organization entered into an asset purchase agreement in October of 2015 to purchase substantially all of the assets of Bartow Regional Medical Center from Bartow HMA, LLC and Bartow HMA Physician Management, LLC. The transaction was executed on January 1, 2016 for a purchase price of $60,000,000 plus approximately $5,879,000 for working capital. A deposit of approximately $66,273,000 was paid into escrow on December 30, 2015 and is included in prepaid and other current assets.

COMBINING INFORMATION

Schedule 1

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Balance Sheet Information

December 31, 2015

(In thousands)

Assets	BayCare Health System, Inc.	Winter Haven Hospital, Inc.	Combined Trinity Health BayCare Participants	Morton Plant Mease Health Care, Inc.	South Florida Baptist, Inc.	BCHS Insurance, Ltd.	Subtotal	Eliminations	Combined
Current assets:									
Cash and cash equivalents	$ 93,993	533	6	4,054	(1)	—	98,585	—	98,585
Collateral received for securities lending transactions	195,426	—	—	—	—	—	195,426	—	195,426
Investments held on behalf of others	27,868	—	—	—	—	—	27,868	—	27,868
Assets limited as to use	—	—	2,440	—	—	—	2,440	—	2,440
Accounts receivable, net	58,603	32,560	171,385	126,274	14,188	—	403,010	—	403,010
Inventories	20,903	8,483	27,804	18,520	3,082	—	78,792	—	78,792
Prepaid and other current assets	99,746	4,559	8,965	6,520	578	1	120,369	(3,980)	116,389
Total current assets	496,539	46,135	210,600	155,368	17,847	1	926,490	(3,980)	922,510
Investments	2,920,729	65,438	—	—	—	—	2,986,167	—	2,986,167
Assets limited as to use	1,260	—	6,251	4	—	127,736	135,251	—	135,251
Property and equipment, net	216,794	138,771	982,931	585,923	42,983	—	1,967,402	—	1,967,402
Beneficial interest in net assets of foundations	—	13,916	29,764	92,744	7,305	—	143,729	—	143,729
Due from affiliates	(1,827,337)	(97,637)	778,427	1,070,303	80,898	—	4,654	(4,654)	—
Other assets	168,777	11,998	22,931	10,456	68	21,075	235,305	(153,063)	82,242
Total assets	$ 1,976,762	178,621	2,030,904	1,914,798	149,101	148,812	6,398,998	(161,697)	6,237,301
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	$ 116,261	7,044	33,677	50,731	3,010	1,208	211,931	(3,980)	207,951
Employee compensation and benefits	171,836	9,973	36,743	29,429	2,857	—	250,838	—	250,838
Estimated third-party settlements	—	7,932	44,140	35,537	3,486	—	91,095	—	91,095
Current portion of long-term debt	87,373	989	333	698	—	—	89,393	—	89,393
Long-term debt, subject to short-term put arrangements	195,965	—	—	—	—	—	195,965	—	195,965
Liabilities for investments held on behalf of others	27,868	—	—	—	—	—	27,868	—	27,868
Liabilities under securities lending transactions	195,426	—	—	—	—	—	195,426	—	195,426
Total current liabilities	794,729	25,938	114,893	116,395	9,353	1,208	1,062,516	(3,980)	1,058,536
Long-term debt, less current portion	727,198	1,056	513	5,957	—	—	734,724	—	734,724
Other liabilities	155,578	17,683	77,028	593	—	133,986	384,868	(11,459)	373,409
Total liabilities	1,677,505	44,677	192,434	122,945	9,353	135,194	2,182,108	(15,439)	2,166,669
Net assets:									
Unrestricted	299,257	127,872	1,814,516	1,716,367	136,272	13,618	4,107,902	(146,258)	3,961,644
Temporarily restricted	—	5,106	18,998	48,999	3,476	—	76,579	—	76,579
Permanently restricted	—	966	4,956	26,487	—	—	32,409	—	32,409
Total net assets	299,257	133,944	1,838,470	1,791,853	139,748	13,618	4,216,890	(146,258)	4,070,632
Total liabilities and net assets	$ 1,976,762	178,621	2,030,904	1,914,798	149,101	148,812	6,398,998	(161,697)	6,237,301

See accompanying independent auditors' report.

Schedule 2

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2015

(In thousands)

	BayCare Health System, Inc.	Winter Haven Hospital, Inc.	Combined Trinity Health BayCare Participants	Morton Plant Mease Health Care, Inc.	South Florida Baptist, Inc.	BCHS Insurance, Ltd.	Subtotal	Eliminations	Combined
Operating revenue:									
Patient service revenue (net of contractual adjustments and discounts)	$ 364,883	288,816	1,551,424	1,154,753	130,202	—	3,490,078	(14,541)	3,475,537
Provision for bad debts	(20,269)	(31,642)	(124,691)	(76,243)	(14,394)	—	(267,239)	—	(267,239)
Net patient service revenue less provision for bad debts	344,614	257,174	1,426,733	1,078,510	115,808	—	3,222,839	(14,541)	3,208,298
Other revenue	397,097	6,732	42,345	28,801	1,136	—	476,111	(352,160)	123,951
Total operating revenue	741,711	263,906	1,469,078	1,107,311	116,944	—	3,698,950	(366,701)	3,332,249
Operating expenses:									
Salaries and benefits	510,880	137,824	594,376	414,684	44,862	—	1,702,626	(15,689)	1,686,937
Supplies	68,187	51,535	249,231	204,641	18,816	—	592,410	—	592,410
Other expenses	156,751	49,919	340,811	273,001	27,929	—	848,411	(314,694)	533,717
Depreciation and amortization	41,128	17,432	84,476	49,213	4,754	—	197,003	—	197,003
Interest	29,983	2,467	15,331	11,494	1,041	—	60,316	(29,864)	30,452
Loss on sale of businesses	—	—	—	7,046	—	—	7,046	—	7,046
Total operating expenses	806,929	259,177	1,284,225	960,079	97,402	—	3,407,812	(360,247)	3,047,565
Operating (loss) income	(65,218)	4,729	184,853	147,232	19,542	—	291,138	(6,454)	284,684
Nonoperating (losses) gains, net:									
Investment (losses) income, net	(35,030)	(878)	6	(1)	—	(9,079)	(44,982)	—	(44,982)
(Loss) gain on interest rate swaps	(2,267)	247	—	—	—	—	(2,020)	—	(2,020)
Loss on extinguishment of debt	(36)	—	—	—	—	—	(36)	—	(36)
Other nonoperating gains (losses), net	1,366	(2,089)	(622)	2,875	(47)	—	1,483	(70)	1,413
Total nonoperating (losses) gains, net	(35,967)	(2,720)	(616)	2,874	(47)	(9,079)	(45,555)	(70)	(45,625)
(Deficit) excess of revenue and gains over expenses	(101,185)	2,009	184,237	150,106	19,495	(9,079)	245,583	(6,524)	239,059

(Continued)

Schedule 2

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2015

(In thousands)

	BayCare Health System, Inc.	Winter Haven Hospital, Inc.	Combined Trinity Health BayCare Participants	Morton Plant Mease Health Care, Inc.	South Florida Baptist, Inc.	BCHS Insurance, Ltd.	Subtotal	Eliminations	Combined
Unrestricted net assets:									
(Deficit) excess of revenue and gains over expenses	$ (101,185)	2,009	184,237	150,106	19,495	(9,079)	245,583	(6,524)	239,059
Net unrealized losses on other-than-trading securities	—	—	(21)	—	—	—	(21)	—	(21)
Net asset transfers from joint operating agreement participants, net	160,275	—	(93,731)	(55,182)	(11,362)	—	—	—	—
Contributions for capital equipment	—	—	1,010	1,397	30	—	2,437	—	2,437
Amortization of accumulated hedge accounting losses	458	—	—	—	—	—	458	—	458
Pension-related changes other than net periodic pension cost	—	(1,418)	(2,030)	—	—	—	(3,448)	—	(3,448)
Transfer (to) from affiliates	(56,872)	(2,656)	62,707	(3,179)	—	—	—	—	—
Other	(8,079)	—	—	—	—	26	(8,053)	6,100	(1,953)
(Decrease) increase in unrestricted net assets	(5,403)	(2,065)	152,172	93,142	8,163	(9,053)	236,956	(424)	236,532
Temporarily restricted net assets:									
Contributions	—	1,850	288	168	14	—	2,320	—	2,320
Net unrealized losses on other-than-trading securities	—	—	(162)	—	—	—	(162)	—	(162)
Change in beneficial interest in net assets of foundations	—	1,997	(3,326)	(4,013)	522	—	(4,820)	—	(4,820)
Net assets released from restrictions for operations	—	—	(109)	(153)	(11)	—	(273)	—	(273)
Other	—	—	1	2	—	—	3	—	3
Increase (decrease) in temporarily restricted net assets	—	3,847	(3,308)	(3,996)	525	—	(2,932)	—	(2,932)
Permanently restricted net assets:									
Change in beneficial interest in net assets of foundations	—	—	3,511	(374)	—	—	3,137	—	3,137
Increase (decrease) in permanently restricted net assets	—	—	3,511	(374)	—	—	3,137	—	3,137
(Decrease) increase in net assets	(5,403)	1,782	152,375	88,772	8,688	(9,053)	237,161	(424)	236,737
Net assets at beginning of year	304,660	132,162	1,686,095	1,703,081	131,060	22,671	3,979,729	(145,834)	3,833,895
Net assets at end of year	$ 299,257	133,944	1,838,470	1,791,853	139,748	13,618	4,216,890	(146,258)	4,070,632

See accompanying independent auditors' report.