

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Baptist Health Care Corporation and Subsidiaries
Years Ended September 30, 2017 and 2016
With Report of Independent Certified Public Accountants

Ernst & Young LLP



Baptist Health Care Corporation and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2017 and 2016

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Report of Independent Certified Public Accountants

The Board of Directors
Baptist Health Care Corporation

We have audited the accompanying consolidated financial statements of Baptist Health Care Corporation and Subsidiaries (the Company), which comprise the consolidated balance sheets as of September 30, 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 financial statements in conformity 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 financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Baptist Health Care Corporation and Subsidiaries at September 30, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating and combining details on pages 53 through 60 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst + Young LLP

December 21, 2017

Baptist Health Care Corporation and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

	September 30	
	2017	2016
	<i>(As Adjusted)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 162,961	\$ 176,533
Short-term investments	139,933	108,119
Accounts receivable , less allowance for uncollectible accounts of \$48,251 in 2017 and \$46,579 in 2016	64,199	60,797
Contracts receivable	20,384	13,576
Current portion of investments limited as to use	1,869	2,821
Inventories	13,305	14,229
Prepaid expenses and other current assets	14,543	13,278
Total current assets	417,194	389,353
Investments limited as to use, less current portion	93,656	83,544
Net property, plant, and equipment	244,702	227,524
Other assets	19,013	18,860
Total assets	\$ 774,565	\$ 719,281
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 55,559	\$ 62,421
Accrued compensation and benefits	26,991	21,914
Accrued interest	1,434	1,323
Estimated third-party settlements	14,231	14,751
Current portion of long-term debt	11,919	9,743
Other current liabilities	43,619	38,349
Total current liabilities	153,753	148,501
Long-term debt, less current portion	216,012	208,759
Asset retirement obligations	2,546	2,577
Other long-term liabilities	67,503	73,896
Total liabilities	439,814	433,733
Net assets:		
Unrestricted:		
Controlling interest	321,799	273,162
Noncontrolling interests in subsidiaries	5,502	5,721
	327,301	278,883
Temporarily restricted – controlling interest	7,450	6,665
Total net assets	334,751	285,548
Total liabilities and net assets	\$ 774,565	\$ 719,281

See accompanying notes.

Baptist Health Care Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets *(In Thousands)*

	Year Ended September 30	
	2017	2016
Unrestricted revenues and other support:		
Patient service revenue	\$ 615,632	\$ 589,772
Provision for bad debts	(69,196)	(62,677)
Net patient service revenue	546,436	527,095
Federal, state, and other awards	68,733	65,793
Vocational service contracts	163,932	145,197
Contract revenue	31,873	29,276
EHR incentive payments	138	1,866
Other revenue	25,181	20,616
Net assets released from restrictions used for operations	1,302	1,319
Total unrestricted revenues and other support	837,595	791,162
Expenses:		
Salaries and benefits	410,427	381,625
Supplies	136,465	132,348
General, administrative, and other	97,512	91,299
Professional fees and purchased services	103,402	96,002
Contract medical costs	19,799	18,055
Depreciation and amortization	26,168	23,183
Interest	10,527	10,122
Total expenses	804,300	752,634
Income from operations before gain (loss) from weather related events	33,295	38,528
Gain (loss) from weather related events	1,155	(3,484)
Income from operations	34,450	35,044
Nonoperating gains (losses):		
Change in fair value of interest rate swap agreements	845	(276)
Net unrealized gains on trading securities	5,435	7,205
Investment income	8,395	2,807
Other, net	(3,386)	(3,186)
	11,289	6,550
Excess of revenues, other support, and gains over expenses and losses	45,739	41,594
Less excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	4,388	2,703
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interest	41,351	38,891

Baptist Health Care Corporation and Subsidiaries

Consolidated Statements of Operations
and Changes in Net Assets (continued)
(In Thousands)

	Year Ended September 30	
	2017	2016
Unrestricted net assets:		
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interest	\$ 41,351	\$ 38,891
Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	4,388	2,703
Net unrealized gains on other-than-trading securities	212	247
Net assets released from restrictions for purchase of property, plant, and equipment	–	93
Pension adjustment	6,166	879
Other	(3,699)	(2,816)
Increase in unrestricted net assets before discontinued operations	48,418	39,997
Loss from discontinued operations	–	(163)
Increase in unrestricted net assets	48,418	39,834
Temporarily restricted net assets:		
Contributions	1,555	1,215
Net unrealized gains on other-than-trading securities	449	157
Net assets released from restrictions	(1,302)	(1,412)
Other	83	59
Increase in temporarily restricted net assets	785	19
Increase in net assets	49,203	39,853
Net assets at beginning of year	285,548	245,695
Net assets at end of year	\$ 334,751	\$ 285,548

See accompanying notes.

Baptist Health Care Corporation and Subsidiaries

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended September 30	
	2017	2016
Operating activities		
Increase in net assets	\$ 49,203	\$ 39,853
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss from discontinued operations	–	163
Restricted contributions received	(1,555)	(1,215)
Depreciation and amortization	26,168	23,183
Change in fair value of interest rate swap agreements	(845)	276
Net unrealized gains on other-than-trading securities	(661)	(404)
Net unrealized gains on trading securities	(5,435)	(7,205)
Pension adjustment	(6,166)	(879)
Provision for bad debts	69,196	62,677
Distribution to noncontrolling interests	4,607	3,197
Increase in other long-term liabilities	618	3,686
Net increase in components of working capital	(76,671)	(40,488)
Net cash provided by operating activities	58,459	82,844
Investing activities		
Purchase of investments	(64,687)	(35,636)
Proceeds from sale of investments	29,809	24,290
(Increase) decrease in other assets	(153)	2,528
Capital expenditures	(43,377)	(32,957)
Net cash used in investing activities	(78,408)	(41,775)
Financing activities		
Repayments of long-term debt	(7,829)	(10,044)
Issuance of long-term debt	17,258	6,392
Distribution to noncontrolling interests	(4,607)	(3,197)
Restricted contributions received	1,555	1,215
Net cash provided by (used in) financing activities	6,377	(5,634)
Net (decrease) increase in cash and cash equivalents	(13,572)	35,435
Cash and cash equivalents, beginning of year	176,533	141,098
Cash and cash equivalents, end of year	\$ 162,961	\$ 176,533

See accompanying notes.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

September 30, 2017

1. Organization and Mission

Organization

Baptist Health Care Corporation (the Parent) is a tax-exempt parent holding company located in Pensacola, Florida, whose primary purpose is to direct the affairs of a multi-entity health care system (BHCC) that includes the following subsidiaries:

- Baptist Hospital, Inc. (Baptist) – a tax-exempt organization that operates two acute care hospitals on campuses in downtown Pensacola and Gulf Breeze, Florida. Baptist provides inpatient, outpatient, and emergency care services for residents of northwest Florida and southeast Alabama. Wholly owned subsidiaries include Baptist Physician Associates, LLC; Baptist Medical Group, LLC; and Langhorne Cardiology Consultants, M.D.'s, P.A. (Cardiology Consultants), which provide hospitalist services on the Pensacola and Gulf Breeze campuses, and neonatal services on the Pensacola campus, primary care and subspecialty physician services, and cardiology services, respectively. Baptist owns 52.1% of the Andrews Institute Ambulatory Surgery Center (AIASC). AIASC is consolidated in the accompanying consolidated financial statements.
- Baptist Health Ventures, Inc. (Ventures) – a taxable corporation that oversees the operations of various for-profit subsidiaries.
- Lakeview Center, Inc. (LCI) – a tax-exempt organization whose mission is to help people overcome life's challenges by providing behavioral health services, vocational services, and child protection services.
- Jay Hospital, Inc. (Jay) – a tax-exempt organization that operates an acute care hospital.
- Baptist Health Care Foundation, Inc. (HCF) – a foundation with the primary purpose of raising funds to support the activities of the tax-exempt subsidiaries of BHCC.

The Parent is the sole member or owner of each of the above affiliates and controls the multi-entity structure through board appointments and approval of all major transactions.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Mission (continued)

Operating and Nonoperating Activities

BHCC's primary mission is to meet the health care needs in the region through an integrated network of affiliated organizations. BHCC's affiliated organizations are committed to providing a broad range of general and specialized health care services, including inpatient primary care, long-term care, outpatient services, and other health-care related ventures. Activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in gains or losses unrelated to BHCC's primary mission are considered to be nonoperating. Nonoperating gains and losses include rents from medical office buildings, changes in the value of interest rate swap agreements, unrealized gains and losses on trading securities, income, and losses from investments in joint ventures, and earnings on investments other than operating cash on hand.

Charity Care

Quality medical care is provided to all persons requiring immediate treatment regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of BHCC. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, BHCC utilizes the most recently published federal poverty income guidelines, but also includes certain cases in which incurred charges are significant when compared to income. These charges are not included in net patient service revenue.

BHCC estimates the direct and indirect costs of providing charity care by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients. The cost of providing charity care was \$20,316 and \$19,518 for the years ended September 30, 2017 and 2016, respectively.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements of BHCC include the accounts of the Parent, Baptist, Jay, HCF, Ventures, and LCI. Significant transactions between entities have been eliminated.

Use of Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States (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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. Cash deposits are federally insured in limited amounts.

Investments

Investments in equity securities with readily determinable fair values and all debt securities are stated at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenues, other support, and gains over expenses and losses unless the income or loss is restricted by donor or law. BHCC accounts for its investments as trading and accounts for investment transactions on a settlement-date basis.

BHCC invests in alternative investments (primarily hedge funds and a real estate investment fund) through partnership investment trusts. These alternative investments provide BHCC with a proportionate share of investment gains and losses. The partnership investment trusts generally contract with a manager who has full discretionary authority over investment decisions. BHCC accounts for its ownership interests in these alternative investments under the equity method.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

2. Summary of Significant Accounting Policies (continued)

Accordingly, BHCC's share of the alternative investments' income or loss, both realized and unrealized, is recognized as investment income or loss, which is a component of excess of revenues, other support, and gains over expenses and losses.

Inventories

Inventories (primarily pharmaceutical and medical supplies) are stated at the lower of cost (average cost method) or market.

Investments Limited as to Use

Investments limited as to use include certain investments limited as to use under the terms of bond indenture agreements and designated assets set aside by the Board of Directors (the Board) or management for future capital improvements and to pay malpractice claims over which the Board or management retains control, and may at its discretion subsequently use for other purposes.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at historical cost or at fair market value at the date of donation. Major asset classifications and useful lives generally are in accordance with those recommended by the American Hospital Association. The straight-line method of computing depreciation is used for all depreciable assets. The straight-line method is also used for computing amortization expense for capital leased assets. Amortization expense of capital leased assets is included in depreciation and amortization expense and in accumulated depreciation and amortization.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by BHCC has been limited by donors to a specific time period or purpose. At September 30, 2017 and 2016, temporarily restricted net assets are available for indigent care and capital purchases. During 2017 and 2016, \$1,302 and \$1,412, respectively, in net assets were released from donor restriction by incurring expenditures or acquiring property, plant, and equipment satisfying the restricted purposes.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Excess of Revenues, Other Support, and Gains Over Expenses and Losses

The accompanying consolidated statements of operations and changes in net assets include excess of revenues, other support, and gains over expenses and losses. Changes in unrestricted net assets that are excluded from excess of revenues, other support, and gains over expenses and losses, consistent with industry practice, include unrealized gains and losses on other-than-trading securities, pension adjustments, and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue and Accounts Receivable

BHCC has agreements with third-party payors that provide for payments to BHCC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Provision for Bad Debts and Allowance for Uncollectible Accounts

The provision for bad debts is based upon management's assessment of historical and expected net collections, considering business and economic conditions, trends in health care coverage, and other collection indicators. Accounts receivable are written off after collection effort has been followed in accordance with BHCC's policies. Accounts written off as uncollectible are deducted from the allowance for uncollectible patient accounts and subsequent recoveries are added. Periodically, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible receivables.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Medicaid Managed Medical Assistance Contract Revenue

LCI is licensed as a prepaid limited health services organization pursuant to Chapter 636, *Florida Statutes*. Effective August 1, 2014, LCI was awarded contracts with the Medicaid Managed Medical Assistance Plan (the MMA Plan). LCI receives a per-member per-month rate to provide mental health and substance abuse services to approximately 101,900 Medicaid beneficiaries. Amounts received are recognized as contract revenue during the period in which LCI is obligated to provide services to beneficiaries. Approximately \$31,873 and \$29,276 was recognized as revenue under the MMA Plan during the years ended September 30, 2017 and 2016, respectively.

Medicaid Prepaid Mental Health Plan Costs

LCI is directly responsible for providing mental health and substances abuse services to beneficiaries residing in Escambia and Santa Rosa counties, representing approximately 69% of the covered lives under the MMA Plan. LCI has entered into subcontracts with two comprehensive community mental health centers to provide mental health services to the MMA Plan beneficiaries residing in Okaloosa and Walton counties. These subcontracts are on a full risk capitated basis. The mental health services covered under the MMA Plan are generally the same as those covered under the Medicaid fee-for-service program. Covered services include inpatient psychiatric care, outpatient care, substance abuse, and physician services. The majority of services for which LCI is directly responsible are provided within its own service delivery system; however, some services are contracted for on a fee-for-service basis with local area hospitals and providers. A provision has been made for services rendered but not reported to LCI as of September 30, 2017 and 2016.

Functional Expenses

BHCC does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Further, since BHCC receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to BHCC are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions. BHCC had no permanently restricted net assets at September 30, 2017 and 2016.

Income Taxes

The Parent, Baptist, Jay, HCF, and LCI are exempt from federal income taxes under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and are also exempt from state income taxes. For the years ended September 30, 2017 and 2016, unrelated business income activities conducted by BHCC and its tax-exempt affiliates did not generate a material amount of combined federal and state income tax.

Ventures and Cardiology Consultants are taxable corporations and file federal and state income tax returns. Ventures and Cardiology Consultants did not generate taxable income for the years ended September 30, 2017 and 2016. Accordingly, there is no provision for current federal or state income taxes for the years ended September 30, 2017 and 2016, in the accompanying consolidated statements of operations and changes in net assets.

At September 30, 2017 and 2016, Ventures and Cardiology Consultants had combined net deferred tax assets of approximately \$55,800 and \$43,800, respectively, tax effected at a rate of 37.6%. Deferred tax assets are primarily composed of federal and state net operating loss carryforwards. At September 30, 2017 and 2016, Ventures and Cardiology Consultants had combined approximately \$141,700 and \$114,800, respectively, of federal net operating loss carryforwards and \$140,200 and \$113,400, respectively, of state net operating loss carryforwards. These net operating losses will expire between 2018 and 2037. A valuation

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

allowance has been provided to offset the full amount of the deferred tax asset as of September 30, 2017 and 2016, since management determined that it is more likely than not that the benefit of the deferred tax assets will not be realized in future years.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, prescribes the accounting for uncertainty in income tax positions recognized in the financial statements. ASC Topic 740 provides guidance for recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. There were no material uncertain tax positions as of September 30, 2017 and 2016.

Debt Issue Costs

The costs incurred in connection with the issuance of long-term debt (Note 7) are being amortized over the term of the related indebtedness and are included in long-term debt.

Recent Accounting Pronouncements

In March 2017, the FASB issued Accounting Standards Update (ASU) No. 2017-07, *Compensation-Retirement Benefits* (ASU 2017-07). The amendments in ASU 2017-07 require that an employer report the service cost component of the net periodic benefit cost in the same line item as other employee compensation costs. The other components of net benefit cost will be required to be presented in the income statement separately from the service cost component and outside of any subtotal of operating income (i.e., in non-operating income). ASU 2017-07 is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Management is currently evaluating the impact of ASU 2017-05 on BHCC's consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets* (ASU 2017-05). The amendments in ASU 2017-05 address the recognition of gains and losses on the transfer (sale) of nonfinancial assets to counterparties other than customers. ASU 2017-05 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Management is currently evaluating the impact of ASU 2017-05 on BHCC's consolidated financial statements.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other* (ASU 2017-04). The amendments in ASU 2017-04 require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Entities will continue to have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Management is currently evaluating the impact of ASU 2017-04 on BHCC's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-02, *Not-for-Profit Entities-Consolidation* (ASU 2017-02). The amendments in ASU 2017-02 clarify when a not-for-profit entity that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity once the amendments in Accounting Standards Update No. ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* become effective. ASU 2017-02 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of ASU 2017-02 on BHCC's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations-Clarifying the Definition of a Business* (ASU 2017-01). The amendments clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Management is currently evaluating the impact of ASU 2017-01 on BHCC's consolidated financial statements.

In December 2016, the FASB issued ASU No. 2016-19, *Technical Corrections and Improvements* (ASU 2016-19). The amendments represent changes to clarify, correct errors, or make minor improvements to the Accounting Standards Codification. The amendments make the Accounting Standards Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. The standard was effective immediately upon issuance. Adoption of ASU 2016-19 did not have an impact on BHCC's consolidated financial statements.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows-Restricted Cash* (ASU 2016-18). The amendments in ASU 2016-18 require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of ASU 2016-18 on BHCC's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes* (ASU 2016-16). Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The amendments in ASU 2016-16 require recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual periods beginning after December 15, 2019. Management is currently evaluating the impact of ASU 2016-16 on BHCC's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows* (ASU 2016-15). Current GAAP either is unclear or does not include specific guidance on eight cash flow classification issues. The amendments in ASU 2016-15 provide guidance for these eight issues, reducing the current and potential future diversity in practice. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of ASU 2016-15 on BHCC's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The amendments in ASU 2016-14 change the presentation of not-for-profit financial statements by requiring two classes of net assets on the statement of financial position rather than for the currently required three classes, and presenting the amount of the change in each of these two classes on the statement of activities. A not-for-profit that uses the direct method of cash flow reporting will no longer be required to present or disclose the indirect method reconciliation, and not-for-profits will continue to have the option to

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

utilize either the direct or indirect method for the statement of cash flows. Not-for-profits will no longer be required to disclose netted expenses when reporting investment returns, and will be required to provide certain enhanced disclosures. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of ASU 2016-14 on BHCC's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02). The amendments in ASU 2016-02 require lessees to recognize the assets and liabilities arising from leases on their balance sheets, but recognize expenses on their income statements similar to current accounting requirements. The amendments also eliminate real estate-specific provisions for all entities. For lessors, the amendments modify classification criteria and the accounting for sales-type and direct financing leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the impact of ASU 2016-02 on BHCC's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). The amendments in ASU 2016-01 supersede the guidance to classify equity securities with readily determinable fair values into different categories and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon an observable price change or upon identification of impairment, and require enhanced disclosures. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of ASU 2016-01 on BHCC's consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations* (ASU 2015-16). The amendments in ASU 2015-16 require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. In addition, entities are required to present separately on the face of the financial statements or disclose in the notes the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. BHCC adopted ASU 2015-16 effective October 1, 2016. The adoption of this standard did not have an impact on BHCC's consolidated financial statements.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

In August 2015, the FASB issued ASU No. 2015-15, *Interest – Imputation of Interest* (ASU 2015-15). The amendments in ASU 2015-15 incorporate into the Accounting Standards Codification an SEC staff announcement that the SEC staff will not object to an entity presenting the cost of securing a revolving line of credit as an asset, regardless of whether the balance is outstanding. BHCC adopted ASU 2015-15 effective October 1, 2016. The adoption of this standard did not have an impact on BHCC's consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share* (ASU 2015-07). Under the amendments in ASU 2015-07, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient are no longer required to be included in the fair value hierarchy leveling tables. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy leveling tables. BHCC adopted ASU 2015-07 effective October 1, 2016. The adoption of this standard did not have an impact on BHCC's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* (ASU 2015-05). The amendments in ASU 2015-05 provide guidance to customers about whether a cloud computing arrangement includes a software license. BHCC adopted ASU 2015-05 effective October 1, 2016. The adoption of this standard did not have an impact on BHCC's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). The amendments in ASU 2015-03 require that debt issuance costs be presented in the balance sheet as a direct deduction to the carrying amount of the debt liability, consistent with accounting treatment of debt discounts. BHCC adopted ASU 2015-03 effective October 1, 2016. As a result of this adoption, the September 30, 2016 balance of other assets decreased \$3,613 and long-term debt decreased \$3,613 in the accompanying consolidated balance sheets.

In February 2015, the FASB issued ASU No. 2015-01, *Income Statement – Extraordinary and Unusual Items* (ASU 2015-01). The amendments in ASU 2015-01 simplify income statement presentation by eliminating the need to determine whether to classify an item as an extraordinary item. Current presentation and disclosure requirements for an event and transaction that is of an

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

unusual nature of a type that indicates infrequency of occurrence have been retained. BHCC adopted ASU 2015-01 effective October 1, 2016. The adoption of this standard did not have an impact on BHCC's consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern* (ASU 2014-15). The amendments in ASU 2014-15 require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term *substantial doubt*, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plan, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plan, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). BHCC adopted ASU 2014-15 effective October 1, 2016. The adoption of this standard did not have an impact on BHCC's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which outlines a single comprehensive revenue recognition principles-based model that replaces most of the existing revenue recognition guidance, including industry-specific guidance. ASU 2014-09 was originally effective for annual periods beginning after December 15, 2016, and can be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the change recognized at the date of the initial application. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which defers the effective date of this new revenue recognition standard by one year for both public and nonpublic entities. In 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*, ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*, and ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. These amendments provide guidance on considerations in recognizing revenue from contracts with customers. Management is currently evaluating the potential effects ASU 2014-09, 2016-08, 2016-10, 2016-12, and 2016-20 will have on BHCC's consolidated financial statements and disclosures.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Net Patient Service Revenue, Patient Accounts Receivable, and Allowance for Uncollectible Accounts

BHCC's hospital subsidiaries have agreements with third-party payors that provide for payments to them at amounts different from their established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare

The Medicare program pays hospitals for inpatient acute care services and outpatient services on a prospective basis, which is determined based on each patient's clinical diagnosis and medical procedures. Annual provisions for contractual adjustments are based on management's computation of prospective payments and allowable costs. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits thereof by a Medicare Administrative Contractor. These settlements are estimated and recorded in the accompanying consolidated financial statements. Medicare cost reports through 2011 for Baptist Hospital and through 2015 for Gulf Breeze Hospital and Jay Hospital have been audited and settled as of September 30, 2017.

Medicaid

The hospitals are paid for Medicaid inpatient and outpatient acute care services on a prospective basis, which is determined based on each patient's clinical diagnosis and medical procedures. Medicaid outpatient services are paid on an amount per line item based on filed cost reports. Retroactive adjustments are made to the prospective payments for inpatient services and per line item payments for outpatient services after the related cost report is audited by the intermediary. These settlements are estimated and recorded in the accompanying consolidated financial statements.

Revenues from the Medicare and Medicaid programs accounted for approximately 45% and 47% of BHCC's net patient service revenue for the years ended September 30, 2017 and 2016, respectively. 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 will change by a material amount in the near term. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on BHCC. During the years ended September 30, 2017 and 2016, net patient service revenue increased (decreased) by approximately \$1,468 and \$(972), respectively, due to changes

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Net Patient Service Revenue, Patient Accounts Receivable, and Allowance for Uncollectible Accounts (continued)

in estimated prior-year settlements. Amounts due from third-party payors for retroactive adjustments of items such as final settlements or appeals totaled \$1,225 and \$1,708 at September 30, 2017 and 2016, respectively, and are included in accounts receivable, net in the accompanying consolidated balance sheets.

Other

BHCC's hospital subsidiaries also have entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the subsidiaries under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

BHCC accepts patients in immediate need of care, regardless of their ability to pay, and serves certain patients whose care costs are not paid at established rates, including those sponsored under government programs such as Medicare and Medicaid, those sponsored under private contractual agreements, charity patients, and other uninsured patients who have limited ability to pay. BHCC recognizes patient service revenue associated with patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, revenue is recognized on the basis of discounted rates in accordance with BHCC policy.

Patient service revenue is reduced by the provision for bad debts and accounts receivable are reduced by an allowance for uncollectible accounts based on management's assessment of historical and expected net collections for each major payor source, considering business and economic conditions, trends in healthcare coverage and other collection indicators. Management regularly reviews collections data by major payor sources in evaluating the sufficiency of the allowance for uncollectible accounts. On the basis of historical experience, a significant portion of self-pay patients will be unable or unwilling to pay for the services provided. Thus, BHCC records a significant provision for bad debts in the period services are provided to self-pay patients. BHCC's allowance for uncollectible accounts for self-pay patients was 97% and 96% of self-pay accounts receivable as of September 30, 2017 and 2016, respectively. For receivables associated with patients who have third-party coverage, BHCC analyzes contractually due amounts and provides a provision for bad debts, if necessary.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Net Patient Service Revenue, Patient Accounts Receivable, and Allowance for Uncollectible Accounts (continued)

Accounts receivable are written off after collection efforts have been followed in accordance with BHCC policies.

Patient service revenue is not recognized for those patients that qualify for charity under BHCC's policies. For all others, patient service revenue, net of contractual allowances and self-pay discounts and before the provision for bad debts, recognized from major payor sources is as follows:

	Year Ended September 30	
	2017	2016
Third-party payors, net of contractual allowances	\$ 563,521	\$ 545,737
Self-pay patients, net of discounts	52,111	44,035
	<u>\$ 615,632</u>	<u>\$ 589,772</u>

BHCC has not experienced significant changes in write-off trends and has not changed its self-pay discount or charity care policy for the years ended September 30, 2017 or 2016.

BHCC has determined, based on an assessment at the reporting-entity level, that patient service revenue is primarily recorded prior to assessing the patient's ability to pay, and as such, the entire provision for bad debts is recorded as a deduction from patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

4. Other Factors Affecting Income From Operations

Weather Events

In August 2016, Baptist sustained property and equipment damage from heavy flooding affecting northwest Florida. BHCC carries both property damage (with a \$100 deductible per event) and business interruption insurance. Estimated losses related to this event recorded during the year ended September 30, 2016 totaled \$3,484, and through September 30, 2017, BHCC has received \$1,155 from insurers used for recovery of costs. Included in the accompanying consolidated statements of operations and changes in net assets is an estimated gain (loss) related to this event totaling \$1,155 and \$(3,484) for the years ended September 30, 2017 and 2016, respectively.

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2013 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

BHCC accounts for HITECH incentive payments as a gain contingency. Income from incentive payments is recognized as revenue after BHCC has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period and the cost report period that will be used to determine the final incentive payment has ended. BHCC has recorded incentive payments of \$138 and \$1,866 for the years ended September 30, 2017 and 2016, respectively. Income from incentive payments is subject to retrospective adjustment and audit by the federal government.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

5. Cash and Investments

The composition of cash, cash equivalents, and investments is presented below:

	September 30	
	2017	2016
Cash and cash equivalents and short-term investments	\$ 171,220	\$ 182,597
U.S. corporate obligations	55,510	33,095
U.S. Treasury obligations	12,410	13,196
U.S. government agencies and sponsored entities	16,904	10,024
Collateralized debt obligations	5,363	3,973
Equity securities	94,197	91,424
Alternative investments	32,663	16,812
Other	10,152	19,896
	\$ 398,419	\$ 371,017

A summary of the limitations as to the use of investments limited as to use is as follows:

	September 30	
	2017	2016
Internally designated:		
For expansion	\$ 43,894	\$ 40,701
Malpractice trust funds	7,049	6,992
Other-ECACH (Note 16)	998	996
Other	30,152	24,240
Held by trustee under bond indenture agreements:		
Debt service reserve fund	13,432	13,436
	95,525	86,365
Less amount to pay current liabilities	1,869	2,821
	\$ 93,656	\$ 83,544

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Cash and Investments (continued)

Investment income (including unrealized gains and losses) from investments limited as to use, short-term investments, cash, and cash equivalents comprised the following:

	Year Ended September 30	
	2017	2016
Excess of revenues, other support, and gains over expenses and losses:		
Nonoperating (losses) gains:		
Interest and dividend income	\$ 5,681	\$ 3,149
Realized gains (losses) on sales of securities	2,714	(342)
Net unrealized gains on trading securities	5,435	7,205
	<u>\$ 13,830</u>	<u>\$ 10,012</u>
Other changes in unrestricted net assets:		
Net unrealized gains on other-than-trading securities	<u>\$ 212</u>	<u>\$ 247</u>
Other changes in temporarily restricted net assets:		
Net unrealized gains on other-than-trading securities	<u>\$ 449</u>	<u>\$ 157</u>

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Property, Plant, and Equipment

BHCC had property, plant, and equipment, less allowances for depreciation and amortization, as follows:

	September 30	
	2017	2016
Land	\$ 23,965	\$ 21,997
Land improvements	14,878	14,899
Buildings	292,755	287,656
Equipment	276,028	290,095
	607,626	614,647
Accumulated for depreciation and amortization	(393,332)	(401,453)
	214,294	213,194
Construction-in-progress	30,408	14,330
	\$ 244,702	\$ 227,524

At September 30, 2017 and 2016, property, plant, and equipment included \$11,871 and \$11,513 in equipment under capital leases, net of \$3,919 and \$4,940 in accumulated amortization, respectively.

Depreciation expense for the years ended September 30, 2017 and 2016 was \$26,199 and \$23,359, respectively.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt

BHCC was obligated under long-term debt as follows:

	September 30	
	2017	2016
	<i>(As Adjusted)</i>	
Health Facilities Revenue Bonds, Series 2009A, net of issue costs of \$48 and \$56 at September 30, 2017 and 2016, respectively, principal and interest payable in monthly amounts of \$115 through January 1, 2024, at a fixed interest rate of 3.25%	\$ 7,863	\$ 8,963
Health Facilities Revenue Bonds (Baptist Hospital, Inc.), Series 2010A, net of unamortized discount of \$568 and \$598, and unamortized issue costs of \$3,315 and \$3,488, at September 30, 2017 and 2016, respectively, with \$3,410 due August 15, 2018, at an interest rate of 5.00%; \$7,345 in serial bonds at interest rates ranging from 5.00% to 5.13% due in varying amounts through August 15, 2020; \$18,195 of term bonds at an interest rate of 5.50% due on August 15, 2024; \$36,440 of term bonds at an interest rate of 5.75% due on August 15, 2029; and \$73,075 of term bonds at an interest rate of 6.00% due on August 15, 2036, with interest payable semiannually	134,582	137,624
Promissory Note Payable, net of issue costs of \$31 and \$33 at September 30, 2017 and 2016, respectively, payable in varying amounts until February 1, 2040, at a fixed interest rate of 3.72%	18,994	19,722
Pensacola POB, Inc. Note Payable, net of issue costs of \$0 and \$4 at September 30, 2017 and 2016, respectively, payable monthly in varying amounts through March 1, 2020, at a variable rate of interest (2.79% at September 30, 2017)	9,854	10,300

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt (continued)

	September 30	
	2017	2016
	<i>(As Adjusted)</i>	
Andrews Institute Medical Park Note Payable, net of issue costs of \$0 and \$3 at September 30, 2017 and 2016, respectively, payable monthly in varying amounts until March 1, 2020, at a variable rate of interest (2.79% at September 30, 2017)	\$ 12,274	\$ 12,831
Andrews Institute Medical Park Note Payable, net of issue costs of \$0 and \$2 at September 30, 2017 and 2016, respectively, payable monthly in varying amounts until March 1, 2020, at a variable rate of interest (2.79% at September 30, 2017)	5,852	6,117
Tax-Exempt Lease Obligation, net of issue costs of \$3 and \$8 at September 30, 2017 and 2016, respectively, principal and interest payable in monthly amounts of \$150 through April 30, 2018, at fixed interest rate of 2.20%	1,038	2,785
Infrastructure improvement construction loan, net of issue costs of \$13 and \$14 at September 30, 2017 and 2016, respectively, drawn over 24 months; interest payable monthly during draw period based on 30-day LIBOR plus 160 basis points (2.83% at September 30, 2017)	13,987	14,986
Electronic Health Record financing loan, payable over ten years, at a fixed interest rate of 2.56%	17,258	—
Capital lease obligations	2,440	1,022
Other long-term debt	3,789	4,152
	227,931	218,502
Less current portion	11,919	9,743
	\$ 216,012	\$ 208,759

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt (continued)

2009A Health Facilities Revenue Bonds

In December 2009, \$15,000 of Health Facilities Revenue Bonds, Series 2009A (the 2009A Bonds) were issued by the Escambia County Health Facilities Authority (the Authority) on behalf of Baptist at a fixed rate of 5.49%. The proceeds of the 2009A Bonds were used to extinguish previously issued bonds.

2010A Health Facilities Revenue Bonds

In February 2010, \$155,000 of Health Facilities Revenue Bonds, Series 2010A (the 2010A Bonds) were issued by the Authority on behalf of Baptist at fixed rates ranging from 3% to 6%. The proceeds of the 2010A Bonds were used to extinguish previously issued bonds, to pay or reimburse the cost of acquiring, constructing, and equipping certain capital projects, to pay related cost of issuance, and fund a debt service reserve and capitalized interest fund.

2010B Health Facilities Revenue Bonds

In February 2010, \$24,000 of Taxable Variable Rate Demand Bonds, Series 2010B (the 2010B Bonds) were issued by the Authority on behalf of Baptist. The proceeds of the 2010B Bonds were used to reimburse Baptist for previous expenditures and to pay related cost of issuance.

Promissory Note Payable

In December 2011, Baptist and Bank of America, N.A. (Bank of America) modified and replaced the 2010B Bonds with a promissory note payable in order to eliminate Baptist's renewal risk related to a letter of credit and reimbursement agreement entered into between a remarketing agent and Baptist. In December 2016, Baptist modified the 2010B Bonds, converting from a variable interest rate to a fixed interest rate of 3.72%.

The 2009A Bonds and the 2010A Bonds (the Bonds) are limited obligations of the Authority, payable principally from the receipts of loan agreements between the Authority and Baptist. The Bonds are secured by a gross revenue pledge of the Baptist and The Manor (the Obligated Group) and a mortgage on the Gulf Breeze Hospital campus. Baptist and LCI comprise the

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt (continued)

Combined Group under a Master Trust Indenture. LCI, as a restricted affiliate under the Master Trust Indenture, agrees to be bound by its terms but is not directly liable for obligations issued under the Master Trust Indenture. The Master Trust Indenture requires certain covenants and reporting requirements to be met by the Combined Group. All covenants were complied with for the years ended September 30, 2017 and 2016, respectively.

Pensacola POB, Inc. Note Payable

In March 2010, Pensacola POB, Inc., a subsidiary of Ventures, entered into a note for \$13,423. The proceeds of the note were used to extinguish previously issued bonds. The note, modified in 2013 to extend the maturity date and decrease monthly debt service, is payable in varying amounts until March 2020 at a variable rate of interest, which is based on the bond rating of the Combined Group. The Obligated Group has provided a guaranty as security for the note that requires the Combined Group to meet certain financial covenants.

Andrews Institute Medical Park Notes Payable

In March 2010, Andrews Institute Medical Park (Andrews), a subsidiary of Ventures, entered into two notes for \$17,358 and \$7,971. The proceeds of the notes were used to extinguish previously issued debt. The notes, modified in 2013 to extend the maturity dates and decrease monthly debt service, are payable in varying amounts until March 2020 at a variable rate of interest, which is based on the bond rating of the Combined Group. The Obligated Group has provided a guaranty as security for the note that requires the Combined Group to meet certain financial covenants.

Tax-Exempt Lease Obligation

In December 2010, a \$15,000 tax-exempt lease obligation was issued by the Authority on behalf of Baptist. The lease can be drawn in multiple schedules over three years. The first draw of \$6,500 was made in December 2010, and the second draw of \$8,500 was made in May 2013. The proceeds were used by Baptist to pay for acquiring and equipping certain capital projects and paying the related costs of issuance. The lease is secured by the equipment it is financing.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt (continued)

Construction Loan

During February 2014, Baptist entered into a \$15,000 loan with Bank of America. The proceeds, to be used for infrastructure improvements, were drawn over 24 months, with interest payable only during the draw period. The loan matures 15 years from closing, with interest payable based on the 30-day London Interbank Offered Rate (LIBOR) plus 160 basis points.

Electronic Health Record Loan

In October 2016, Baptist entered into an agreement to borrow up to \$25,000 to finance the purchase and implementation of a new Electronic Health Record (Note 12). The debt was interest only until September 2017 at LIBOR plus 125 basis points and then converted to a fully amortizing note, payable over ten years, at a fixed interest rate of 2.56%. At September 30, 2017, \$17,258 was outstanding under the loan.

Debt Maturities

Maturities of long-term debt (excluding capital leases) for the succeeding five years are as follows:

	<u>Amount</u>
Year ending September 30:	
2018	\$ 11,131
2019	10,444
2020	34,885
2021	9,750
2022	11,355

Capital Lease Obligations

BHCC has entered into capital leases for various pieces of equipment, payable in monthly installments ranging from 44 to 72 months, at varying interest rates from 1.60% to 6.00%.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt (continued)

Future minimum payments under the capital leases are as follows:

	<u>Amount</u>
Year ending September 30:	
2018	\$ 1,106
2019	803
2020	266
2021	187
2022	177
Thereafter	<u>53</u>
Total minimum capital lease payments	2,592
Less amount representing interest	<u>152</u>
Present value of minimum lease payments	2,440
Less current portion	<u>788</u>
	<u><u>\$ 1,652</u></u>

8. Line of Credit Arrangements

At September 30, 2017 and 2016, BHCC has available line of credit arrangements totaling \$24,000 and \$21,500, respectively. These lines of credit bear interest at rates ranging from LIBOR plus 1.40% to LIBOR plus 3.15%. At September 30, 2017 and 2016, amounts outstanding under these line of credit arrangements were \$22,333 and \$14,845, respectively, and are included in other current liabilities in the accompanying consolidated balance sheets.

9. Derivative Financial Instruments

BHCC has entered into interest rate swap agreements. BHCC accounts for its derivative financial instruments under ASC Topic 815, *Derivatives and Hedging*, and ASC Topic 954, *Health Care Entities*. ASC Topic 954 requires that not-for-profit health care organizations apply the provisions of ASC Topic 815 (including the provisions pertaining to cash flow hedge accounting) in the same manner as for-profit enterprises.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Derivative Financial Instruments (continued)

ASC Topic 815 requires companies to recognize all derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative financial instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative financial instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of the foreign currency exposure of a net investment in a foreign operation. BHCC has not designated any of its derivative financial instruments as hedges under ASC Topic 815.

The primary risk managed by using derivative financial instruments is interest rate risk. Interest rate swaps are entered into to manage interest rate risk associated with BHCC's variable-rate borrowings. Interest rate swap agreements between BHCC and third parties (counterparties) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and expose BHCC to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for BHCC's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap agreements contain collateral provisions applicable to both parties to mitigate credit risk. BHCC does not anticipate nonperformance by its counterparties. BHCC has not been requested to post collateral for any interest rate swap agreements in a negative position. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of BHCC derivative positions in the context of its blended cost of capital. At September 30, 2017 and 2016, the notional amount of BHCC's interest rate swap agreements was \$55,155.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Derivative Financial Instruments (continued)

Substantially all of BHCC's derivative instruments contain provisions that require the Combined Group to maintain an investment-grade credit rating. If the Combined Group's credit rating was to fall below investment grade, it would be in violation of such provisions, and the counterparties to the derivative instruments could request immediate payment on derivative instruments in net liability positions. The aggregate fair value of all derivative financial instruments with credit-related contingent features that are in a liability position at September 30, 2017 and 2016, is \$1,064 and \$1,909, respectively. If the credit-risk related contingent features underlying these agreements had been triggered on September 30, 2017, BHCC could have been required to settle the agreements with the counterparties, requiring cash or other liquid assets of \$1,073.

BHCC's derivative financial instruments are reported in the accompanying consolidated balance sheets as follows:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Liability Derivatives	
		Fair Value	
		September 30 2017	2016
Interest rate swap agreements	Other long-term liabilities	\$ 1,064	\$ 1,909

The effects of BHCC's derivative financial instruments on the accompanying consolidated statements of operations and changes in net assets are as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in Excess of Revenues, Other Support, and Gains Over Expenses and Losses	Amount of Gain (Loss) on Derivatives Recognized in Excess of Revenues, Other Support, and Gains Over Expenses and Losses	
		Year Ended September 30 2017	2016
Interest rate swap agreements	Change in fair value of interest rate swap agreements	\$ 845	\$ (276)
	Other nonoperating losses	(393)	(446)
		\$ 452	\$ (722)

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Retirement Plans

The Parent sponsors a noncontributory, defined benefit pension plan that covers substantially all of BHCC's employees, other than the employees of LCI who participate in a separate plan. BHCC froze the plan effective February 28, 2007. The effect of the curtailment is that no new benefits will be accrued after February 28, 2007. All benefits earned by the defined benefit plan's participants through that date will be available upon retirement under the plan provisions. Future growth in benefits will no longer occur beyond February 28, 2007. BHCC's policy is to contribute annually the minimum amount necessary to comply with the requirements of the Employee Retirement Income Security Act of 1974. BHCC funds the required contributions to the plan.

The Parent also sponsors a supplemental employee retirement benefit plan (SERP) for certain executives. This plan is not funded.

ASC Topic 715, *Compensation – Retirement Benefits*, requires employers that sponsor defined benefit plans to recognize the funded status of their postretirement benefit plans in the balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end balance sheet, and provide additional disclosures.

As further described in Note 16, effective May 31, 2015, ECACH disaffiliated from BHCC. Pursuant to a transition agreement, components of the defined benefit pension plan attributable to ECACH remained temporarily with BHCC. Upon ECACH's successful establishment of a new pension plan in 2016, the pension liability was assumed by ECACH and was derecognized by BHCC.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Retirement Plans (continued)

The following tables set forth the benefit obligations and the assets of the defined benefit plan and SERP changes in the plan assets and benefit obligations recognized in unrestricted net assets, and the components of net periodic benefit costs:

	Year Ended September 30	
	2017	2016
Accumulated benefit obligation	\$ 135,254	\$ 136,544
Change in projected benefit obligation:		
Projected benefit obligation, as of prior measurement date	\$ 136,545	\$ 133,628
Interest cost	5,008	5,791
Benefit payments	(5,531)	(6,708)
Actuarial (gain) loss	(767)	8,833
ECACH plan spinoff	—	(4,999)
Projected benefit obligation (carryforward)	135,255	136,545
Changes in plan assets at fair value (bring forward):		
Fair value of plan assets, as of prior measurement date	86,693	82,700
Actual return on plan assets	7,914	8,595
Employer contributions	5,117	5,132
Benefit payments	(5,531)	(6,708)
ECACH spinoff/true-up	—	(3,026)
Fair value of plan assets	94,193	86,693
Deficiency of fair value of plan assets over projected benefit obligation included in other long-term liabilities	\$ (41,062)	\$ (49,852)

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Retirement Plans (continued)

No plan assets are expected to be returned to BHCC during the fiscal year ending September 30, 2018.

Included in unrestricted net assets at September 30, 2017 and 2016, were unrecognized actuarial losses of \$69,052 and \$75,218, respectively.

Changes in plans' assets and benefit obligations recognized in unrestricted net assets were as follows:

	Year Ended September 30	
	2017	2016
Net actuarial gain (loss)	\$ 4,042	\$ (3,792)
Amortization of:		
Net actuarial loss	2,097	2,758
Prior service cost	27	51
Adjustment due to ECACH spinoff	-	1,862
Total recognized in unrestricted net assets	<u>\$ 6,166</u>	<u>\$ 879</u>

The components of net periodic pension expense were as follows:

	Year Ended September 30	
	2017	2016
Interest cost	\$ 5,008	\$ 5,791
Expected return on plan assets	(4,640)	(5,528)
Amortization of:		
Net actuarial loss	2,097	2,758
Prior service cost	27	51
Settlement/Curtailment due to ECACH spinoff	-	1,862
Net periodic pension expense	<u>\$ 2,492</u>	<u>\$ 4,934</u>

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Retirement Plans (continued)

The unrecognized actuarial loss and prior service cost included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2018, is \$2,099.

The assumptions used to determine accrued pension costs and net periodic pension cost are set forth below:

	September 30	
	2017	2016
Used to determine projected benefit obligation		
Defined benefit pension plan:		
Weighted-average discount rate	3.89%	3.77%
Weighted-average rate of compensation increase	N/A	N/A
Weighted-average expected long-term rate of return on plan assets	4.90%	5.25%
Supplemental employee retirement benefit plan:		
Weighted-average discount rate	3.65%	3.46%
Weighted-average rate of compensation increase	N/A	N/A
Weighted-average expected long-term rate of return on plan assets	N/A	N/A
	Year Ended September 30	
	2017	2016
Used to determine benefit cost		
Defined benefit pension plan:		
Weighted-average discount rate	3.77%	4.46%
Weighted-average rate of compensation increase	N/A	N/A
Weighted-average expected long-term rate of return on plan assets	5.25%	6.30%
Supplemental employee retirement benefit plan:		
Weighted-average discount rate	3.46%	4.16%
Weighted-average rate of compensation increase	N/A	N/A
Weighted-average expected long-term rate of return on plan assets	N/A	N/A

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Retirement Plans (continued)

Asset Allocation

The weighted-average asset allocation for the defined benefit pension plan as of September 30, 2017 and 2016, and the target allocation for fiscal 2017, by asset category, is as follows:

Asset Category	Target Allocation Fiscal 2017	Percentage of Plan Assets	
		September 30 2017	2016
U.S. equities	22.5%	17.1%	16.3%
International equities	22.4	29.7	26.6
Fixed income	45.9	43.8	47.7
Real estate	7.2	7.0	7.5
Cash and cash equivalents	2.0	2.4	1.9
Total	100.0%	100.0%	100.0%

The Retirement Plan Committee has approved the investment of the defined benefit pension plan's asset in mutual funds that invest in the asset categories noted above.

Fair Value of Plan Assets

The defined benefit pension plan's assets, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 15, at September 30, 2017 and 2016, were as follows:

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,243	\$ —	\$ —	\$ 2,243

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,623	\$ —	\$ —	\$ 1,623

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

10. Retirement Plans (continued)

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of the securities included in Level 2 are based on pricing inputs that are either directly observable or that can be derived or supported from observable data as of the reporting date.

The plan holds units of various Aon Hewitt Group Trust Funds (Trust Funds) offered through a private placement. The units are valued daily using the net asset value (NAV). The NAVs are based on the fair value of each fund's underlying investments. Level 1 assets are priced using quotes for trades occurring in active markets for the identical asset. Level 2 assets are priced using observable inputs for the asset (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Investment Strategy

The defined benefit pension plan's asset allocation and investment strategy are designed to earn returns on plan assets, consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of large losses. BHCC uses investment managers specializing in each asset category and provides the investment managers with specific guidelines that include allowable and/or prohibited investment types. BHCC regularly monitors manager performance and compliance with investment guidelines.

Expected Rate of Return

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

The expected employer contributions for the year ending September 30, 2018, are \$4,661.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Retirement Plans (continued)

The following represents the expected benefit plan payments for the next five years and the five years thereafter:

	<u>Amount</u>
Year ending September 30:	
2018	\$ 6,653
2019	6,971
2020	7,237
2021	7,463
2022	7,660
2023–2027	40,011

BHCC sponsors a defined contribution plan covering all eligible associates, excluding LCI's employees. Benefits are determined as a percentage of a participant's salary and increase over specified periods of employee service. Participants become fully vested in the employer contributions after six years. Defined contribution expense matched by BHCC was \$3,320 and \$3,026 for the years ended September 30, 2017 and 2016, respectively. The service-graded employer contribution expense was \$789 and \$794 for the years ended September 30, 2017 and 2016, respectively.

LCI provides a tax deferred annuity 403(b) retirement plan to all eligible employees. Employees of LCI who work a minimum of 20 hours per week are eligible to participate in the plan after completing one year of employment. Voluntary employee contributions are allowed to the extent permitted by law. LCI contributes a total of 3%, with a match of up to 2% of each eligible participant's compensation. In compliance with Internal Revenue Service regulations, employer contributions for eligible participants vest under a six-year graduated vesting schedule. Retirement expense for the years ended September 30, 2017 and 2016, was \$2,142 and \$1,516, respectively.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Concentrations of Credit Risk

BHCC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	September 30	
	2017	2016
Medicare	39%	39%
Medicaid	9	12
Other third-party payors	38	38
Patient responsibility	14	11
	100%	100%

12. Commitments and Contingencies

Operating Leases

BHCC leases certain equipment and building space under operating leases. Future minimum lease payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more are as follows:

	Amount
Year ending September 30:	
2018	\$ 2,639
2019	2,559
2020	2,486
2021	2,057
2022	1,418
Thereafter	6,321
	\$ 17,480

Total expense under operating leases was \$13,111 and \$12,417 for the years ended September 30, 2017 and 2016, respectively.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

12. Commitments and Contingencies (continued)

Malpractice

With the exception of LCI, BHCC's subsidiaries maintain a self-insured retention (SIR) for general and professional liability insurance on a claims-made basis. The SIR is \$3,000 per occurrence with a \$9,000 aggregate plus a \$2,000 aggregate buffer. In addition, these subsidiaries have an excess claims-made policy with shared limits in the amount of \$15,000, with a policy limit of \$15,000 in the aggregate.

Losses are accrued based on estimates provided by BHCC's consulting actuary and are based on actuarial assumptions that incorporate past experience and other considerations, including the nature of each claim or incident and relevant trends. The accrued liability for self-insured claims, discounted at 1.4% and 1.4%, amounted to \$8,412 and \$8,935 at September 30, 2017 and 2016, respectively, and is included in the accompanying consolidated balance sheets as follows:

	September 30	
	2017	2016
Other current liabilities	\$ 871	\$ 1,825
Other long-term liabilities	7,541	7,110
	<u>\$ 8,412</u>	<u>\$ 8,935</u>

BHCC has on deposit, in a revocable trust, cash and investments totaling \$7,049 and \$6,992 at September 30, 2017 and 2016, respectively, to be used for payment of self-insured claims in the future, which are included in investments limited as to use.

LCI carries general and professional liability insurance on a claims-made basis, with coverage up to \$1,000 per occurrence and \$3,000 in the aggregate, and employee benefits liability insurance with coverage up to \$1,000 per occurrence and \$1,000 in the aggregate. In addition, LCI has excess coverage policies for losses up to \$5,000 per occurrence and in the aggregate.

Should any of the claims-made policies not be renewed or replaced with equivalent insurance, claims based on occurrences during the terms but reported subsequently will be uninsured.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

12. Commitments and Contingencies (continued)

Malpractice insurance expense for the years ended September 30, 2017 and 2016, was approximately \$1,216 and \$4,004, respectively.

Asset Retirement Obligations

ASC Topic 410-20, *Asset Retirement and Environmental Obligations*, provides guidance with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. ASC Topic 410-20 requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. BHCC has determined that conditional legal obligations exist for certain of its facilities related primarily to underground storage tanks and asbestos materials. Conditional asset retirement obligations recorded as of September 30, 2017 and 2016, were \$2,546 and \$2,577, respectively. There are no assets legally restricted for purposes of settling asset retirement obligations.

During 2017 and 2016, \$62 and \$232, respectively, of retirement obligations were settled. Accretion expense of \$31 and \$56 was recorded during the years ended September 30, 2017 and 2016, respectively.

Air Rights

BHCC owns medical office buildings and has executed agreements with several parties in which these parties purchase office space. Simultaneously with the execution of the purchase agreements, Baptist entered into an air rights lease with the purchasers, providing for access to building easements. Included in the air rights lease are put options that grant the purchaser the right to sell the office space back to Baptist at the 7th, 10th, 20th, and 30th anniversaries of the execution of the lease. Because of the put options, the purchases of the office space do not qualify as a sale under generally accepted accounting principles and instead are accounted for as financing transactions. Included in other long-term liabilities in the accompanying consolidated balance sheets at September 30, 2017 and 2016, is \$7,103 and \$6,704, respectively, in financing obligations related to these transactions.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

12. Commitments and Contingencies (continued)

Electronic Health Record

In October 2015, BHCC finalized its vendor selections for the purchase and implementation of a new EHR impacting BHCC's acute care and ambulatory practices, as well as certain ancillary and revenue cycle systems. BHCC executed a ten-year agreement for implementation costs and services, as well as ongoing maintenance and support for a total of \$34,700 over the life of the contract. LCI also selected a vendor for the purchase of an EHR impacting behavioral medicine for a total of \$1,600 over a five-year contract term. The costs include acquisition, implementation, and ongoing support and maintenance. Through September 30, 2017, Baptist and LCI have capitalized \$28,129 and \$1,200, respectively, related to the EHR projects. Project implementation is expected to last one and a half years with a December 2017 go-live date.

13. Supplemental Cash Flows Information

BHCC experienced changes in the components of working capital as follows:

	Year Ended September 30	
	2017	2016
Increase in accounts and contracts receivable	\$ (79,406)	\$ (53,847)
Decrease (increase) in inventories	924	(248)
(Increase) decrease in prepaid expenses and other current assets	(1,265)	1,854
(Decrease) increase in accounts payable and accrued expenses	(1,674)	7,801
(Decrease) increase in amounts due to third-party payors	(520)	2,839
Increase in other current liabilities	5,270	1,113
	<u>\$ (76,671)</u>	<u>\$ (40,488)</u>

Interest paid was \$10,416 and \$10,077 for the years ended September 30, 2017 and 2016, respectively.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

14. Other Assets

The composition of other assets is as follows:

	September 30	
	2017	2016
	<i>(As Adjusted)</i>	
Cash surrender value of insurance	\$ 5,647	\$ 5,304
Goodwill	9,456	9,456
Physician guarantees	94	284
Investment in joint ventures	792	818
Investment in rental property	469	485
Other	2,555	2,513
	\$ 19,013	\$ 18,860

15. Fair Value Measurements

As defined in ASC Topic 820, *Fair Value Measurement*, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of BHCC's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed income and equity instruments, and interest rate swap agreements. The three levels of the fair value hierarchy defined by ASC Topic 820 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that BHCC has the ability to access.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

15. Fair Value Measurements (continued)

Level 2 – Financial assets and liabilities whose values are based on pricing inputs that are either directly observable or that can be derived or supported from observable data as of the reporting date. Level 2 inputs may include quoted prices for similar assets or liabilities in nonactive markets or pricing models whose inputs are observable for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. BHCC has no financial assets or financial liabilities with significant Level 3 inputs.

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

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

15. Fair Value Measurements (continued)

The fair value of financial assets and financial liabilities at September 30, 2017 and 2016, measured at fair value on a recurring basis was as follows:

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 162,961	\$ —	\$ —	\$ 162,961
Short-term investments:				
U.S. corporate obligations	—	35,238	—	35,238
U.S. Treasury obligations	2,830	—	—	2,830
U.S. government agencies and sponsored entities	—	11,632	—	11,632
Collateralized debt obligations	—	3,829	—	3,829
Domestic equities	30,671	—	—	30,671
Foreign equities	32,277	—	—	32,277
Other	—	451	—	451
Total short-term investments	65,778	51,150	—	116,928
Investments limited as to use:				
Cash and cash equivalents	8,259	—	—	8,259
U.S. corporate obligations	—	20,272	—	20,272
U.S. Treasury obligations	9,580	—	—	9,580
U.S. government agencies and sponsored entities	—	5,272	—	5,272
Collateralized debt obligations	—	1,534	—	1,534
Domestic equities	16,934	—	—	16,934
Foreign equities	14,315	—	—	14,315
Other	6,639	1,578	—	8,217
Total investments limited as to use	55,727	28,656	—	84,383
	\$ 284,466	\$ 79,806	\$ —	\$ 364,272
Liabilities				
Interest rate swap agreements	\$ —	\$ 1,064	\$ —	\$ 1,064

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

15. Fair Value Measurements (continued)

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 176,533	\$ –	\$ –	\$ 176,533
Short-term investments:				
U.S. corporate obligations	–	17,886	–	17,886
U.S. Treasury obligations	3,202	–	–	3,202
U.S. government agencies and sponsored entities	–	6,444	–	6,444
Collateralized debt obligations	–	2,751	–	2,751
Domestic equities	36,441	–	–	36,441
Foreign equities	23,187	–	–	23,187
Other	–	6,748	–	6,748
Total short-term investments	62,830	33,829	–	96,659
Investments limited as to use:				
Cash and cash equivalents	6,064	–	–	6,064
U.S. corporate obligations	–	15,209	–	15,209
U.S. Treasury obligations	9,994	–	–	9,994
U.S. government agencies and sponsored entities	–	3,580	–	3,580
Collateralized debt obligations	–	1,222	–	1,222
Domestic equities	20,338	–	–	20,338
Foreign equities	11,458	–	–	11,458
Other	6,583	4,745	–	11,328
Total investments limited as to use	54,437	24,756	–	79,193
	\$ 293,800	\$ 58,585	\$ –	\$ 352,385
Liabilities				
Interest rate swap agreements	\$ –	\$ 1,909	\$ –	\$ 1,909

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

15. Fair Value Measurements (continued)

Financial assets and financial liabilities are reflected in the accompanying consolidated balance sheets as follows:

	September 30	
	2017	2016
Short-term investments, at fair value	\$ 116,928	\$ 96,659
Alternative investments accounted for under the equity method	23,005	11,460
Total short-term investments	\$ 139,933	\$ 108,119
Investments limited as to use, at fair value	\$ 84,383	\$ 79,193
Alternative investments accounted for under the equity method	9,658	5,352
Other	1,484	1,820
Total investments limited as to use	\$ 95,525	\$ 86,365

See Note 9 for location of interest rate swap liabilities in the accompanying consolidated balance sheets.

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 financial assets and financial liabilities were determined as follows:

U.S. government agencies and sponsored entities, residential mortgage-backed, collateralized debt obligations, and other securities – The fair values of these securities were determined through evaluated bid prices provided by third-party pricing services where quoted market values are not available.

Interest rate swaps – The fair value of interest rate swaps was determined based on the use of widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. The analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, such as interest rate curves. In addition, credit valuation adjustments are included to

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

15. Fair Value Measurements (continued)

reflect both BHCC's nonperformance risk and the respective counterparty's nonperformance risk. BHCC pays fixed rates, ranging from 3.3% to 3.5%, and receives cash flows based primarily on percentages of LIBOR, ranging from 67% to 74% of LIBOR.

The carrying values of accounts receivable, accounts payable, and accrued liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The fair values of BHCC's fixed-rate bonds are estimated using Level 2 inputs based on quoted market prices for the same or similar issues and approximate \$159,816 and \$170,797 as of September 30, 2017 and 2016, respectively. The carrying values of these fixed-rate bonds were \$146,377 and \$150,728 as of September 30, 2017 and 2016, respectively. The carrying amount approximates fair value for all other long-term debt.

16. Discontinued Operations – Atmore Community Hospital

BHCC's management services agreement with Atmore Community Hospital (Atmore) expired May 31, 2015, and BHCC transferred its interest in ECACH to the Authority at that time. Pursuant to a transition agreement, the pension liability related to employees of Atmore Community Hospital (Atmore) remained temporarily at BHCC, and upon successful establishment of a new pension plan by ECACH in 2016, the pension liability was assumed by ECACH and was derecognized by BHCC. Additionally, the transition agreement allowed BHCC to delay remittance of cash and investments of Atmore to satisfy various accounts payable, accrued liabilities and the pension liability. Further, the transition agreement required BHCC's assistance for a limited duration in the collection of accounts receivable that existed at May 31, 2015. ECACH cash and investments (included as investments limited to use in the accompanying consolidated balance sheets) recorded by BHCC at September 30, 2017 and 2016, was \$998 and \$996, respectively. BHCC divestiture costs recorded to discontinued operations were \$163 for the year ended September 30, 2016.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

17. Changes in Consolidated Unrestricted Net Assets

Changes in consolidated unrestricted net assets that are attributable to BHCC and the noncontrolling interests in subsidiaries are as follows:

	Total	Controlling Interest	Noncontrolling Interests
Balance October 1, 2016	\$ 278,883	\$ 273,162	\$ 5,721
Excess of revenues, other support, and gains over expenses and losses	45,739	41,351	4,388
Other activity	2,679	7,286	(4,607)
Change in unrestricted net assets	48,418	48,637	(219)
Balance September 30, 2017	<u>\$ 327,301</u>	<u>\$ 321,799</u>	<u>\$ 5,502</u>

	Total	Controlling Interest	Noncontrolling Interests
Balance October 1, 2015	\$ 239,049	\$ 232,834	\$ 6,215
Excess of revenues, other support, and gains over expenses and losses	41,594	38,891	2,703
Discontinued operations	(163)	(163)	-
Other activity	(1,597)	1,600	(3,197)
Change in unrestricted net assets	39,834	40,328	(494)
Balance September 30, 2016	<u>\$ 278,883</u>	<u>\$ 273,162</u>	<u>\$ 5,721</u>

18. Subsequent Events

BHCC evaluated events and transactions occurring subsequent to September 30, 2017, and through December 21, 2017, the date the accompanying consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition or disclosure in the accompanying consolidated financial statements.

Supplementary Information

Baptist Health Care Corporation and Subsidiaries

Consolidating Balance Sheet Information (In Thousands)

September 30, 2017

	Consolidated Total	Consolidating/ Eliminating Entries	Baptist Health Care Corporation	Combined Group	Jay Hospital, Inc.	Baptist Health Care Foundation, Inc.	Baptist Health Ventures, Inc. and Subsidiaries
Assets							
Current assets:							
Cash and cash equivalents	\$ 162,961	\$ -	\$ 1	\$ 159,379	\$ 57	\$ 1,092	\$ 2,432
Short-term investments	139,933	(113,492)	113,492	134,905	-	5,028	-
Accounts receivable, net	64,199	-	435	59,696	818	-	3,250
Contracts receivable	20,384	-	-	20,384	-	-	-
Current portion of investments limited as to use	1,869	-	395	1,474	-	-	-
Inventories	13,305	-	-	12,064	134	-	1,107
Prepaid expenses and other current assets	14,543	-	4,151	8,890	67	-	1,435
Total current assets	417,194	(113,492)	118,474	396,792	1,076	6,120	8,224
Investments limited as to use, less current portion	93,656	(67,571)	72,438	83,509	-	5,280	-
Net property, plant, and equipment	244,702	-	197	187,713	2,633	-	54,159
Other assets	19,013	(41,556)	(53,602)	113,314	-	51	806
Total assets	<u>\$ 774,565</u>	<u>\$ (222,619)</u>	<u>\$ 137,507</u>	<u>\$ 781,328</u>	<u>\$ 3,709</u>	<u>\$ 11,451</u>	<u>\$ 63,189</u>

Baptist Health Care Corporation and Subsidiaries

Consolidating Balance Sheet Information (continued) (In Thousands)

	Consolidated Total	Consolidating/ Eliminating Entries	Baptist Health Care Corporation	Combined Group	Jay Hospital, Inc.	Baptist Health Care Foundation, Inc.	Baptist Health Ventures, Inc. and Subsidiaries
Liabilities and net assets							
Current liabilities:							
Accounts payable	\$ 55,559	\$ –	\$ 5,503	\$ 48,068	\$ 282	\$ 2	\$ 1,704
Accrued compensation and benefits	26,991	–	6,022	19,332	425	–	1,212
Accrued interest	1,434	–	–	1,369	–	–	65
Estimated third-party settlements	14,231	–	–	13,236	995	–	–
Current portion of long-term debt	11,919	–	–	10,339	40	–	1,540
Other current liabilities	43,619	–	3,523	39,742	6	69	279
Total current liabilities	153,753	–	15,048	132,086	1,748	71	4,800
Long-term debt, less current portion	216,012	–	–	186,446	81	–	29,485
Asset retirement obligations	2,546	–	–	2,414	132	–	–
Other long-term liabilities	67,503	(2,724)	19,502	47,654	257	90	2,724
Due to affiliated organizations	–	(148,251)	74,640	–	5,931	140	67,540
Total liabilities	439,814	(150,975)	109,190	368,600	8,149	301	104,549
Net assets (deficit):							
Unrestricted:							
Controlling interest	321,799	(69,885)	28,317	404,399	(4,440)	5,518	(42,110)
Noncontrolling interests in subsidiaries	5,502	–	–	4,752	–	–	750
	327,301	(69,885)	28,317	409,151	(4,440)	5,518	(41,360)
Temporarily restricted – controlling interest	7,450	(1,759)	–	3,577	–	5,632	–
Total net assets (deficit)	334,751	(71,644)	28,317	412,728	(4,440)	11,150	(41,360)
Total liabilities and net assets (deficit)	\$ 774,565	\$ (222,619)	\$ 137,507	\$ 781,328	\$ 3,709	\$ 11,451	\$ 63,189

Baptist Health Care Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Information (In Thousands)

Year Ended September 30, 2017

	Consolidated Total	Consolidating/ Eliminating Entries	Baptist Health Care Corporation	Combined Group	Jay Hospital, Inc.	Baptist Health Care Foundation, Inc.	Baptist Health Ventures, Inc. and Subsidiaries
Unrestricted revenues and other support:							
Patient service revenue	\$ 615,632	\$ 497	\$ 4,194	\$ 580,642	\$ 12,035	\$ –	\$ 18,264
Provision for bad debts	(69,196)	–	(101)	(66,760)	(2,042)	–	(293)
Net patient service revenue	546,436	497	4,093	513,882	9,993	–	17,971
Federal, state, and other awards	68,733	–	–	68,733	–	–	–
Vocational service contracts	163,932	–	–	163,932	–	–	–
Contract revenue	31,873	–	–	31,873	–	–	–
EHR incentive payments	138	–	–	138	–	–	–
Other revenue	25,181	(62,025)	57,988	11,937	245	490	16,546
Net assets released from restrictions used for operations	1,302	–	–	274	–	1,028	–
Total unrestricted revenues and other support	837,595	(61,528)	62,081	790,769	10,238	1,518	34,517
Expenses:							
Salaries and benefits	410,427	(203)	39,598	346,959	6,793	–	17,280
Supplies	136,465	–	1,619	129,550	1,283	–	4,013
General, administrative, and other	97,512	(62,042)	13,349	126,279	2,889	981	16,056
Professional fees and purchased services	103,402	(1,223)	7,723	93,499	1,091	–	2,312
Contract medical costs	19,799	–	–	19,799	–	–	–
Depreciation and amortization	26,168	(99)	460	22,555	855	–	2,397
Interest	10,527	(330)	99	9,748	8	–	1,002
Total expenses	804,300	(63,897)	62,848	748,389	12,919	981	43,060
Income (loss) from operations before gain							
from weather related events	33,295	2,369	(767)	42,380	(2,681)	537	(8,543)
Gain from weather related events	1,155	–	–	1,155	–	–	–
Income (loss) from operations	34,450	2,369	(767)	43,535	(2,681)	537	(8,543)

Baptist Health Care Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Information (continued) (In Thousands)

	Consolidated Total	Consolidating/ Eliminating Entries	Baptist Health Care Corporation	Combined Group	Jay Hospital, Inc.	Baptist Health Care Foundation, Inc.	Baptist Health Ventures, Inc. and Subsidiaries
Nonoperating gains (losses):							
Change in fair value of interest rate swap agreements	\$ 845	\$ -	\$ -	\$ 845	\$ -	\$ -	-
Net unrealized gains on trading securities	5,435	(5,576)	5,576	5,254	-	155	26
Investment income (loss)	8,395	(8,788)	8,084	10,026	(121)	321	(1,127)
Other, net	(3,386)	7,657	(9,732)	(1,338)	(10)	(236)	273
	11,289	(6,707)	3,928	14,787	(131)	240	(828)
Excess (deficiency) of revenues, other support, and gains over expenses and losses	45,739	(4,338)	3,161	58,322	(2,812)	777	(9,371)
Less excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	4,388	-	-	4,063	-	-	325
Excess (deficiency) of revenues, other support, and gains over expenses and losses attributable to controlling interest	41,351	(4,338)	3,161	54,259	(2,812)	777	(9,696)
Unrestricted net assets:							
Excess (deficiency) of revenues, other support, and gains over expenses and losses attributable to controlling interests	41,351	(4,338)	3,161	54,259	(2,812)	777	(9,696)
Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	4,388	-	-	4,063	-	-	325
Net unrealized gains on other-than-trading securities	212	-	212	-	-	-	-
Pension adjustment	6,166	-	146	6,020	-	-	-
Other	(3,699)	(81)	-	(3,458)	-	-	(160)
Increase (decrease) in unrestricted net assets before discontinued operations	48,418	(4,419)	3,519	60,884	(2,812)	777	(9,531)
Loss from discontinued operations	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	48,418	(4,419)	3,519	60,884	(2,812)	777	(9,531)

Baptist Health Care Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Information (continued) (In Thousands)

	Consolidated Total	Consolidating/ Eliminating Entries	Baptist Health Care Corporation	Combined Group	Jay Hospital, Inc.	Baptist Health Care Foundation, Inc.	Baptist Health Ventures, Inc. and Subsidiaries
Temporarily restricted net assets:							
Contributions	\$ 1,555	\$ -	\$ -	\$ 551	\$ -	\$ 1,004	\$ -
Net unrealized gains on other-than-trading securities	449	-	-	-	-	449	-
Net assets released from restrictions	(1,302)	-	-	(274)	-	(1,028)	-
Other	83	(212)	-	304	-	(9)	-
Increase (decrease) in temporarily restricted net assets	785	(212)	-	581	-	416	-
Increase (decrease) in net assets	49,203	(4,631)	3,519	61,465	(2,812)	1,193	(9,531)
Net assets (deficit) at beginning of year	285,548	(67,013)	24,798	351,263	(1,628)	9,957	(31,829)
Net assets (deficit) at end of year	\$ 334,751	\$ (71,644)	\$ 28,317	\$ 412,728	\$ (4,440)	\$ 11,150	\$ (41,360)

Combined Group Under Master Trust Indenture
(Baptist Hospital, Inc. and Lakeview Center, Inc.)

Combining Balance Sheet Information
(In Thousands)

September 30, 2017

	Combined Total	Combining/ Eliminating Entries	Baptist Hospital, Inc.	Lakeview Center, Inc. and Subsidiaries
Assets				
Current assets:				
Cash and cash equivalents	\$ 159,379	\$ —	\$ 103,916	\$ 55,463
Short-term investments	134,905	—	79,476	55,429
Accounts receivable, net	59,696	—	55,399	4,297
Contracts receivable	20,384	—	—	20,384
Current portion of investments limited as to use	1,474	—	1,474	—
Inventories	12,064	—	11,780	284
Prepaid expenses and other current assets	8,890	—	6,826	2,064
Total current assets	396,792	—	258,871	137,921
Investments limited as to use, less current portion	83,509	—	35,952	47,557
Net property, plant, and equipment	187,713	—	168,190	19,523
Other assets	113,314	—	95,213	18,101
Total assets	<u>\$ 781,328</u>	<u>\$ —</u>	<u>\$ 558,226</u>	<u>\$ 223,102</u>
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 48,068	\$ —	\$ 34,794	\$ 13,274
Accrued compensation and benefits	19,332	—	16,349	2,983
Accrued interest	1,369	—	1,369	—
Estimated third-party settlements	13,236	—	13,236	—
Current portion of long-term debt	10,339	—	10,303	36
Other current liabilities	39,742	—	28,356	11,386
Total current liabilities	132,086	—	104,407	27,679
Long-term debt, less current portion	186,446	—	185,735	711
Asset retirement obligations	2,414	—	2,414	—
Other long-term liabilities	47,654	—	47,654	—
Total liabilities	368,600	—	340,210	28,390
Net assets:				
Unrestricted:				
Controlling interest	404,399	—	211,446	192,953
Noncontrolling interests in subsidiaries	4,752	—	4,752	—
	409,151	—	216,198	192,953
Temporarily restricted – controlling interest	3,577	—	1,818	1,759
Total net assets	412,728	—	218,016	194,712
Total liabilities and net assets	<u>\$ 781,328</u>	<u>\$ —</u>	<u>\$ 558,226</u>	<u>\$ 223,102</u>

Combined Group Under Master Trust Indenture
(Baptist Hospital, Inc. and Lakeview Center, Inc.)

Combining Statement of Operations
and Changes in Net Assets Information
(In Thousands)

Year Ended September 30, 2017

	Combined Total	Combining/ Eliminating Entries	Baptist Hospital, Inc.	Lakeview Center, Inc. and Subsidiaries
Unrestricted revenues and other support:				
Patient service revenue	\$ 580,642	\$ —	\$ 566,713	\$ 13,929
Provision for bad debts	(66,760)	—	(66,759)	(1)
Net patient service revenue	513,882	—	499,954	13,928
Federal, state, and other awards	68,733	—	—	68,733
Vocational service contracts	163,932	—	—	163,932
Contract revenue	31,873	—	—	31,873
EHR incentive payments	138	—	138	—
Other revenue	11,937	(5,991)	14,843	3,085
Net assets released from restrictions used for operations	274	—	274	—
Total unrestricted revenues and other support	790,769	(5,991)	515,209	281,551
Expenses:				
Salaries and benefits	346,959	—	221,702	125,257
Supplies	129,550	—	121,659	7,891
General, administrative, and other	126,279	—	91,040	35,239
Professional fees and purchased services	93,499	(4,924)	34,867	63,556
Contract medical costs	19,799	—	—	19,799
Depreciation and amortization	22,555	—	19,959	2,596
Interest	9,748	—	9,677	71
Total expenses	748,389	(4,924)	498,904	254,409
Income from operations before gain from weather related events	42,380	(1,067)	16,305	27,142
Gain from weather related events	1,155	—	1,155	—
Income from operations	43,535	(1,067)	17,460	27,142
Nonoperating gains (losses):				
Change in fair value of interest rate swap agreements	845	—	845	—
Unrealized gains on trading securities	5,254	—	2,661	2,593
Investment income	10,026	—	6,513	3,513
Other, net	(1,338)	1,067	(2,405)	—
	14,787	1,067	7,614	6,106
Excess of revenues, other support, and gains over expenses and losses	58,322	—	25,074	33,248
Less excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	4,063	—	4,063	—
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interest	54,259	—	21,011	33,248

Combined Group Under Master Trust Indenture
(Baptist Hospital, Inc. and Lakeview Center, Inc.)

Combining Statement of Operations
and Changes in Net Assets Information (continued)
(In Thousands)

	Combined Total	Combining/ Eliminating Entries	Baptist Hospital, Inc.	Lakeview Center, Inc. and Subsidiaries
Unrestricted net assets:				
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interest	\$ 54,259	\$ —	\$ 21,011	\$ 33,248
Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	4,063	—	4,063	—
Pension adjustment	6,020	—	6,020	—
Other	(3,458)	—	(3,539)	81
Increase in unrestricted net assets	60,884	—	27,555	33,329
Temporarily restricted net assets:				
Contributions	551	—	551	—
Net assets released from restrictions	(274)	—	(274)	—
Other	304	—	92	212
Increase in temporarily restricted net assets	581	—	369	212
Increase in net assets	61,465	—	27,924	33,541
Net assets at beginning of year	351,263	—	190,092	161,171
Net assets at end of year	\$ 412,728	\$ —	\$ 218,016	\$ 194,712

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