



BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Financial Statements and Combining Information

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

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KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying combined financial statements of BayCare Health System, Inc. and Affiliates (the Organization), which comprise the combined balance sheets as of December 31, 2018 and 2017, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of BayCare Health System, Inc. and Affiliates as of December 31, 2018 and 2017, and the changes in their net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

**Emphasis of Matter**

As discussed in Note 2(p) to the financial statements, in 2018 BayCare Health System, Inc. and Affiliates adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASC 606) and ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASC 958). Our opinion is not modified with respect to this matter.

Other Matters

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

KPMG LLP

March 5, 2019

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Balance Sheets

December 31, 2018 and 2017

(In thousands)

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 56,640	69,730
Collateral received for securities lending transactions	243,859	248,215
Investments held on behalf of others	33,088	33,952
Short-term investments	—	3,234
Assets limited as to use	3,400	18,232
Accounts receivable	408,702	389,863
Inventories	100,698	91,498
Estimated third-party settlements	17,441	39,322
Prepaid and other current assets	68,737	55,441
Total current assets	932,565	949,487
Investments	4,445,060	4,286,896
Assets limited as to use	204,663	199,799
Property and equipment, net	2,233,430	2,142,980
Beneficial interest in net assets of foundations	163,018	167,369
Other assets	111,013	108,770
Total assets	\$ 8,089,749	7,855,301
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 208,285	210,459
Employee compensation and benefits	323,425	293,754
Current portion of long-term debt	27,297	35,568
Long-term debt, subject to short-term put arrangements	195,965	195,965
Liabilities for investments held on behalf of others	33,088	33,952
Liabilities under securities lending transactions	243,859	248,215
Total current liabilities	1,031,919	1,017,913
Long-term debt, less current portion	899,420	914,455
Other liabilities	431,516	410,369
Total liabilities	2,362,855	2,342,737
Net assets:		
Without donor restrictions	5,608,734	5,395,556
With donor restrictions	118,160	117,008
Total net assets	5,726,894	5,512,564
Total liabilities and net assets	\$ 8,089,749	7,855,301

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient service revenue	\$ 4,036,740	3,813,792
Other revenue	122,397	120,923
Total operating revenues	<u>4,159,137</u>	<u>3,934,715</u>
Operating expenses:		
Salaries and benefits	2,093,214	1,978,660
Supplies	770,700	722,343
Other expenses	686,257	654,046
Depreciation and amortization	219,374	207,776
Interest	40,686	37,246
Loss (gain) on sale of business	4,542	(8,081)
Total operating expenses	<u>3,814,773</u>	<u>3,591,990</u>
Operating income	<u>344,364</u>	<u>342,725</u>
Nonoperating (losses) gains, net:		
Investment (loss) income, net	(137,664)	443,155
Gain on interest rate swaps	13,759	3,553
Other nonoperating (losses) gains, net	(3,867)	14,013
Total nonoperating (losses) gains, net	<u>(127,772)</u>	<u>460,721</u>
Excess of revenues and gains over expenses	<u>\$ 216,592</u>	<u>803,446</u>

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Change in net assets without donor restrictions:		
Excess of revenues and gains over expenses	\$ 216,592	803,446
Net unrealized gains (losses) on other-than-trading securities	63	(43)
Net assets released from restrictions for capital additions	6,632	6,251
Amortization of accumulated hedge accounting losses	458	458
Pension-related changes other than service cost	(8,952)	8,072
Other	(1,615)	(347)
	<u>213,178</u>	<u>817,837</u>
Increase in net assets without donor restrictions		
Change in net assets with donor restrictions:		
Contributions	177	206
Net unrealized (losses) gains on other-than-trading securities	(809)	85
Change in beneficial interest in net assets of foundations	2,291	7,467
Net assets released from restrictions	(507)	(278)
	<u>1,152</u>	<u>7,480</u>
Increase in net assets with donor restrictions		
Increase in net assets	214,330	825,317
Net assets at beginning of year	<u>5,512,564</u>	<u>4,687,247</u>
Net assets at end of year	<u>\$ 5,726,894</u>	<u>5,512,564</u>

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Cash Flows

Years ended December 31, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase in net assets	\$ 214,330	825,317
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating (gains) losses:		
Depreciation and amortization	219,374	207,776
Amortization of bond premiums, net	(1,849)	(1,890)
Amortization of bond issue costs	540	595
Loss on sale of property and equipment	789	1,718
Other operating losses, net	—	4,170
Loss (gain) on sale of business	4,542	(8,081)
Loss on defeasance	233	—
Change in net unrealized losses (gains) on investments	293,875	(174,439)
Net realized gains on investments	(56,073)	(186,657)
Gain on interest rate swaps	(14,218)	(4,012)
Change in beneficial interest in net assets of foundations	4,351	(17,827)
Restricted contributions	(177)	(206)
Pension-related changes other than service cost	8,952	(8,072)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable , net	(20,792)	21,993
Inventories	(9,245)	(6,164)
Prepaid and other current assets	(13,296)	(2,340)
Accounts payable and accrued expenses	(1,675)	3,813
Employee compensation and benefits	30,338	55,471
Estimated third-party settlements	22,187	(76,167)
Other liabilities	37,401	(2,293)
Net cash provided by operating activities and nonoperating (gains) losses	<u>719,587</u>	<u>632,705</u>
Cash flows from investing activities:		
Purchases of property and equipment	(308,662)	(225,847)
Proceeds from sales of property and equipment	934	224
Payment for acquired business	—	(89,782)
Proceeds from sale of businesses	3,430	9,681
Purchases of assets limited as to use and investments	(1,735,419)	(2,185,195)
Proceeds from sales of assets limited as to use and investments	1,352,655	1,882,235
Increase in other assets	(4,889)	(5,921)
Net cash used in investing activities	<u>(691,951)</u>	<u>(614,605)</u>
Cash flows from financing activities:		
Restricted contributions	177	206
Proceeds from the issuance of debt	718,109	634,159
Repayments of long-term debt	(759,012)	(629,034)
Net cash (used in) provided by financing activities	<u>(40,726)</u>	<u>5,331</u>
(Decrease) increase in cash and cash equivalents	(13,090)	23,431
Cash and cash equivalents at beginning of year	<u>69,730</u>	<u>46,299</u>
Cash and cash equivalents at end of year	\$ <u>56,640</u>	\$ <u>69,730</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 42,291	40,806
Change in the acquisition of property and equipment through accrued expenses	(54)	(884)
Change in purchases of property and equipment to adjust for asset retirement obligations	801	512
Change in property and equipment related to capital leases	15,997	(3,111)

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

(1) Organization

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

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

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

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

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

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

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

(b) Cash and Cash Equivalents

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

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

(c) Securities Lending Transactions

The Organization participates in securities lending transactions whereby a portion of investments and assets limited as to use are loaned to various brokers in return for cash and securities from the brokers as collateral for the securities loaned. Pursuant to these arrangements, the collateral received must always equal at least 102% of the fair value of the securities loaned, which is determined at the end of each business day. Collateral received for securities lending transactions and the related liabilities are considered Level 1 investments (see note 2(o) for discussion of Level 1, Level 2, and Level 3 valuation methods). The collateral held for the securities loaned and a related payable of equal value at December 31, 2018 and 2017 have been reflected in the accompanying combined balance sheets.

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

		<u>December 31</u>	
		<u>2018</u>	<u>2017</u>
Equity securities:			
U.S.	\$	25,506	18,912
Global		48,540	40,468
U.S. fixed income securities:			
U.S.		91,929	162,775
Global		<u>68,496</u>	<u>18,439</u>
Total	\$	<u>234,471</u>	<u>240,594</u>

The Organization recorded net investment income of approximately \$371,000 and \$457,000 on these transactions for the years ended December 31, 2018 and 2017, respectively. Net investment income represents the amount received as investment income on the securities received as collateral, offset by the fees paid to the various brokers, and the investment earnings on the securities loaned to the brokers. Security lending fees were approximately \$3,123,000 and \$1,993,000 during the years ended December 31, 2018 and 2017, respectively.

(d) Investments and Investment Income

The Organization has designated substantially all of its investments as trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices. Investments in limited partnerships are reported using the estimated net asset value (NAV) as a practical expedient based on information provided by the respective partnership. Investments in closed-end limited partnerships where capital is called over time, redemptions are limited, and the Organization does not have significant influence over the partnerships, are recorded using the equity method. The Organization has committed \$525,000,000 in capital to these limited partnerships, HarbourVest, Metropolitan Real Estate, Park Street, Golub, and White Oak, as of December 31, 2018, with \$265,765,000 unfunded as of the year-end.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

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Investment income (including realized gains and losses, unrealized gains and losses on trading securities, interest, and dividends) is included in excess of revenues and gains over expenses unless such earnings are subject to donor-imposed restrictions. Investment income restricted by donor stipulations is reported as an increase in net assets with donor restrictions. Unrealized gains and losses on investments classified as other-than-trading are reported as a change in net assets without donor restrictions.

The Organization holds certain investments on behalf of others in the Investment Pool. Certain affiliated, uncombined not-for-profit foundations are participants in the Investment Pool. The combined financial statements present investments held on behalf of others, at fair value, as a current asset with a corresponding current liability representing the obligation to return the value of the investments to the foundations participating in the Investment Pool. The investments held, and related liability of equal value at December 31, 2018 and 2017, have been reflected in the accompanying combined balance sheets.

(e) Assets Limited as to Use

Assets limited as to use include investments held by BCHS Insurance, Ltd. (Captive), a wholly owned insurance captive, loan proceeds to purchase equipment, contractual obligations, or donor restrictions. Amounts required to meet current liabilities of the Organization have been classified as current assets in the combined balance sheets.

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

	December 31, 2018		
	Restricted		
	<u>Internally</u>	<u>Externally</u>	<u>Total</u>
Captive	\$ 197,894	—	197,894
Escrow Fund – Equipment Purchase	—	435	435
Other	—	9,734	9,734
	197,894	10,169	208,063
Less amount included in current assets	—	3,400	3,400
	<u>\$ 197,894</u>	<u>6,769</u>	<u>204,663</u>

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

	December 31, 2017		
	Internally	Restricted Externally	Total
Captive	\$ 192,305	—	192,305
Escrow Fund – Equipment Purchase	—	15,314	15,314
Other	—	10,412	10,412
	192,305	25,726	218,031
Less amount included in current assets	—	18,232	18,232
	\$ 192,305	7,494	199,799

(f) Inventories

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

(g) Property and Equipment

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

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

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

	December 31	
	2018	2017
Land	\$ 154,263	153,885
Land improvements	69,848	68,375
Buildings and improvements	2,693,544	2,696,094
Equipment	1,755,235	1,639,253
	4,672,890	4,557,607
Less accumulated depreciation and amortization	2,639,643	2,494,143
	2,033,247	2,063,464
Construction in progress	200,183	79,516
Property and equipment, net	\$ 2,233,430	2,142,980

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

The Organization recorded approximately \$217,528,000 and \$206,394,000 of depreciation expense for the years ended December 31, 2018 and 2017, respectively. Interest costs of approximately \$1,671,000 and \$3,589,000 were capitalized during the years ended December 31, 2018 and 2017, respectively. Included in buildings and equipment are assets leased under capital leases of approximately \$20,049,300 and \$3,126,000, net of accumulated amortization of approximately \$4,191,700 and \$3,987,000, at December 31, 2018 and 2017, respectively. Approximately \$3,497,000 and \$8,242,000 of fully depreciated assets were removed from the combined balance sheets in 2018 and 2017, respectively, as these assets were no longer utilized by the Organization.

The Organization had construction and information technology commitments of approximately \$256,715,000 relating to various projects as of December 31, 2018. The Organization expects to fund the commitments through operations and through net assets without donor restrictions.

The Organization reviews whether events and circumstances have occurred to indicate if the remaining useful life of long-lived assets may warrant revision or that the remaining balance of an asset may not be recoverable. If such an event occurs, an assessment of possible impairment is based on whether the carrying amount of the assets exceeds the expected total undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the undiscounted cash flows are less than the net book value of the assets, an impairment loss based on the fair value of the assets is recognized. No impairments were recorded in 2018 or 2017.

(h) Beneficial Interest in Net Assets of Foundations

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

(i) Self-Insurance

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

(j) Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose. Net assets with donor restrictions are maintained primarily for the purposes of patient care related services, capital improvements, and research and education.

(k) Net Patient Service Revenue

The Organization's revenues are derived from contracts with patients in which the performance obligation is to provide health care services to the patients and are reported at the amount expected to be received in exchange for providing patient care. These amounts are due from patients, third-party payors (including managed care payors and government programs) and others, and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills patients and third-party payors several days after the services are performed or shortly after discharge. The Organization identifies performance obligations

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

based on the nature of the services provided and recognizes the revenue as the performance obligations are satisfied. Inpatient acute care services satisfied over time, generally from admission to time of discharge, are recognized based on the actual charges incurred in relation to the total expected (or actual) charges, which depicts the transfer of health care services over the duration of the performance obligation. Revenue for performance obligations satisfied at a point in time, which is generally relating to patients receiving outpatient services, is recognized when services are provided and the Organization does not believe the patient requires additional services.

Unsatisfied or partially unsatisfied performance obligations at the end of the reporting period are related to patients admitted to one of the Organization's hospitals that have not yet been discharged. The performance obligation is typically satisfied when the patient has been discharged, which generally occurs within five days of admission. Because these performance obligations are part of a contract that is expected to have a duration of one year or less, the Organization has elected to apply the optional exemption provided in Accounting Standards Codification (ASC) 606-10-50-14, which does not require the Organization to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as of the period end.

The transaction price is determined based on gross charges for services provided, reduced by contractual adjustments to third-party payors, discounts provided to uninsured patients, and implicit price concessions. The payment arrangements with third-party payors for the services the Organization provides typically specify payments to the Organization at amounts different from the established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Generally, patients covered by third-party payors are responsible for related deductibles and coinsurance, which is referred to as the patient portion.

The Organization determines the estimates of contractual adjustments and discounts based on contractual agreements, the Organization's Patient Discount Policy, as well as historical experience and other collection indicators. Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between the amounts billed to the patients and the amounts the Organization expects to collect based on its collection history with those patients and current market conditions. The Organization estimates contractual adjustments, discounts and implicit price concessions utilizing a portfolio approach as a practical expedient to account for patient contracts with similar characteristics as a collective group rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Subsequent adjustments to the transaction price that are determined to be the result of an adverse change in a patient or payor's ability to pay, for example, bankruptcy, are recognized as bad debt expense. With the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASC 606) bad debt expense is included within other expenses in the combined statements of operations and changes in net assets, rather than as a deduction of patient service revenue. Bad debt expense for the years ended December 31, 2018 and 2017, was not material to the Organization.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided using the expected value approach and are adjusted in future periods as additional information becomes available and as final settlements are determined or as years are no longer subject to audits, reviews, and investigations. Net patient service revenue increased approximately \$15,887,000 and \$42,713,000 during the years ended December 31, 2018 and 2017, respectively, due to final settlements on open cost report filings, specific settlement of certain appeal issues, and changes in recorded estimates for retroactive adjustments.

Patients who meet the Organization's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue and the cost of providing such care is recognized within operating expenses (see note 2 (I)).

The composition of net patient service revenue (net of contractual adjustments, discounts, and implicit price concessions) by primary payor for the years ended December 31, 2018 and 2017 is as follows (in thousands):

	December 31	
	2018	2017
Medicare and Medicare HMO	\$ 1,512,483	1,428,757
Medicaid and Medicaid HMO	320,913	351,627
Managed Care	2,106,842	1,904,464
Other	96,502	128,944
Total all payors	\$ 4,036,740	3,813,792

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net patient accounts receivable included approximately \$142,060,000 or 35% and \$140,537,000 or 36% due from the Medicare program and approximately \$40,055,000 or 10% and \$37,729,000 or 10% due from the Medicaid program as of December 31, 2018 and 2017, respectively. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

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(I) Community Commitment

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

The Agency for Health Care Administration (AHCA) defines traditional charity care eligibility at 200% of the federal poverty guidelines, unless the amount due from the patient exceeds 25% of annual family income limited to four times the poverty level. In an effort to meet its mission, the Organization affords its patients a hardship charity, which is defined as 250% of the federal poverty guidelines. Beginning in 2016, the Organization provides financial assistance to certain eligible patients under its presumptive charity policy even if the patient does not request assistance. Accordingly, healthcare services are being provided to the community at no charge or for which costs exceed the payments received. Because payment is not pursued from patients meeting these guidelines, such amounts are not reported as net patient service revenue.

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

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

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

		Year ended December 31, 2018			
		Charity care	Medicaid and other means-tested programs	Unbilled community services	Total
Community commitment	\$	155,790	322,492	33,583	511,865
Subsidized costs		(38,374)	(11,735)	—	(50,109)
Net community commitment	\$	<u>117,416</u>	<u>310,757</u>	<u>33,583</u>	<u>461,756</u>

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	Year ended December 31, 2017			
	Charity care	Medicaid and other means-tested programs	Unbilled community services	Total
Community commitment	\$ 123,092	275,150	23,846	422,088
Subsidized costs	(2,400)	(28,641)	—	(31,041)
Net community commitment	<u>\$ 120,692</u>	<u>246,509</u>	<u>23,846</u>	<u>391,047</u>

(m) Excess of Revenues and Gains over Expenses and Changes in Net Assets without Donor Restrictions

Activities deemed by the Organization to be a provision of healthcare services are reported as operating revenues and expenses. Other activities that are peripheral to providing healthcare services are reported as nonoperating gains and losses. Consistent with industry practice, other changes in net assets without donor restrictions are excluded from excess of revenues and gains over expenses.

(n) Income Taxes

The majority of the affiliates within the Organization are not-for-profit organizations described in Section 501(c)(3) of the Internal Revenue Code, and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code, and are also exempt from state income taxes. The Organization accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Management has determined that no material unrecognized tax benefits or liabilities exist as of December 31, 2018 or 2017.

(o) Fair Value Measurements

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

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

The Organization's Level 1 assets and liabilities include cash and trading and other-than-trading investments in U.S. and international equities, core fixed income, bank loan funds and real assets and are valued at quoted market prices.

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

The Organization's Level 2 assets include collective and common funds valued using the estimated NAV per share of the funds, U.S. and international equities, core fixed income, high yield fixed income, emerging markets fixed income and treasury inflation-protected securities. Level 2 liabilities include the Organization's interest rate swaps valued using widely accepted models that incorporate readily observable inputs in active markets (note 5).

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

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

(p) Adoption of New Accounting Standards

Effective January 1, 2018, the Organization adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASC 606) using a full retrospective method. The standard's core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Organization's most significant impact of adopting the new standard is to the presentation of the combined statements of operations and changes in net assets related to uninsured and underinsured patients. In accordance with the new standard, the Organization now recognizes the majority of its previously reported provision for bad debts as a direct reduction to net patient service revenue as an implicit price concession instead of a separate line item to arrive at net patient service revenue. For the years ended December 31, 2018 and 2017, the Organization recorded approximately \$254,358,000 and \$260,415,000, respectively, of implicit price concessions as a direct reduction of net patient service revenue that would have been recorded as provision for bad debts prior to the adoption of ASC 606. For the years ended December 31, 2018 and 2017, the Organization recorded approximately \$309,601,000 and \$335,663,000, respectively, as a direct reduction of patient accounts receivable that would have been reflected as allowance for uncollectable accounts prior to the adoption of ASC 606. The Organization has also eliminated the related presentation of the allowance for uncollectible accounts on the combined balance sheets and reclassified certain 2017 balances within the combined statement of operations and changes in net assets in accordance with ASC 606. Other than these changes in presentation, the adoption of ASC 606 did not have a material impact on the combined balance sheets or combined statements of operations and changes in net assets for the years ended December 31, 2018 and 2017.

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The Organization's revenue recognition and accounts receivable policies are more fully described in note (2)(k).

During 2018, the Organization early adopted FASB ASU 2017-04, *Intangibles – Goodwill and Other* (Topic 350) – *Simplifying the Test for Goodwill Impairment*. The Organization has updated its process of goodwill impairment testing by removing the need to calculate implied fair value. The simplified process was used in the evaluation discussed in note 7 for year ended December 31, 2018.

The Organization adopted FASB ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASC 958) effective January 1, 2018. This standard focuses on improving the current net asset classification requirements and the information presented in financial statements and notes that would be useful in assessing a not-for-profit's liquidity, financial performance, and cash flows. The standard also requires all not-for-profit entities to present expenses by function and nature to help users assess how not-for-profit entities utilize their resources. Expenses are presented by function and nature in note 10. Liquidity and availability of financial assets are discussed in note 11.

In 2018 the Organization also adopted FASB ASU 2017-07, *Compensation – Retirement Benefits* (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Under previous guidance, the presentation of the defined benefit cost on a net basis combined elements that are diverse and less transparent which reduced the usefulness of the financial information. FASB ASU 2017-07 requires that an employer report the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations.

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

The table below summarizes the fair values of assets limited as to use, investments, and investments held on behalf of others as of December 31, 2018 (in thousands). See note 2(o) for a discussion of valuation methodologies.

	December 31, 2018	Fair value measurements at reporting date		
		Level 1	Level 2	Level 3
Asset class:				
Cash	\$ 6,817	6,817	—	—
Equity securities:				
U.S.	1,135,941	400,952	734,989	—
International	501,564	122,534	379,008	22
Fixed income securities:				
Core holdings	1,432,984	8,194	1,424,790	—
High yield	454,950	—	454,950	—
Emerging markets	238	—	238	—
Bank loan funds	177,146	161,562	15,584	—
TIPS	135,128	135,128	—	—
	3,844,768	\$ 835,187	3,009,559	22
Accrued income	11,056			
Recorded at net asset value	621,851			
Recorded using equity method	208,536			
	4,686,211			
Less amount included in current assets	36,488			
	\$ 4,649,723			

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The table below summarizes the changes in Level 3 assets for the year ended December 31, 2018 (in thousands):

	<u>2018</u>
	<u>Fixed</u>
	<u>income</u>
	<u>securities</u>
Beginning balance	\$ 5
Total gains (realized/unrealized) included in excess of revenues and gains over expenses	22
Purchases	—
Sales	—
Settlements	(5)
Transfers into Level 3	—
Ending balance	\$ <u>22</u>

The Organization's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. During 2018, there were no transfers into or out of Level 1, Level 2 or Level 3.

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The table below summarizes the fair values of assets limited as to use, investments, and investments held on behalf of others as of December 31, 2017 (in thousands). See note 2(o) for a discussion of valuation methodologies.

	December 31, 2017	Fair value measurements at reporting date		
		Level 1	Level 2	Level 3
Asset class:				
Cash	\$ 20,236	20,236	—	—
Equity securities:				
U.S.	1,137,080	410,611	726,469	—
International	585,651	147,894	437,757	—
Fixed income securities:				
Core holdings	1,325,791	8,533	1,317,253	5
High yield	309,341	—	309,341	—
Emerging markets	157,350	—	157,350	—
Bank loan funds	151,101	151,101	—	—
TIPS	19,223	—	19,223	—
	3,705,773	\$ 738,375	2,967,393	5
Accrued income	8,928			
Recorded at net asset value	665,852			
Recorded using equity method	161,560			
	4,542,113			
Less amount included in current assets	55,418			
	\$ 4,486,695			

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The table below summarizes the changes in Level 3 assets for the year ended December 31, 2017 (in thousands):

		<u>2017</u> <u>Fixed</u> <u>income</u> <u>securities</u>
Beginning balance	\$	13
Total losses (realized/unrealized) included in excess of revenues and gains over expenses		(1)
Purchases		—
Sales		—
Settlements		(7)
Transfers into Level 3		—
Ending balance	\$	<u>5</u>

The Organization's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. During 2017, there were no transfers into or out of Level 3. Transfers between Level 1 and Level 2 during the year are considered insignificant to the financial statements as a whole.

The following investments have been estimated using the NAV per share as of December 31, 2018 and 2017 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2018 and 2017.

	<u>December 31</u>			
	<u>2018</u>	<u>2017</u>	<u>Redemption</u> <u>frequency</u>	<u>Redemption</u> <u>notice period</u>
Asset category:				
Hedge fund of funds (a)	\$ 272,189	239,263	Semiannually	95 days
Private real estate investment trust (b)	230,682	132,490	Quarterly	90 days
Master limited partnership (MLP) (c)	<u>118,980</u>	<u>294,099</u>	Monthly	30 days
	\$ <u>621,851</u>	<u>665,852</u>		

- (a) The hedge fund of funds' objective is to develop and actively maintain an investment portfolio of long-term returns, with low volatility and downside protection qualities.
- (b) The private real estate investment trust's primary objective is to invest in established core real estate with a diversified portfolio of high quality buildings in the most liquid markets in the United States.

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

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

	Year ended December 31	
	2018	2017
Investment income (loss):		
Interest and dividends	\$ 99,392	82,101
Realized gains, net	56,073	186,657
Net unrealized (losses) gains on trading investments	(293,129)	174,397
	<u>(137,664)</u>	<u>443,155</u>
Other changes in net assets:		
Net unrealized gains on other-than-trading securities	(746)	42
Total investment return	<u>\$ (138,410)</u>	<u>443,197</u>

Investment income is recorded net of investment expense, which was approximately \$11,743,000 and \$10,199,000 during the years ended December 31, 2018 and 2017, respectively.

(4) Debt and Capital Leases

BayCare has \$125,000,000 available under a line of credit with a bank. At December 31, 2018 and 2017, \$0 and \$10,000,000 of the available line of credit had been drawn, respectively. Interest on the line of credit is based on the LIBOR daily floating rate plus a spread, which was 2.89% and 1.94% as of December 31, 2018 and 2017, respectively, and is payable monthly.

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

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
City of Tampa, Florida, Health System Revenue Bonds, Series 2016A, at rates from 3.125% to 5.00%, payable through 2046:		
Principal amount	\$ 200,000	200,000
Net unamortized premium and debt issuance costs	<u>15,263</u>	<u>15,654</u>
Debt net of unamortized premium and debt issuance costs	<u>215,263</u>	<u>215,654</u>
Polk County Industrial Development Authority Health System Revenue Bonds, Series 2014A, interest rate determined on a weekly basis (approximately 1.99% at December 31, 2018 and 2017) payable through 2044:		
Principal amount	100,000	100,000
Unamortized debt issuance costs	<u>(1,309)</u>	<u>(1,360)</u>
Debt less unamortized debt issuance costs	<u>98,691</u>	<u>98,640</u>
City of Tampa, Florida, Health System Revenue Bonds, Series 2012A, at rates from 3.25% to 5.00%, payable through 2033:		
Principal amount	188,625	188,625
Net unamortized premium and debt issuance costs	<u>6,247</u>	<u>6,837</u>
Debt net of unamortized premium and debt issuance costs	<u>194,872</u>	<u>195,462</u>
City of Tampa, Florida, Health System Revenue Bonds, Series 2012B, interest rate determined on a weekly basis (approximately 2.01% at December 31, 2018 and 2017) payable through 2033:		
Principal amount	77,215	77,215
Unamortized debt issuance costs	<u>(516)</u>	<u>(551)</u>
Debt less unamortized debt issuance costs	<u>76,699</u>	<u>76,664</u>

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	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
City of Tampa, Florida, Health System Revenue Bonds, Series 2012 C, D, and E, interest rate determined on a monthly basis (approximately 2.37% and 1.58% at December 31, 2018 and 2017, respectively) payable through 2042:		
Principal amount	\$ 177,215	177,215
Unamortized debt issuance costs	<u>(179)</u>	<u>(143)</u>
Debt less unamortized debt issuance costs	<u>177,036</u>	<u>177,072</u>
City of Tampa, Florida, Health System Revenue Bonds, Series 2010, at rates from 4.00% to 5.00%, payable through 2023:		
Principal amount	99,630	123,540
Net unamortized premium and debt issuance costs	<u>210</u>	<u>718</u>
Debt net of unamortized premium and debt issuance costs	<u>99,840</u>	<u>124,258</u>
Pinellas County Health Facilities Authority Revenue Bonds, Series 2009A, interest rate determined on a weekly basis (approximately 1.85% and 1.75% at December 31, 2018 and 2017, respectively) payable through 2038:		
Principal amount	200,000	200,000
Unamortized debt issuance costs	<u>(222)</u>	<u>(264)</u>
Debt less unamortized debt issuance costs	<u>199,778</u>	<u>199,736</u>
Pinellas County Health Facilities Authority Revenue Bonds, Series 2003A, interest rate determined on a weekly basis (approximately 3.63% and 2.23% at December 31, 2018 and 2017, respectively) payable through 2023:		
Principal amount	22,855	27,410
Unamortized debt issuance costs	<u>(324)</u>	<u>(389)</u>
Debt less unamortized debt issuance costs	<u>22,531</u>	<u>27,021</u>
Other	<u>37,972</u>	<u>31,481</u>
	1,122,682	1,145,988
Less current portion of long-term debt	(27,297)	(35,568)
Less long-term debt subject to short-term put arrangements	<u>(195,965)</u>	<u>(195,965)</u>
Long-term debt, less current portion and debt subject to short-term put arrangements	<u>\$ 899,420</u>	<u>914,455</u>

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Aggregate scheduled maturities of long-term debt and capital lease obligations as of December 31, 2018 are as follows (in thousands):

2019	\$	27,297
2020		28,753
2021		30,190
2022		30,033
2023		35,823
Thereafter		<u>951,458</u>
		1,103,554
Unamortized premium and debt issue costs, net		<u>19,128</u>
	\$	<u><u>1,122,682</u></u>

The Series 2014A Bonds were issued as window variable rate demand bonds (VRDB). These bonds are subject to long-term amortization periods and may be put to the Organization at the option of the bondholders in connection with certain remarketing arrangements. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after December 31, 2018, the principal amount of such bonds has been classified as a current obligation in the accompanying combined financial statements.

The 2012B Bonds were issued as VRDB. These bonds are subject to long-term amortization and may be put to the Organization at the option of the bondholders in connection with certain remarketing arrangements. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after December 31, 2018, the principal amount of such bonds has been classified as a current obligation in the accompanying combined financial statements.

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

The sale of John Knox Village, see note 6, resulted in the defeasance of \$5,700,000 of City of Tampa, Florida, Health System Revenue Bonds, Series 2010 that related to the property. The related unamortized bond premium and cost of issuance written off was \$107,337 and \$40,295, respectively.

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

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

(5) Interest Rate Swap Agreements

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

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

Expiration date	The Organization pays fixed payor rate	The Organization receives	Notional amount	
			2018	2017
November 2033	3.669 %	67% of 3-month USD-LIBOR	\$ 77,215,000	77,215,000
November 2033	3.669	67% of 3-month USD-LIBOR	77,215,000	77,215,000
September 2034	3.476	67% of 1-month USD-LIBOR	5,532,523	5,749,254
		67% of 1-month USD-LIBOR		
September 2034	5.076	plus 160 bps	16,599,477	17,249,746
September 2034	3.457	67% of 1-month USD-LIBOR	11,068,000	11,501,000
September 2036	3.841	67% of 1-month USD-LIBOR	12,560,000	13,140,000
November 2038	2.222	67% of 3-month USD-LIBOR	75,000,000	75,000,000
November 2038	2.222	67% of 3-month USD-LIBOR	75,000,000	75,000,000
November 2038	2.222	67% of 3-month USD-LIBOR	50,000,000	50,000,000
			<u>\$ 400,190,000</u>	<u>402,070,000</u>

An interest rate swap is an agreement in which two parties agree to exchange, at specified intervals, interest payment streams calculated on an agreed upon notional principal amount with at least one stream based upon a specified floating rate index. The differential to be paid or received as interest rates change is recognized as an adjustment to interest expense, which amounted to an increase of approximately \$5,731,000 and \$8,512,000 for the years ended December 31, 2018 and 2017, respectively.

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

Derivatives not designated as hedging instruments	Counterparty	Balance sheet location		
			2018	2017
Interest rate swap contracts	Morgan Stanley	Other liabilities	\$ 31,023,000	37,927,000
Interest rate swap contracts	Goldman Sachs	Other liabilities	13,592,000	20,906,000

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During 2008, the Organization discontinued hedge accounting for all swaps previously designated as hedges as the swaps were no longer considered to be highly effective. The Organization continues to carry the swaps at fair value with the subsequent changes in fair value included in nonoperating (losses) gains, net. Losses of approximately \$6,757,000 and \$7,215,000 at December 31, 2018 and 2017, respectively, that were accumulated in net assets without donor restrictions prior to the discontinuance of hedge accounting are being amortized in nonoperating (losses) gains, net using the straight-line method over the remaining life of the swaps.

The change in fair value of the interest rate swaps resulted in gains of approximately \$14,218,000 and \$4,012,000 for the years ended December 31, 2018 and 2017, respectively, included in nonoperating (losses) gains, net.

(6) Business Acquisitions and Sales

(a) *John Knox Village of Tampa Bay, Inc.*

On May 1, 2018 the Organization executed an Asset Purchase Agreement with a long-term care provider for the sale of John Knox Village of Tampa Bay, Inc. for approximately \$13,657,000 in total consideration, resulting in an operating loss of \$4,542,000. The loss is included as a reduction to operating income and is disclosed as a loss on the sale of a business on the combined statements of operations and changes in net assets. The sale additionally resulted in a non-operating loss of \$233,000 for the defeasance of bonds. This loss is included as a reduction to other nonoperating net gains on the combined statements of operations and changes in net assets.

(b) *Medical Office Buildings*

On July 26, 2017, the Organization acquired substantially all of the assets of four medical office buildings, together with certain business-related functions including in-place tenant leases and revenue producing real estate activities for approximately \$87,571,000. The medical office buildings provide patient-centered medical services including imaging, physical and occupational therapy, an emergency department, and various other outpatient services. The acquisition will enhance the Organization's ability to broaden the physician specialties and ancillary services provided to the surrounding communities.

Included in the acquisition were intangible assets of approximately \$4,170,000 for intangible leasehold value and \$3,150,000 for lease in-place value. Subsequent to the acquisition, the intangible leasehold value of approximately \$4,170,000 was recorded within other expenses on the combined statements of operations and changes in net assets as management determined the intangible leasehold value did not reflect a future economic benefit to the Organization. Lease in-place value of approximately \$3,150,000 is reflective of the numerous costs avoided such as commissions, legal and marketing costs as a result of current occupancy levels. The lease in-place value of approximately \$3,150,000 is being amortized over 4.6 years reflecting the average remaining life of the leases in-place; approximately \$2,188,000 and \$2,867,000 are included in other assets in the accompanying combined balance sheets at December 31, 2018 and December 31, 2017, respectively.

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The table below reflects the expected future amortization expense related to the in-place leases as of December 31, 2018 (in thousands):

2019	\$	678,879
2020		678,879
2021		678,879
2022		<u>151,616</u>
	\$	<u><u>2,188,253</u></u>

Acquisition costs of approximately \$155,000 were included in other expenses in the combined statements of operations and changes in net assets for the year ended December 31, 2017.

Opening balance sheet information for the medical office buildings at July 26, 2017 is shown below (in thousands):

	Assets	
Property and equipment, net		\$ 80,775
Intangible assets		<u>7,320</u>
Total assets		<u>88,095</u>
	Liabilities	
Current liabilities:		
Accounts payable and accrued expenses		<u>524</u>
Total liabilities		<u>524</u>
Cash paid for acquisition		\$ <u><u>87,571</u></u>

The acquisition of the medical office buildings added approximately \$8,157,000 of operating revenues and approximately \$2,198,000 excess of revenues and gains over expenses to the Organization's combined results for the year ended December 31, 2018. For the year ended December 31, 2017, the medical office buildings added approximately \$3,313,000 of operating revenues and approximately \$3,299,000 deficiency of revenues and gains over expenses to the Organization's combined results.

(c) Outpatient Pharmacies

On September 29, 2017, the Organization executed an Asset Purchase Agreement for the sale of four outpatient retail pharmacies for approximately \$9,681,000, resulting in a gain of approximately \$8,081,000. The gain is included in operating income and is disclosed as a gain on the sale of a business on the combined statements of operations and changes in net assets.

(7) Goodwill

Goodwill of approximately \$30,081,000 at December 31, 2018 and 2017, included in other assets, results from the excess of the amount paid over the fair value of identifiable assets and liabilities of acquired healthcare businesses. The Organization reviews goodwill for impairment at least annually or whenever

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events or circumstances indicate that the carrying value may not be recoverable in accordance with the provisions of Accounting Standards Codification Topic 350, *Intangibles – Goodwill and Other*.

The annual impairment test was completed for the years ended December 31, 2018 and 2017 and it was determined that no impairment existed. No recent events or circumstances have occurred to indicate that impairment may exist.

(8) Commitments and Contingencies

(a) Professional Liability

The nature of the Organization's business inherently subjects the Organization to the risks of professional liability litigation. Estimated losses arising from events identified under the Organization's incident reporting system have been recorded in the accompanying combined financial statements. In addition, an accrual for possible losses attributable to incidents that may have occurred, but that have not been identified under the incident reporting system has been estimated. The estimate is valued at the undiscounted expected future cash flows based on historical experience, relevant trend factors, and advice from consulting actuaries. The Organization is presently a defendant in various professional liability related legal actions. The Organization may be liable for losses in excess of the amount recorded at December 31, 2018; however, in the opinion of management, adequate provision has been made for estimated losses from asserted and unasserted claims.

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

Claims of approximately \$270,421,000 and \$229,002,000 are accrued based upon the expected ultimate costs of the experience to date of the Captive (including a provision for unknown incidents) at December 31, 2018 and 2017, respectively, and are included in other long-term liabilities.

(b) Litigation and Investigations

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

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

(c) Operating Leases

The Organization has entered into noncancelable operating lease agreements for the rental of building space, computer software, and equipment. Future minimum lease payments associated with these lease agreements (with initial or remaining lease terms in excess of one year) for each of the five years and thereafter subsequent to December 31, 2018 are (in thousands) as follows:

2019	\$	15,457
2020		11,983
2021		10,205
2022		6,765
2023		5,810
Thereafter		<u>12,600</u>
Total	\$	<u><u>62,820</u></u>

Rental expense for operating leases totaled approximately \$24,006,000 and \$25,853,000 for the years ended December 31, 2018 and 2017, respectively.

(9) Retirement Plans

(a) Pension Plans – BayCare

Effective October 1, 2001, the Organization's board of trustees approved a system wide BayCare Health System Retirement Plan (Retirement Plan), a defined contribution plan that covers substantially all employees who meet certain service requirements. For these employees, the Retirement Plan provides that the Organization will contribute 2% of wages and also match 50% of the employee's contributions up to 6% of the contributing employee's wages. Prior existing defined contribution plans were rolled into the Retirement Plan. Contribution expense attributable to the defined contribution plan was approximately \$63,445,000 and \$59,304,000 for the years ended December 31, 2018 and 2017, respectively.

Employees who were participants in the Organization's defined benefit pension plan (SJH-SAH Plan) were given a one-time option to remain in the defined benefit pension plan or participate in the Retirement Plan. For participants who elected to participate in the Retirement Plan, the Organization froze their benefits so the participants no longer earn additional benefits for future services in the defined benefit pension plan. Effective December 31, 2016, the Organization froze the defined benefit pension plan, providing that no further benefits will accrue for remaining plan participants for services after the effective date.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

The authoritative guidance for the accounting of defined benefit pension and other postretirement plans requires recognition in the combined balance sheets of the funded status of defined benefit pension plans and the recognition in net assets without donor restrictions of unrecognized gains or losses, prior service costs or credits, and transition assets or obligations existing at the time of adoption. The funded status is measured as the difference between the fair value of the defined benefit pension plan's assets and the projected benefit obligation of the plan. The valuation of plan assets and the calculation of benefit obligations and funded status utilized a measurement date of December 31, 2018 and 2017.

The following are deferred pension costs, which have not yet been recognized in periodic pension expense, but instead are accrued in net assets without donor restrictions as of December 31, 2018 (in thousands):

	Amounts recognized in net assets without donor restrictions December 31, 2018	Amounts in net assets without donor restrictions to be recognized during the next fiscal year
Net actuarial loss	\$ (31,798)	71

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

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

The following table sets forth changes to the defined benefit pension plan's benefit obligation, plan assets, and funded status (included in other noncurrent liabilities) as of December 31, 2018 and 2017, the measurement dates (in thousands):

	Year ended December 31	
	2018	2017
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ (172,982)	(171,329)
Interest cost	(5,924)	(6,634)
Actuarial gain (loss)	5,904	(4,654)
Benefits paid	6,244	9,635
Settlement	14,098	—
Projected benefit obligation at end of year	<u>(152,660)</u>	<u>(172,982)</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	149,910	115,016
Actual return on plan assets	(6,468)	14,529
Contributions made	10,000	30,000
Benefits paid	(6,244)	(9,635)
Settlement	(14,098)	—
Fair value of plan assets at end of year	<u>133,100</u>	<u>149,910</u>
Net amount recognized as accrued pension cost included in other noncurrent liabilities	<u>\$ (19,560)</u>	<u>(23,072)</u>

The accumulated benefit obligation for the pension plan was approximately \$152,660,000 and \$172,982,000 at December 31, 2018 and 2017, respectively.

The table below summarizes components of net periodic pension cost of the defined benefit pension plan (in thousands). Components other than service cost are recorded within other nonoperating (losses) gains on the combined statements of operations and changes in net assets.

	Year ended December 31	
	2018	2017
Service cost	\$ —	—
Interest cost	5,924	6,634
Expected return on plan assets	(10,047)	(6,076)
Settlement loss	2,936	—
Amortization of net actuarial loss	1,437	2,440
Net periodic pension cost	<u>\$ 250</u>	<u>2,998</u>

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

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

	Year ended December 31	
	2018	2017
Discount rate	3.56 %	4.03 %
Projected rate of increase in future compensation levels	N/A	N/A
Expected long-term rate of return on plan assets	7.00	5.61

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

	Year ended December 31	
	2018	2017
Discount rate	3.92 %	3.56 %
Projected rate of increase in future compensation levels	N/A	N/A

The Organization expects to contribute to the SJH-SAH Plan in 2019, but the amount of the contribution has not yet been determined.

The benefits expected to be paid in each year from 2019 to 2023 are approximately \$12,637,000, \$12,196,000, \$11,569,000, \$11,143,000, and \$10,485,000, respectively. The aggregate benefits expected to be paid in the five years from 2024 to 2028 are approximately \$45,518,000. The expected benefits to be paid are based on the same assumptions used to measure the Organization's benefit obligation at December 31, 2018. The investment objective of the defined benefit plan is to produce a return on investment that is based upon levels of liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions, which allows for payments of benefits to participants and their beneficiaries. The investment objective also incorporates the financial condition of the plan, future growth of active and retired participants, inflation, and the rate of salary increases. The defined benefit plan's investment committee has selected market-based benchmarks to monitor the performance of the investment strategy and performs periodic reviews of investment performance.

The investment strategy has a current target asset allocation policy as follows: 59% fixed income, 16% domestic equities, 10% international equities, 10% hedge funds, and 5% real assets. The expected long-term rate of return on plan assets is based primarily on expectations of future returns for the defined benefit plan's investments, based upon the target asset allocation. Additionally, these long-term return expectations are largely based on both historical capital market results and trends in market characteristics.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

The table below summarizes the fair values of pension plan assets as of December 31, 2018 (in thousands) (see note 2(o) for discussion of valuation methods):

	December 31, 2018	Fair value measurements at reporting date	
		Level 1	Level 2
Asset category:			
Cash	\$ 114	114	—
Equity securities:			
U.S.	20,464	2,179	18,285
International	11,286	3,487	7,799
Fixed income securities:			
Long duration	36,393	—	36,393
Core holdings	16,212	—	16,212
High yield	15,089	—	15,089
Emerging debt	7,016	—	7,016
Bank loan funds	5,171	5,171	—
Real assets	5,635	5,635	—
	117,380	\$ 16,586	100,794
Accrued income	33		
Recorded at net asset value	15,687		
Total	\$ 133,100		

The Organization's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. There were no transfers between levels during 2018.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

The table below summarizes the fair values of pension plan assets as of December 31, 2017 (in thousands):

	December 31, 2017	Fair value measurements at reporting date	
		Level 1	Level 2
Asset category:			
Cash	\$ 132	132	—
Equity securities:			
U.S.	21,121	1,968	19,153
International	12,595	3,101	9,494
Fixed income securities:			
Long duration	42,163	—	42,163
Core holdings	15,858	—	15,858
High yield	14,632	—	14,632
Emerging debt	7,346	—	7,346
Bank loan funds	7,313	7,313	—
	121,160	\$ 12,514	108,646
Accrued income	25		
Recorded at net asset value	28,725		
Total	\$ 149,910		

The Organization's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. There were no transfers between levels during 2017.

The following pension plan assets have been estimated using the NAV per share of the investments as of December 31, 2018 and 2017 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2018 and 2017.

	December 31		Redemption frequency	Redemption notice period
	2018	2017		
Asset category:				
Hedge fund of funds (a)	\$ 12,496	13,533	Semiannually	95 days
Master limited partnership (MLPs) (b)	3,191	15,192	Monthly	30 days
	\$ 15,687	28,725		

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

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

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

(b) Pension Plan – Winter Haven

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

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

The following are deferred pension costs, which have not yet been recognized in periodic pension expense, but instead are accrued in net assets without donor restrictions as of December 31, 2018 (in thousands):

	Amounts recognized in net assets without donor restrictions December 31, 2018	Amounts in net assets without donor restrictions to be recognized during the next fiscal year
Net actuarial loss	\$ (7,624)	970

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

The table below sets forth changes to the Plan's benefit obligation, plan assets, and funded status (included in other noncurrent liabilities) as of December 31, 2018 and 2017, the measurement dates (in

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

thousands). These components are recorded within other nonoperating (losses) gains on the combined statements of operations and changes in net assets.

	Year ended December 31	
	2018	2017
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ (54,901)	(54,535)
Service cost	—	(790)
Interest cost	(1,789)	(2,009)
Actuarial gain (loss)	2,264	(1,428)
Plan settlements	3,628	3,292
Benefits paid	668	569
Projected benefit obligation at end of year	<u>(50,130)</u>	<u>(54,901)</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	43,560	41,336
Actual return on plan assets	(2,826)	4,785
Contributions made	1,300	1,300
Plan settlements	(3,628)	(3,292)
Benefits paid	(668)	(569)
Fair value of plan assets at end of year	<u>37,738</u>	<u>43,560</u>
Net amount recognized as accrued pension cost included in other noncurrent liabilities	<u>\$ (12,392)</u>	<u>(11,341)</u>

The accumulated benefit obligation for the Plan was approximately \$50,130,000 and \$54,901,000 at December 31, 2018 and 2017, respectively.

The table below summarizes components of net periodic pension cost of the Plan (in thousands). Components other than service cost are recorded within other nonoperating (losses) gains on the combined statements of operations and changes in net assets.

	Year ended December 31	
	2018	2017
Service cost	\$ —	790
Interest cost	1,789	2,009
Expected return on plan assets	(2,206)	(2,195)
Settlement loss	552	324
Amortization of net loss	—	216
Net periodic pension cost	<u>\$ 135</u>	<u>1,144</u>

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

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

	Year ended December 31	
	2018	2017
Discount rate	3.40 %	3.84 %
Projected rate of increase in future compensation levels	N/A	N/A
Expected long-term rate of return on plan assets	5.25	5.61

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

	Year ended December 31	
	2018	2017
Discount rate	3.97 %	3.40 %
Projected rate of increase in future compensation levels	N/A	N/A

Winter Haven expects to contribute approximately \$1,300,000 to the defined benefit pension plan in 2019.

The benefits expected to be paid in each year from 2019 to 2023 are approximately \$4,581,000, \$2,846,000, \$2,954,000, \$3,100,000, and \$3,078,000, respectively. The aggregate benefits expected to be paid in the five years from 2024 to 2028 are approximately \$16,413,000. The expected benefits to be paid are based on the same assumptions used to measure Winter Haven's benefit obligation at December 31, 2018.

The plan assets are administered by a trustee and are invested in the following percentages in various instruments at December 31, 2018: 49% fixed income, 23% domestic equities, 16% international equities, 9% hedge funds, and 3% real assets.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

The table below summarizes the fair values of pension plan assets as of December 31, 2018 (in thousands) (see note 2(o) for discussion of valuation methods):

	December 31, 2018	Fair value measurements at reporting date	
		Level 1	Level 2
Asset category:			
Cash	\$ 6	6	—
Equity securities:			
U.S.	7,794	830	6,964
International	5,556	1,717	3,839
Fixed income securities:			
Long duration	9,885	—	9,885
Core holdings	6,191	—	6,191
High yield	1,421	—	1,421
Emerging debt	661	—	661
Bank loan funds	487	487	—
Real assets	1,365	1,365	—
	33,366	\$ 4,405	28,961
Accrued income	4		
Recorded at net asset value	4,368		
Total	\$ 37,738		

The Organization's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. There were no transfers between levels during 2018.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

The table below summarizes the fair values of pension plan assets as of December 31, 2017 (in thousands):

	December 31, 2017	Fair value measurements at reporting date	
		Level 1	Level 2
Asset category:			
Cash	\$ 35	35	—
Equity securities:			
U.S.	10,039	935	9,104
International	6,562	1,616	4,946
Fixed income securities:			
Long duration	10,905	—	10,905
Core holdings	6,786	—	6,786
High yield	1,695	—	1,695
Emerging debt	851	—	851
Bank loan funds	847	847	—
	37,720	\$ 3,433	34,287
Accrued income	3		
Recorded at net asset value	5,837		
Total	\$ 43,560		

The Organization's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. There were no transfers between levels during 2017.

The following pension plan assets have been estimated using the NAV per share of the investments as of December 31, 2018 and 2017 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2018 and 2017.

	December 31		Redemption frequency	Redemption notice period
	2018	2017		
Asset category:				
Hedge fund of funds (a)	\$ 3,595	3,595	Semiannually	95 days
Master Limited partnerships (MLPs) (b)	773	2,242	Monthly	30 days
	\$ 4,368	5,837		

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

- (a) The hedge fund of fund's objective is to develop and actively maintain an investment portfolio of long-term returns, with low volatility and downside protection qualities.
- (b) The master limited partnership's investment objective is to seek absolute total return by investing directly or via long only equity swaps without leverage in income-producing publicly traded MLPs, with a particular focus on energy sector MLPs.

(10) Functional Expenses

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

Expenses related to providing these services for the years ended December 31, 2018 and 2017 are reflected in the table below (in thousands). Amounts below exclude gains and losses on the sale of businesses.

	Year Ended December 31, 2018		
	Program Services	Support Services	Total
	Health Care Services	MG&A	
Salaries and benefits	\$ 1,862,240	230,974	2,093,214
Supplies	763,049	7,651	770,700
Other expenses	378,648	307,609	686,257
Depreciation and amortization	186,290	33,084	219,374
Interest	40,686	—	40,686
Total Operating Expenses	\$ 3,230,913	579,318	3,810,231

	Year Ended December 31, 2017		
	Program Services	Support Services	Total
	Health Care Services	MG&A	
Salaries and benefits	\$ 1,777,529	201,131	1,978,660
Supplies	714,694	7,649	722,343
Other expenses	346,236	307,810	654,046
Depreciation and amortization	173,874	33,902	207,776
Interest	37,246	—	37,246
Total Operating Expenses	\$ 3,049,579	550,492	3,600,071

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2018 and 2017

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the System. These expenses require allocation on a reasonable basis that is consistently applied. Management, general and administrative (MG&A) expenses are those supporting activities that are not directly identifiable with one or more program or fundraising activity. The System reviews all departments and allocates each department to either program services or MG&A based on departmental function.

(11) Liquidity and Availability

The Organization has financial assets that could be available within one year of the balance sheet date to meet cash needs for general expenditures. These financial assets consist of cash, accounts receivable, short-term investments and certain non-current investments. While not classified as a current asset, the Organization has non-current investments that are unrestricted and are available to meet any current needs that may arise. None of the financial assets quantified in the table below are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The accounts receivable are expected to be collected within one year. The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note 4, the Organization also has a committed line of credit in the amount of \$125,000,000, which it could draw upon in the event of an unanticipated liquidity need. The available liquidity for the years ended December 31, 2018 and December 31, 2017 are as follows (in thousands):

	December 31	
	2018	2017
Cash and cash equivalents	\$ 56,640	69,730
Accounts receivable	408,702	389,863
Short-term investments	—	3,234
Non-current investments available within one year	<u>4,236,524</u>	<u>4,125,336</u>
Total	<u>\$ 4,701,866</u>	<u>4,588,163</u>

(12) Subsequent Events

The Organization has evaluated events and transactions occurring subsequent to December 31, 2018 as of March 5, 2019, which is the date the combined financial statements were issued. Management believes that no material events have occurred since December 31, 2018 that require recognition or disclosure in the combined financial statements.

COMBINING INFORMATION

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Balance Sheet Information

December 31, 2018

(In thousands)

Schedule 1

	BayCare Health System, Inc.	Barrow Regional Medical Center, Inc.	Winter Haven Hospital, Inc.	Combined Trinity Health BayCare Participants	Morton Plant Mease Health Care, Inc.	South Florida Baptist, Inc.	BCHS Insurance, Ltd.	Subtotal	Eliminations	Combined
Assets										
Current assets:										
Cash and cash equivalents	\$ 52,202	417	9	311	3,700	1	—	56,640	—	56,640
Collateral received for securities lending transactions	243,859	—	—	—	—	—	—	243,859	—	243,859
Investments held on behalf of others	33,088	—	—	2,965	—	—	—	33,088	—	33,088
Assets limited as to use	435	—	—	2,965	—	—	—	3,400	—	3,400
Accounts receivable	50,215	5,940	34,967	181,848	122,542	13,190	—	408,702	—	408,702
Inventories	28,758	1,908	9,157	34,116	22,276	4,483	—	100,698	—	100,698
Estimated third-party settlements	—	69	85	23,169	(5,672)	(210)	—	17,441	—	17,441
Prepaid and other current assets	65,197	271	6,656	8,682	4,860	1,110	16	86,792	(18,055)	68,737
Total current assets	473,754	8,605	50,874	251,091	147,706	18,574	16	950,620	(18,055)	932,565
Investments	4,353,523	—	91,537	—	—	—	—	4,445,060	—	4,445,060
Assets limited as to use	1,485	—	—	5,281	3	—	—	204,663	—	204,663
Property and equipment, net	392,994	43,401	174,565	902,827	675,995	4,364	—	2,233,430	—	2,233,430
Beneficial interest in net assets of foundations	—	—	14,942	35,821	104,084	8,171	—	163,018	—	163,018
Due from affiliates	(2,881,939)	6,588	(100,143)	1,245,540	1,607,521	125,745	—	3,312	(3,312)	—
Other assets	245,522	19,443	12,221	23,597	9,318	780	9,652	320,533	(209,520)	111,013
Total assets	\$ 2,585,339	78,037	243,996	2,464,157	2,544,627	196,919	207,562	8,320,636	(230,897)	8,089,749
Liabilities and Net Assets										
Current liabilities:										
Accounts payable and accrued expenses	\$ 129,441	2,471	11,016	41,256	36,341	2,867	2,948	226,340	(18,055)	208,285
Employee compensation and benefits	241,248	1,503	8,812	38,172	30,774	2,916	—	323,425	—	323,425
Current portion of long-term debt	25,892	223	—	157	1,025	—	—	27,297	—	27,297
Long-term debt, subject to short-term put arrangements	195,965	—	—	—	—	—	—	195,965	—	195,965
Liabilities for investments held on behalf of others	33,088	—	—	—	—	—	—	33,088	—	33,088
Liabilities under securities lending transactions	243,859	—	—	—	—	—	—	243,859	—	243,859
Total current liabilities	869,493	4,197	19,828	79,585	68,140	5,783	2,948	1,049,974	(18,055)	1,031,919
Long-term debt, less current portion	894,710	955	—	56	3,699	—	—	899,420	—	899,420
Other liabilities	187,028	52	17,091	31,531	275	344	193,238	429,559	1,957	431,516
Total liabilities	1,951,231	5,204	36,919	111,172	72,114	6,127	196,186	2,378,953	(16,098)	2,362,855
Net assets:										
Without donor restrictions	634,108	72,833	200,042	2,326,693	2,390,885	187,566	11,376	5,823,523	(214,789)	5,608,734
With donor restrictions	—	—	7,035	26,292	81,628	3,205	—	118,160	—	118,160
Total net assets	634,108	72,833	207,077	2,352,985	2,472,513	190,791	11,376	5,941,683	(214,789)	5,728,894
Total liabilities and net assets	\$ 2,585,339	78,037	243,996	2,464,157	2,544,627	196,919	207,562	8,320,636	(230,897)	8,089,749

See accompanying independent auditors' report.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2018

(In thousands)

Schedule 2

	BayCare Health System, Inc.	Barrow Regional Medical Center, Inc.	Winter Haven Hospital, Inc.	Combined Trinity Health BayCare Participants	Morton Plant Mease Health Care, Inc.	South Florida Baptist, Inc.	BCHS Insurance, Ltd.	Subtotal	Eliminations	Combined
Operating revenues:										
Net patient service revenue	\$ 506,100	67,385	343,734	1,726,254	1,282,170	135,389	—	4,064,032	(27,292)	4,036,740
Other revenue	650,726	583	5,145	39,989	26,581	1,009	—	724,033	(601,636)	122,397
Total operating revenues	1,156,826	67,968	348,879	1,766,243	1,308,751	140,398	—	4,788,065	(628,929)	4,159,137
Operating expenses:										
Salaries and benefits	795,961	25,210	140,094	630,480	476,512	53,859	—	2,122,116	(28,902)	2,093,214
Supplies	84,209	9,964	66,914	321,720	263,474	24,419	—	770,700	—	770,700
Other expenses	227,759	19,313	90,294	490,425	367,735	40,733	—	1,236,249	(549,992)	686,257
Depreciation and amortization	49,248	4,849	15,345	82,728	61,282	5,942	—	219,374	—	219,374
Interest	40,937	71	2,811	16,994	17,173	1,367	—	81,553	(40,867)	40,686
Loss on sale of business	—	—	—	4,542	—	—	—	4,542	—	4,542
Total operating expenses	1,198,114	59,407	315,448	1,548,899	1,186,156	126,520	—	4,434,534	(619,761)	3,814,773
Operating (loss) income	(41,288)	8,561	33,431	216,354	122,595	13,878	—	353,531	(9,167)	344,364
Nonoperating (losses) gains, net:										
Investment income (loss), net	(124,796)	—	(1,725)	—	16	—	(11,159)	(137,664)	—	(137,664)
Gain on interest rate swaps	12,169	—	1,370	(3,058)	(139)	40	—	13,739	(1,996)	13,739
Other nonoperating (losses) gains, net	1,445	—	(1,063)	(3,058)	(139)	40	(11,159)	(2,771)	(1,996)	(3,867)
Total nonoperating (losses) gains, net	(111,162)	—	(1,218)	(3,058)	(119)	40	(11,159)	(126,676)	(1,996)	(127,772)
Excess (deficit) of revenues and gains over expenses	\$ (152,450)	8,561	32,213	213,296	122,476	13,918	(11,159)	226,855	(10,263)	216,592

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2018
(In thousands)

Schedule 2

	BayCare Health System, Inc.	Barrow Regional Medical Center, Inc.	Winter Haven Hospital, Inc.	Combined Trinity Health BayCare Participants	Morton Plant Mease Health Care, Inc.	South Florida Baptist, Inc.	BCHS Insurance, Ltd.	Subtotal	Eliminations	Combined
Change in net assets without donor restrictions:										
Excess (deficiency) of revenues and gains over expenses	\$ (152,450)	8,561	32,213	213,296	122,476	13,918	(11,159)	226,855	(10,263)	216,592
Net unrealized gains (losses) on other-than-trading securities	—	—	—	63	—	—	—	63	—	63
Net asset transfers (to) from joint operating agreement participants, net	221,761	—	—	(150,549)	(60,771)	(10,441)	—	6,632	—	6,632
Net assets released from restrictions for capital additions	—	—	—	1,721	4,793	118	—	458	—	458
Amortization of accumulated hedge accounting losses	458	—	(2,299)	—	—	—	—	(8,952)	—	(8,952)
Pension-related charges other than service cost	—	—	(9,838)	(6,653)	—	—	—	—	—	—
Transfer (to) from affiliates	9,838	—	—	—	—	—	—	—	—	—
Other	(10,450)	—	—	410	—	—	(1,021)	(11,061)	9,446	(1,615)
Increase (decrease) in net assets without donor restrictions	69,157	8,561	20,076	58,288	66,498	3,595	(12,180)	213,995	(817)	213,178
Change in net assets with donor restrictions:										
Contributions	—	—	—	75	102	—	—	177	—	177
Net unrealized gains (losses) on other-than-trading securities	—	—	—	(809)	—	—	—	(809)	—	(809)
Change in beneficial interest in net assets of foundations	—	—	189	874	1,381	(153)	—	2,291	—	2,291
Net assets released from restrictions	—	—	(6)	(365)	(136)	—	—	(507)	—	(507)
Increase (decrease) in net assets with donor restrictions	—	—	183	(229)	1,347	(153)	—	1,152	—	1,152
Increase (decrease) in net assets	69,157	8,561	20,259	58,063	67,845	3,442	(12,180)	215,147	(817)	214,330
Net assets at beginning of year	564,951	64,272	186,818	2,294,922	2,404,668	187,349	23,556	5,726,536	(213,972)	5,512,564
Net assets at end of year	\$ 634,108	72,833	207,077	2,352,985	2,472,513	190,791	11,376	5,941,683	(214,789)	5,726,894

See accompanying independent auditors' report.