



BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Financial Statements and Combining Information

December 31, 2019 and 2018

(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, 2019 and 2018, 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, 2019 and 2018, 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(s) to the combined financial statements, in 2019 BayCare Health System, Inc. and Affiliates adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). 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 4, 2020

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Balance Sheets

December 31, 2019 and 2018

(In thousands)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 86,859	56,640
Collateral received for securities lending transactions	228,578	243,859
Investments held on behalf of others	38,314	33,088
Assets limited as to use	—	3,400
Accounts receivable	405,567	408,702
Inventories	114,536	100,698
Estimated third-party settlements	442	17,441
Prepaid and other current assets	82,082	68,737
Total current assets	956,378	932,565
Investments	5,458,432	4,445,060
Assets limited as to use	251,299	204,663
Right-of-use asset - finance leases	18,802	—
Right-of-use asset - operating leases	58,284	—
Property and equipment, net	2,377,028	2,233,430
Beneficial interest in net assets of foundations	184,493	163,018
Other assets	127,123	111,013
Total assets	\$ 9,431,839	8,089,749
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 250,674	208,285
Employee compensation and benefits	353,165	323,425
Current portion of finance lease liability	2,150	—
Current portion of operating lease liability	9,587	—
Current portion of long-term debt	77,032	27,297
Long-term debt, subject to short-term put arrangements	195,965	195,965
Liabilities for investments held on behalf of others	38,314	33,088
Liabilities under securities lending transactions	228,578	243,859
Total current liabilities	1,155,465	1,031,919
Finance lease liability, less current portion	19,182	—
Operating lease liability, less current portion	49,321	—
Long-term debt, less current portion	852,687	899,420
Other liabilities	459,819	431,516
Total liabilities	2,536,474	2,362,855
Net assets:		
Without donor restrictions	6,770,400	5,608,734
With donor restrictions	124,965	118,160
Total net assets	6,895,365	5,726,894
Total liabilities and net assets	\$ 9,431,839	8,089,749

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, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Change in net assets without donor restrictions:		
Operating revenues:		
Net patient service revenue	\$ 4,253,741	4,036,740
Net premium revenue	34,866	—
Other revenue	<u>129,305</u>	<u>122,397</u>
Total operating revenues	<u>4,417,912</u>	<u>4,159,137</u>
Operating expenses:		
Salaries and benefits	2,200,111	2,093,214
Supplies	837,571	770,700
Health plan claims and expenses	17,609	—
Other expenses	717,959	686,257
Depreciation and amortization	227,894	219,374
Interest	37,529	40,686
Loss on sale of business	<u>—</u>	<u>4,542</u>
Total operating expenses	<u>4,038,673</u>	<u>3,814,773</u>
Operating income	<u>379,239</u>	<u>344,364</u>
Nonoperating gains (losses), net:		
Investment income (loss), net	771,033	(137,664)
Gain (loss) on interest rate swaps	(24,637)	13,759
Other nonoperating gains (losses), net	<u>17,219</u>	<u>(3,867)</u>
Total nonoperating gains (losses), net	<u>763,615</u>	<u>(127,772)</u>
Excess of revenues and gains (losses) over expenses	<u>\$ 1,142,854</u>	<u>216,592</u>

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Change in net assets without donor restrictions:		
Excess of revenues and gains over expenses	\$ 1,142,854	216,592
Net unrealized gains on other-than-trading securities	24	63
Net assets released from restrictions for capital additions	10,235	6,632
Amortization of accumulated hedge accounting losses	458	458
Pension-related changes other than net periodic pension cost	9,152	(8,952)
Other	<u>(1,057)</u>	<u>(1,615)</u>
Increase in net assets without donor restrictions	<u>1,161,666</u>	<u>213,178</u>
Change in net assets with donor restrictions:		
Contributions	3,772	177
Net unrealized losses on other-than-trading securities	—	(809)
Net assets released from restrictions	(3,279)	(507)
Change in beneficial interest in net assets of foundations	<u>6,312</u>	<u>2,291</u>
Increase in net assets with donor restrictions	<u>6,805</u>	<u>1,152</u>
Increase in net assets	1,168,471	214,330
Net assets at beginning of year	<u>5,726,894</u>	<u>5,512,564</u>
Net assets at end of year	<u>\$ 6,895,365</u>	<u>5,726,894</u>

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Cash Flows

Years ended December 31, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Increase in net assets	\$ 1,168,471	214,330
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	227,894	219,374
Amortization of bond premiums, net	(1,607)	(1,849)
Amortization of bond issue costs	559	540
Loss on sale of property and equipment	1,767	789
Loss on sale of business	—	4,542
Loss on defeasance	—	233
Change in net unrealized (gains) losses on investments	(554,043)	293,875
Net realized gains on investments	(81,894)	(56,073)
Loss (gain) on interest rate swaps	24,179	(14,218)
Change in beneficial interest in net assets of foundations	(21,475)	4,351
Restricted contributions	(3,772)	(177)
Nonperiodic pension-related changes	(9,152)	8,952
Changes in operating assets and liabilities:		
Accounts receivable	3,865	(20,792)
Inventories	(13,838)	(9,245)
Estimated third-party settlements	16,999	22,187
Prepaid and other current assets	(13,329)	(13,296)
Accounts payable and accrued expenses	32,087	(1,675)
Employee compensation and benefits	29,573	30,338
Other assets and liabilities	10,367	37,401
Net cash provided by operating activities	<u>816,651</u>	<u>719,587</u>
Cash flows from investing activities:		
Purchases of property and equipment	(378,056)	(308,662)
Proceeds from sales of businesses, property and equipment	93	4,364
Purchases of assets limited as to use and investments	(1,616,209)	(1,735,419)
Proceeds from sales of assets limited as to use and investments	1,195,538	1,352,655
Purchases of other assets, net	(14,053)	(4,889)
Net cash used in investing activities	<u>(812,687)</u>	<u>(691,951)</u>
Cash flows from financing activities:		
Restricted contributions	3,772	177
Proceeds from the revolving line of credit and the issuance of debt	730,105	718,109
Repayments of revolving line of credit, long-term debt, finance and capital lease obligations	(707,622)	(759,012)
Net cash provided by (used in) financing activities	<u>26,255</u>	<u>(40,726)</u>
Increase (decrease) in cash and cash equivalents	30,219	(13,090)
Cash and cash equivalents at beginning of year	<u>56,640</u>	<u>69,730</u>
Cash and cash equivalents at end of year	<u>\$ 86,859</u>	<u>56,640</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 42,092	42,291
Change in the acquisition of property and equipment through accrued expenses	(9,922)	(54)
Change in purchases of property and equipment to adjust for asset retirement obligations	86	801
Change in property and equipment related to capital leases	—	15,997
Change in debt related to finance leases	(18,254)	—
Right-of-use assets added through the establishment of lease liabilities	25,888	—

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2019 and 2018

(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 skilled nursing facility, home health agency, ambulatory care sites, and physician practices. Effective January 1, 2019, BayCare Select Health Plans, Inc. (the Health Plan) commenced its principal operations. The Health Plan is a nonprofit and nonstock corporation incorporated on December 7, 2015 under the laws of the State of Florida. BayCare serves as the parent holding company and "sole member" of the Health Plan. The accompanying combined financial statements include the Members and various entities controlled by the Members, the Health Plan, and other related entities, hereafter referred to as the Organization.

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

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

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

(b) Cash and Cash Equivalents

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

(c) Securities Lending Transactions

The Organization participates in securities lending transactions whereby a portion of investments 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

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2019 and 2018

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(q) 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, 2019 and 2018 have been reflected in the accompanying combined balance sheets.

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

	December 31	
	2019	2018
Equity securities:		
U.S.	\$ 16,729	25,506
Global	40,053	48,540
U.S. fixed income securities:		
U.S.	36,194	91,929
Global	122,893	68,496
Total	\$ 215,869	234,471

The Organization recorded net investment income of approximately \$385,000 and \$371,000 on these transactions for the years ended December 31, 2019 and 2018, respectively. Net investment income represents the amount received as investment income on the securities received as collateral and the investment earnings on the securities loaned to the brokers, offset by the fees paid to the various brokers. Security lending fees were approximately \$2,045,000 and \$3,123,000 during the years ended December 31, 2019 and 2018, respectively.

(d) Investments and Investment Income

Prior to the adoption of Accounting Standards Update (ASU) 2016-01 in 2019, the Organization has designated substantially all of its investments as trading. As of December 31, 2019, all of the Organization's investments are considered 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 \$550,000,000 in capital to these limited partnerships, HarbourVest, Metropolitan Real Estate, Park Street, Golub, and White Oak, with \$190,549,000 unfunded as of December 31, 2019.

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 (losses) 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.

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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.

(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, 2019		
	Restricted		
	Internally	Externally	Total
Captive	\$ 248,411	—	248,411
Other	—	2,888	2,888
	<u>\$ 248,411</u>	<u>2,888</u>	<u>251,299</u>

	December 31, 2018		
	Restricted		
	Internally	Externally	Total
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>

(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.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2019 and 2018

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	
	2019	2018
Land	\$ 154,263	154,263
Land improvements	72,218	69,848
Buildings and improvements	2,875,226	2,693,544
Equipment	1,858,437	1,755,235
	<u>4,960,144</u>	<u>4,672,890</u>
Less accumulated depreciation and amortization	<u>2,846,522</u>	<u>2,639,643</u>
	2,113,622	2,033,247
Construction in progress	<u>263,406</u>	<u>200,183</u>
Property and equipment, net	<u>\$ 2,377,028</u>	<u>2,233,430</u>

The Organization recorded approximately \$224,353,000 and \$217,528,000 of depreciation expense for the years ended December 31, 2019 and 2018, respectively. Interest costs of approximately \$4,502,000 and \$1,671,000 were capitalized during the years ended December 31, 2019 and 2018, respectively. Included in buildings and equipment at December 31, 2018 are assets leased under capital leases of approximately \$20,049,300, net of accumulated amortization of approximately \$4,191,700. See note 4 for assets leased under finance leases at December 31, 2019. Approximately \$3,357,000 and \$3,497,000 of fully depreciated assets were removed from the combined balance sheets in 2019 and 2018, respectively, as these assets were no longer utilized by the Organization.

The Organization had construction and information technology commitments of approximately \$229,666,000 relating to various projects as of December 31, 2019. Resources available to fund the commitments are expected to include bond funds, operations and the investment program managed by BayCare.

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 2019 or 2018.

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Notes to Combined Financial Statements

December 31, 2019 and 2018

(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 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 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.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2019 and 2018

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. Bad debt expense is included within other expenses in the combined statements of operations and changes in net assets. Bad debt expense for the years ended December 31, 2019 and 2018, was not material to the Organization.

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 \$7,646,000 and \$15,887,000 during the years ended December 31, 2019 and 2018, 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 (n)).

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Notes to Combined Financial Statements

December 31, 2019 and 2018

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, 2019 and 2018 is as follows (in thousands):

	December 31	
	2019	2018
Medicare and Medicare HMO	\$ 1,632,423	1,512,483
Medicaid and Medicaid HMO	310,451	320,913
Managed Care	2,207,326	2,106,842
Other	103,541	96,502
Total all payors	\$ 4,253,741	4,036,740

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 \$151,444,000 or 37% and \$142,060,000 or 35% due from the Medicare program and approximately \$31,579,000 or 8% and \$40,055,000 or 10% due from the Medicaid program as of December 31, 2019 and 2018, respectively. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services.

(l) Health Plan Net Premium Revenue

Net premium revenue consists of premium revenue generated from Medicare. The Health Plan has a contract with The Centers for Medicare and Medicaid Services (CMS), which entitles the Health Plan to receive premium payments from CMS on behalf of each eligible member beneficiary enrolled in the Health Plan on a per-member-per-month basis (PMPM). The Health Plan recognizes net premium revenue during the month in which the Health Plan is obligated to provide services to an enrolled member.

Premiums for Medicare are generally fixed by contract in advance of the period during which the health care is covered. From time to time, government agencies require the Health Plan to reimburse them for premiums received on an eligibility list that later is discovered to contain individuals who were not eligible for government-sponsored programs or are eligible for a different premium category or a different program. The Health Plan records adjustments to revenues based on member retroactivity. Management estimates the amount of outstanding retroactivity each period and adjusts net premium revenue accordingly.

(m) Health Plan Claims and Expenses

Health plan claims and expenses are recognized by the Health Plan in the period in which services are delivered by unaffiliated providers. This cost also includes an estimate of the cost of future payment of claims for services which have been incurred but not yet reported.

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(n) 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, 2019			
	Charity care	Medicaid and other means-tested programs	Unbilled community services	Total
Community commitment	\$ 151,433	336,249	38,939	526,621
Subsidized costs	(48,508)	(16,759)	—	(65,267)
Net community commitment	<u>\$ 102,925</u>	<u>319,490</u>	<u>38,939</u>	<u>461,354</u>

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	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>

(o) Excess of Revenues and Gains (Losses) 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 (losses) over expenses.

(p) 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, 2019 or 2018.

(q) 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 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 6).

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

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

(r) Leases

The Organization accounts for leases as both a lessee and a lessor in accordance with ASC Topic 842, *Leases* (see notes 2(s) and 4).

As lessee, the Organization is obligated under noncancelable finance leases covering certain equipment. The Organization is also obligated under several noncancelable operating leases, primarily for rental of building space and equipment. The Organization determines if an arrangement is a lease at the inception of a contract and determines the lease term by assuming exercise of renewal options that are reasonably certain. The implicit borrowing rate or Treasury Yield for the related term is used to discount the lease payments based on information available at lease commencement. The Organization records the related right-of-use assets and right-of-use obligations at commencement at the present value of lease payments. As of December 31, 2019, the Organization does not have any operating or finance leases for which it is obligated that have not yet commenced.

For operating leases, right-of-use assets are amortized throughout the lease term at the carrying amount of the lease liability. Lease expense is recognized on a straight-line basis over the lease term and is included in other expenses in the combined statement of operations and changes in net assets.

For finance leases, the right-of-use asset is amortized using the straight-line method to the earlier of the end of its useful life or the end of the lease term. Amortization expense for finance leases is included within depreciation and amortization in the combined statement of operations and changes in net assets. The Organization has elected to not recognize right-of-use assets and right-of-use obligations for short-term leases for all asset classes. The Organization recognizes short-term lease payments on a straight-line basis over the lease term.

As a lessor, the Organization leases building space to affiliates and third-party operators. The Organization determines if an arrangement is a lease at inception of a contract and determines the lease term by assuming exercise of renewal options that are reasonably certain. As both lessee and lessor, the Organization has elected the practical expedient to not separate lease and non-lease components, such as common area maintenance fees, by class of underlying asset and is applying this expedient to all relevant classes.

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(s) Adoption of New Accounting Standards

The Organization adopted ASU No. 2016-02, *Leases* (Topic 842), which requires leases with durations greater than 12 months to be recognized on the combined balance sheet effective January 1, 2019. Finance and operating leases are recognized on the combined balance sheet as a right-of-use asset with a corresponding right-of-use obligation. The Organization adopted ASU-2016-02 using a modified retrospective transition approach as permitted by the amendments in ASU 2018-11. As a result, the Organization was not required to adjust its comparative prior period financial information for effects of the standard or make the new required lease disclosures for periods before adoption. The Organization has elected to adopt the package of practical expedients and has accordingly not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases, or (3) the accounting for initial direct costs that may have been previously capitalized. The adoption of ASU 2016-02 did not materially impact the combined statements of operations and changes in net assets. Upon adoption on January 1, 2019, the Organization recognized right-of-use assets of \$45,298,000 and right-of-use obligations of \$45,298,000 in the combined balance sheets. The Organization did not recognize a cumulative effect of a change in accounting principle on beginning net assets.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13), which adds, modifies and removes certain disclosure requirements for fair value measurements. The Organization early adopted the provisions of ASU 2018-13 that modify disclosure requirements effective January 1, 2019, which included the removal of the valuation processes discussion for Level 3 fair value measurements and the disclosures pertaining to the Organization's policy on recognizing transfers among levels.

In adopting ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, the Organization has elected to use the cumulative earnings approach to determine whether distributions received from equity method investees are returns on investment (operating cash flows) or returns of investment (investing cash flows).

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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, 2019 (in thousands). See note 2(q) for a discussion of valuation methodologies.

	December 31, 2019	Fair value measurements at reporting date		
		Level 1	Level 2	Level 3
Asset class:				
Cash	\$ 5,662	5,662	—	—
Equity securities:				
U.S.	1,547,738	544,692	1,003,046	—
International	782,270	185,899	596,349	22
Fixed income securities:				
Core holdings	1,610,505	4,695	1,605,810	—
High yield	356,377	—	356,377	—
Emerging markets	173,607	—	173,607	—
Bank loan funds	175,770	175,770	—	—
TIPS	30,095	—	30,095	—
Other types of investments:				
Real assets	186,886	186,886	—	—
	<u>4,868,910</u>	<u>1,103,604</u>	<u>3,765,284</u>	<u>22</u>
Accrued income	12,063			
Recorded at net asset value	576,091			
Recorded using equity method	<u>290,981</u>			
	5,748,045			
Less amount included in current assets	<u>38,314</u>			
	<u>\$ 5,709,731</u>			

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The table below summarizes the changes in Level 3 assets for the year ended December 31, 2019 (in thousands):

		<u>2019</u>
		<u>Fixed income securities</u>
Beginning balance	\$	22
Total gains (realized/unrealized) included in excess of revenues and gains over expenses		22
Purchases		—
Sales		—
Settlements		(22)
Transfers into Level 3		—
Ending balance	\$	<u>22</u>

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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, 2018 (in thousands).

	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	161,562	161,562	—	—
TIPS	15,584	—	15,584	—
Other types of investments:				
Real assets	135,128	135,128	—	—
	<u>3,844,768</u>	<u>\$ 835,187</u>	<u>3,009,559</u>	<u>22</u>
Accrued income	11,056			
Recorded at net asset value	621,851			
Recorded using equity method	208,536			
	<u>4,686,211</u>			
Less amount included in current assets	<u>36,488</u>			
	<u>\$ 4,649,723</u>			

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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 income 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 following investments have been estimated using the NAV per share as of December 31, 2019 and 2018 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2019 and 2018.

	<u>December 31</u>		<u>Redemption frequency</u>	<u>Redemption notice period</u>
	<u>2019</u>	<u>2018</u>		
Asset category:				
Hedge fund of funds (a)	\$ 311,680	272,189	Semiannually	95 days
Private real estate investment trust (b)	264,411	230,682	Quarterly	90 days
Master limited partnership (MLP) (c)	—	118,980	Monthly	30 days
	\$ <u>576,091</u>	<u>621,851</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.
- (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.

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

	Year ended December 31	
	2019	2018
Investment income (loss):		
Interest and dividends	\$ 135,120	99,392
Realized gains, net	81,894	56,073
Net unrealized gains (losses) on trading investments	<u>554,019</u>	<u>(293,129)</u>
	771,033	(137,664)
Other changes in net assets:		
Net unrealized gains (losses) on other-than-trading securities	<u>24</u>	<u>(746)</u>
Total investment return	<u>\$ 771,057</u>	<u>(138,410)</u>

Investment income is recorded net of investment expense, which was approximately \$11,831,000 and \$11,743,000 during the years ended December 31, 2019 and 2018, respectively.

(4) Leases

The tables below present various components of lease activity by the Organization as of and for the year ended December 31, 2019, as a lessee and a lessor.

As lessee, the components of lease cost for the year ended December 31, 2019 were as follows (in thousands):

Finance lease cost:		
Amortization of right of use assets	\$ 1,934	
Interest on lease liabilities	<u>602</u>	
Total finance lease cost	2,536	
Operating lease cost	13,014	
Short-term lease cost	<u>846</u>	
Total lease cost	<u>\$ 16,396</u>	

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Maturities of lease liabilities under noncancelable leases as of December 31, 2019 are as follows (in thousands):

	<u>Operating leases</u>	<u>Finance leases</u>
2020	\$ 10,890	2,789
2021	9,370	2,963
2022	6,894	3,002
2023	6,182	2,629
2024	5,101	2,187
Thereafter	<u>28,036</u>	<u>10,853</u>
Total undiscounted lease payments	66,473	24,423
Less imputed interest	<u>7,565</u>	<u>3,091</u>
Total lease liabilities	<u>\$ 58,908</u>	<u>21,332</u>

Other information related to leases as of and for the year ended December 31, 2019 is as follows (in thousands):

Supplemental cash flow information:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flow from operating leases	\$ 9,899
Operating cash flow from finance leases	1,416

Weighted average remaining lease term:

Operating leases	9.6 years
Finance leases	8.8 years

Weighted average discount rate:

Operating leases	2.4 %
Finance leases	3.1

Rental expense for operating leases totaled approximately \$24,006,000 for the year ended December 31, 2018.

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As lessor, undiscounted cash flows for future minimum lease payments to be received for operating leases in effect as of December 31, 2019 are as follows (in thousands):

2020	\$	9,557
2021		5,940
2022		4,155
2023		3,062
2024		1,846
Thereafter		<u>3,152</u>
Total future minimum lease payments receivable	\$	<u><u>27,712</u></u>

The Organization recognized lease revenue of approximately \$11,318,000 and \$11,722,000 during the years ended December 31, 2019 and 2018, respectively. This revenue is reflected within other revenue in the combined statements of operations and changes in net assets.

(5) Debt

BayCare has \$125,000,000 available under a line of credit with a bank. At December 31, 2019 and 2018, \$50,000,000 and \$0 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 2.17% and 2.89% as of December 31, 2019 and 2018, 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>2019</u>	<u>2018</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>14,854</u>	<u>15,263</u>
Debt net of unamortized premium and debt issuance costs	<u>214,854</u>	<u>215,263</u>
Polk County Industrial Development Authority Health System Revenue Bonds, Series 2014A, interest rate determined on a weekly basis (approximately 1.89% and 1.99% at December 31, 2019 and 2018, respectively) payable through 2044:		
Principal amount	100,000	100,000
Unamortized debt issuance costs	<u>(1,259)</u>	<u>(1,309)</u>
Debt less unamortized debt issuance costs	<u>98,741</u>	<u>98,691</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>5,631</u>	<u>6,247</u>
Debt net of unamortized premium and debt issuance costs	<u>194,256</u>	<u>194,872</u>
City of Tampa, Florida, Health System Revenue Bonds, Series 2012B, interest rate determined on a weekly basis (approximately 1.91% and 2.01% at December 31, 2019 and 2018, respectively) payable through 2033:		
Principal amount	77,215	77,215
Unamortized debt issuance costs	<u>(481)</u>	<u>(516)</u>
Debt less unamortized debt issuance costs	<u>76,734</u>	<u>76,699</u>

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	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
City of Tampa, Florida, Health System Revenue Bonds, Series 2012 C, D, and E, interest rate determined on a monthly basis (approximately 1.88% and 2.37% at December 31, 2019 and 2018, respectively) payable through 2042:		
Principal amount	\$ 177,215	177,215
Unamortized debt issuance costs	(146)	(179)
Debt less unamortized debt issuance costs	<u>177,069</u>	<u>177,036</u>
City of Tampa, Florida, Health System Revenue Bonds, Series 2010, at rates from 4.00% to 5.00%, payable through 2023:		
Principal amount	80,515	99,630
Net unamortized premium and debt issuance costs	(56)	210
Debt net of unamortized premium and debt issuance costs	<u>80,459</u>	<u>99,840</u>
Pinellas County Health Facilities Authority Revenue Bonds, Series 2009A, interest rate determined on a weekly basis (approximately 1.66% and 1.85% at December 31, 2019 and 2018, respectively) payable through 2038:		
Principal amount	200,000	200,000
Less unamortized debt issuance costs	(185)	(222)
Debt less unamortized debt issuance costs	<u>199,815</u>	<u>199,778</u>
Pinellas County Health Facilities Authority Revenue Bonds, Series 2003A, interest rate determined on a weekly basis (approximately 2.41% and 3.63% at December 31, 2019 and 2018, respectively) payable through 2023:		
Principal amount	18,090	22,855
Less unamortized debt issuance costs	(258)	(324)
Debt less unamortized debt issuance costs	<u>17,832</u>	<u>22,531</u>
Other	<u>65,924</u>	<u>37,972</u>
	1,125,684	1,122,682
Less current portion of long-term debt	77,032	27,297
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>\$ 852,687</u>	<u>899,420</u>

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Aggregate scheduled maturities of long-term debt obligations as of December 31, 2019 are as follows (in thousands):

2020	\$	77,032
2021		28,003
2022		27,720
2023		23,374
2024		26,652
Thereafter		<u>924,823</u>
		1,107,604
Unamortized premium and debt issue costs, net		<u>18,080</u>
	\$	<u><u>1,125,684</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, 2019, the principal amount of such bonds has been classified as a current obligation in the accompanying combined financial statements.

The 2012B Bonds were issued as window 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, 2019, 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 7, 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 in 2018 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.

(6) 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	
			2019	2018
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	5,299,293	5,532,523
		67% of 1-month USD-LIBOR		
September 2034	5.076	plus 160 bps	15,899,707	16,599,477
September 2034	3.457	67% of 1-month USD-LIBOR	10,601,000	11,068,000
September 2036	3.841	67% of 1-month USD-LIBOR	11,980,000	12,560,000
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>\$ 398,210,000</u>	<u>400,190,000</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 \$5,483,000 and \$5,731,000 for the years ended December 31, 2019 and 2018, respectively.

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

Derivatives not designated as hedging instruments	Counterparty	Balance sheet location	2019	2018
Interest rate swap contracts	Morgan Stanley	Other liabilities	\$ 38,880,000	31,023,000
Interest rate swap contracts	Goldman Sachs	Other liabilities	29,914,000	13,592,000

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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 \$6,299,000 and \$6,757,000 at December 31, 2019 and 2018, 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 (losses) and gains of approximately \$(24,179,000) and \$14,218,000 for the years ended December 31, 2019 and 2018, respectively, included in nonoperating gains (losses), net.

(7) Business Acquisitions and Sales

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 for the year ended December 31, 2018. The sale additionally resulted in a nonoperating loss of \$233,000 from 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 for the year ended December 31, 2018.

(8) Goodwill

Goodwill of approximately \$36,484,000 and \$30,081,000 at December 31, 2019 and 2018, respectively, included in other assets, results from the excess of the amount paid over the fair value of identifiable assets and liabilities of acquired healthcare businesses. The Organization reviews goodwill for impairment at least annually or whenever events or circumstances indicate that the carrying value may not be recoverable in accordance with the provisions of Accounting Standards Codification Topic 350, *Intangibles – Goodwill and Other*.

The annual impairment test was completed for the years ended December 31, 2019 and 2018 and it was determined that no impairment existed. No recent events or circumstances have occurred to indicate that impairment may exist.

(9) 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

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2019 and 2018

recorded at December 31, 2019; 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 \$298,170,000 and \$270,421,000 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, 2019 and 2018, 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.

(10) 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 \$68,888,000 and \$63,445,000 for the years ended December 31, 2019 and 2018, 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.

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

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2019 and 2018

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, 2019 and 2018.

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, 2019 (in thousands):

	Amounts recognized in net assets without donor restrictions December 31, 2019	Amounts in net assets without donor restrictions to be recognized during the next fiscal year
Net actuarial loss	\$ (22,992)	(3,734)

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

The following table sets forth changes to the defined benefit pension plan's benefit obligation, plan assets, and funded status (included in other noncurrent liabilities) as of December 31, 2019 and 2018, the measurement dates (in thousands):

	Year ended December 31	
	2019	2018
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ (152,660)	(172,982)
Interest cost	(5,737)	(5,924)
Actuarial gain (loss)	(9,506)	5,904
Benefits paid	9,384	6,244
Settlement	—	14,098
Projected benefit obligation at end of year	<u>(158,519)</u>	<u>(152,660)</u>

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

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	Year ended December 31	
	2019	2018
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 133,100	149,910
Actual return on plan assets	24,119	(6,468)
Contributions made	10,000	10,000
Benefits paid	(9,384)	(6,244)
Settlement	—	(14,098)
Fair value of plan assets at end of year	<u>157,835</u>	<u>133,100</u>
Net amount recognized as accrued pension cost included in other noncurrent liabilities	<u>\$ (684)</u>	<u>(19,560)</u>

The accumulated benefit obligation for the pension plan was approximately \$158,519,000 and \$152,660,000 at December 31, 2019 and 2018, 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	
	2019	2018
Service cost	\$ —	—
Interest cost	5,737	5,924
Expected return on plan assets	(8,875)	(10,047)
Settlement loss	—	2,936
Amortization of net actuarial loss	<u>3,067</u>	<u>1,437</u>
Net periodic pension cost (benefit)	<u>\$ (71)</u>	<u>250</u>

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

	Year ended December 31	
	2019	2018
Discount rate	3.92 %	3.56 %
Projected rate of increase in future compensation levels	N/A	N/A
Expected long-term rate of return on plan assets	7.00	7.00

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

	Year ended December 31	
	2019	2018
Discount rate	2.83 %	3.92 %
Projected rate of increase in future compensation levels	N/A	N/A

The Organization expects to contribute to the SJH-SAH Plan in 2020, but the amount of the contribution has not yet been determined.

The benefits expected to be paid in each year from 2020 to 2024 are approximately \$12,698,000, \$12,676,000, \$11,339,000, \$10,567,000, and \$10,116,000, respectively. The aggregate benefits expected to be paid in the five years from 2025 to 2029 are approximately \$43,360,000. The expected benefits to be paid are based on the same assumptions used to measure the Organization's benefit obligation at December 31, 2019. 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.

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The table below summarizes the fair values of pension plan assets as of December 31, 2019 (in thousands) (see note 2(q) for discussion of valuation methods):

	December 31, 2019	Fair value measurements at reporting date	
		Level 1	Level 2
Asset category:			
Cash	\$ 212	212	—
Equity securities:			
U.S.	26,688	2,556	24,132
International	16,800	4,699	12,101
Fixed income securities:			
Long duration	43,560	—	43,560
Core holdings	18,668	—	18,668
High yield	17,112	—	17,112
Emerging debt	8,184	—	8,184
Bank loan funds	6,876	6,876	—
Real assets	6,270	6,270	—
	144,370	\$ 20,613	123,757
Accrued income	27		
Recorded at net asset value	13,438		
Total	\$ 157,835		

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2019 and 2018

The table below summarizes the fair values of pension plan assets as of December 31, 2018 (in thousands):

	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 following pension plan assets have been estimated using the NAV per share of the investments as of December 31, 2019 and 2018 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2019 and 2018.

	December 31		Redemption frequency	Redemption notice period
	2019	2018		
Asset category:				
Hedge fund of funds (a)	\$ 13,438	12,496	Semiannually	95 days
Master limited partnership (MLPs) (b)	—	3,191	Monthly	30 days
	\$ 13,438	15,687		

(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

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December 31, 2019 and 2018

(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, 2019 (in thousands):

	Amounts recognized in net assets without donor restrictions December 31, 2019	Amounts in net assets without donor restrictions to be recognized during the next fiscal year
Net actuarial loss	\$ (7,221)	330

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, 2019 and 2018

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, 2019 and 2018, the measurement dates (in thousands).

	Year ended December 31	
	2019	2018
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ (50,130)	(54,901)
Interest cost	(1,899)	(1,789)
Actuarial gain (loss)	(4,763)	2,264
Plan settlements	2,579	3,628
Benefits paid	924	668
Projected benefit obligation at end of year	<u>(53,289)</u>	<u>(50,130)</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	37,738	43,560
Actual return on plan assets	6,305	(2,826)
Contributions made	1,300	1,300
Plan settlements	(2,579)	(3,628)
Benefits paid	(924)	(668)
Fair value of plan assets at end of year	<u>41,840</u>	<u>37,738</u>
Net amount recognized as accrued pension cost included in other noncurrent liabilities	<u>\$ (11,449)</u>	<u>(12,392)</u>

The accumulated benefit obligation for the Plan was approximately \$53,289,000 and \$50,130,000 at December 31, 2019 and 2018, 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	
	2019	2018
Service cost	\$ —	—
Interest cost	1,899	1,789
Expected return on plan assets	(1,810)	(2,206)
Settlement loss	349	552
Amortization of net loss	322	—
Net periodic pension cost	<u>\$ 760</u>	<u>135</u>

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2019 and 2018

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

	Year ended December 31	
	2019	2018
Discount rate	3.97 %	3.40 %
Projected rate of increase in future compensation levels	N/A	N/A
Expected long-term rate of return on plan assets	5.00	5.25

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

	Year ended December 31	
	2019	2018
Discount rate	2.88 %	3.97 %
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 2020.

The benefits expected to be paid in each year from 2020 to 2024 are approximately \$4,331,000, \$2,995,000, \$3,074,000, \$2,923,000, and \$3,238,000, respectively. The aggregate benefits expected to be paid in the five years from 2025 to 2029 are approximately \$16,587,000. The expected benefits to be paid are based on the same assumptions used to measure Winter Haven's benefit obligation at December 31, 2019.

The plan assets are administered by a trustee and are invested in the following percentages in various instruments at December 31, 2019: 49% fixed income, 23% domestic equities, 16% international equities, 9% hedge funds, and 3% 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, 2019 and 2018

The table below summarizes the fair values of pension plan assets as of December 31, 2019 (in thousands) (see note 2(q) for discussion of valuation methods):

	December 31, 2019	Fair value measurements at reporting date	
		Level 1	Level 2
Asset category:			
Cash	\$ 1	1	—
Equity securities:			
U.S.	9,471	907	8,564
International	8,076	2,258	5,818
Fixed income securities:			
Long duration	9,729	—	9,729
Core holdings	6,389	—	6,389
High yield	1,750	—	1,750
Emerging debt	837	—	837
Bank loan funds	703	703	—
Real assets	1,262	1,262	—
	38,218	\$ 5,131	33,087
Accrued income	3		
Recorded at net asset value	3,619		
Total	\$ 41,840		

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2019 and 2018

The table below summarizes the fair values of pension plan assets as of December 31, 2018 (in thousands):

	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 following pension plan assets have been estimated using the NAV per share of the investments as of December 31, 2019 and 2018 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2019 and 2018.

	December 31		Redemption frequency	Redemption notice period
	2019	2018		
Asset category:				
Hedge fund of funds (a)	\$ 3,619	3,595	Semiannually	95 days
Master Limited partnerships (MLPs) (b)	—	773	Monthly	30 days
	\$ 3,619	4,368		

(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.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2019 and 2018

(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.

(11) 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, 2019 and 2018 are reflected in the tables below (in thousands). Amounts below exclude gains and losses on the sale of businesses.

	Year ended December 31, 2019		
	Program Services	Support Services	Total
	Health Care Services	MG&A	
Salaries and benefits	\$ 1,876,331	323,780	2,200,111
Supplies	829,147	8,424	837,571
Health plan claims and expenses	17,609	—	17,609
Other expenses	453,944	264,015	717,959
Depreciation and amortization	190,568	37,326	227,894
Interest	37,175	354	37,529
Total operating expenses	\$ <u>3,404,774</u>	<u>633,899</u>	<u>4,038,673</u>

	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	\$ <u>3,230,913</u>	<u>579,318</u>	<u>3,810,231</u>

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2019 and 2018

The combined 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.

(12) 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 noncurrent investments. While not classified as a current asset, the Organization has noncurrent 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 5 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, 2019 and December 31, 2018 are as follows (in thousands):

	December 31	
	2019	2018
Cash and cash equivalents	\$ 86,859	56,640
Accounts receivable	405,567	408,702
Noncurrent investments available within one year	5,167,451	4,236,524
Total	<u>\$ 5,659,877</u>	<u>4,701,866</u>

(13) Subsequent Events

The Organization has evaluated events and transactions occurring subsequent to December 31, 2019 as of March 4, 2020, which is the date the combined financial statements were issued. On February 4, 2020, a debt offering was approved for up to \$500,000,000 to be utilized primarily for hospital construction. Management believes that no other material events have occurred since December 31, 2019 that require recognition or disclosure in the combined financial statements.

COMBINING INFORMATION

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Balance Sheet Information

December 31, 2019

(In thousands)

Assets	BayCare Health System, Inc.	Bartow 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
Current assets:										
Cash and cash equivalents	\$ 80,174	1,544	8	487	4,645	1	—	86,859	—	86,859
Collateral received for securities lending transactions	228,578	—	—	—	—	—	—	228,578	—	228,578
Investments held on behalf of others	38,314	—	—	—	—	—	—	38,314	—	38,314
Accounts receivable	51,102	6,610	36,961	177,421	121,641	13,229	—	406,964	(1,397)	405,567
Inventories	33,005	1,959	9,430	37,998	26,875	5,269	—	114,536	—	114,536
Estimated third-party settlements	—	(17)	(3,173)	2,987	7	638	—	442	—	442
Prepaid and other current assets	69,890	449	9,103	10,785	6,501	677	5	97,410	(15,328)	82,082
Total current assets	501,063	10,545	52,329	229,678	159,669	19,814	5	973,103	(16,725)	956,378
Investments	5,363,617	—	94,815	—	—	—	—	5,458,432	—	5,458,432
Assets limited as to use	(1,815)	—	4,699	—	4	—	—	251,299	—	251,299
Right-of-use asset - finance leases	18,049	726	—	26	2,160	—	248,411	20,961	(2,159)	18,802
Right-of-use asset - operating leases	52,745	—	1	10,742	21,164	1,308	—	85,960	(27,676)	58,284
Property and equipment, net	386,419	42,786	203,727	1,026,987	673,356	43,753	—	2,377,028	—	2,377,028
Beneficial interest in net assets of foundations	(3,838,196)	15,236	16,944	43,021	115,347	9,181	—	184,493	—	184,493
Due from affiliates	255,997	18,747	(106,872)	1,742,104	2,045,588	159,406	—	3,355,033	(17,266)	3,337,767
Other assets	—	—	12,311	25,083	8,325	306	14,264	17,266	(207,910)	127,123
Total assets	\$ 2,737,879	88,040	277,954	3,077,641	3,025,613	233,768	262,680	9,703,575	(271,736)	9,431,839
Liabilities and Net Assets										
Current liabilities:										
Accounts payable and accrued expenses	\$ 147,033	1,916	11,728	51,123	30,278	4,119	2,298	248,495	2,179	250,674
Employee compensation and benefits	269,548	1,618	9,206	38,244	31,620	2,929	—	353,165	—	353,165
Current portion of finance lease liability	1,872	247	—	31	1,091	3,241	—	3,241	(1,091)	2,150
Current portion of operating lease liability	7,444	—	—	3,872	4,195	384	—	15,895	(6,308)	9,587
Current portion of long-term debt	77,007	—	—	25	—	—	—	77,032	—	77,032
Long-term debt, subject to short-term put arrangements	195,965	—	—	—	—	—	—	195,965	—	195,965
Liabilities for investments held on behalf of others	38,314	—	—	—	—	—	—	38,314	—	38,314
Liabilities under securities lending transactions	228,578	—	—	—	—	—	—	228,578	—	228,578
Total current liabilities	965,761	3,781	20,934	93,295	67,184	7,432	2,298	1,160,685	(5,220)	1,155,465
Finance lease liability, less current portion	18,474	707	—	1	2,608	—	—	21,790	(2,608)	19,182
Operating lease liability, less current portion	45,911	—	—	6,928	17,066	990	—	70,835	(21,514)	49,321
Long-term debt, less current portion	852,687	—	—	—	—	—	—	852,687	—	852,687
Other liabilities	203,807	30	17,138	14,334	249	—	231,782	467,341	(7,522)	459,819
Total liabilities	2,086,640	4,518	38,072	114,558	87,107	8,363	234,080	2,573,338	(36,864)	2,536,474
Net assets:										
Without donor restrictions	651,239	83,522	231,688	2,933,879	2,853,916	222,428	28,600	7,005,272	(234,872)	6,770,400
With donor restrictions	—	—	8,194	29,204	84,590	2,977	—	124,965	—	124,965
Total net assets	651,239	83,522	239,882	2,963,083	2,938,506	225,405	28,600	7,130,237	(234,872)	6,895,365
Total liabilities and net assets	\$ 2,737,879	88,040	277,954	3,077,641	3,025,613	233,768	262,680	9,703,575	(271,736)	9,431,839

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, 2019

(In thousands)

	BayCare Health System, Inc.	Bartow 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:										
Operating revenues:										
Net patient service revenue	\$ 540,120	71,232	369,427	1,822,013	1,357,169	139,269	—	4,299,230	(45,489)	4,253,741
Net premium revenue	34,866	—	—	—	—	—	—	34,866	—	34,866
Other revenue	674,936	809	6,435	40,015	28,605	892	—	751,692	(622,387)	129,305
Total operating revenues	1,249,922	72,041	375,862	1,862,028	1,385,774	140,161	—	5,085,788	(667,876)	4,417,912
Operating expenses:										
Salaries and benefits	847,064	26,703	157,058	647,296	501,523	53,911	—	2,233,555	(33,444)	2,200,111
Supplies	91,704	9,681	76,268	356,160	278,577	25,161	—	837,571	—	837,571
Health plan claims and expenses	31,440	—	—	—	—	—	—	31,440	(13,831)	17,609
Other expenses	208,933	21,258	101,154	508,510	397,270	41,867	—	1,278,992	(561,033)	717,959
Depreciation and amortization	56,315	3,660	16,033	83,687	62,687	6,162	—	228,544	(650)	227,894
Interest	41,545	44	2,504	15,792	17,154	1,592	—	78,631	(41,102)	37,529
Total operating expenses	1,277,001	61,346	353,017	1,611,445	1,257,211	128,713	—	4,688,733	(650,060)	4,038,673
Operating (loss) income	(27,079)	10,695	22,845	250,583	128,563	11,448	—	397,055	(17,816)	379,239
Nonoperating (losses) gains, net:										
Investment income, net	739,637	—	14,001	—	17	—	17,378	771,033	—	771,033
Loss on interest rate swaps	(23,051)	—	(1,586)	—	—	—	—	(24,637)	—	(24,637)
Other nonoperating gains (losses), net	(3,283)	(5)	1,229	4,178	13,925	1,539	—	17,583	(364)	17,219
Total nonoperating gains (losses), net	713,303	(5)	13,644	4,178	13,942	1,539	17,378	763,979	(364)	763,615
Excess of revenues and gains (losses) over expenses	\$ 686,224	10,690	36,489	254,761	142,505	12,987	17,378	1,161,034	(18,180)	1,142,854

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2019

(In thousands)

	BayCare Health System, Inc.	Bartow 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 of revenues and gains over expenses	\$ 686,224	10,690	36,489	254,761	142,505	12,987	17,378	1,161,034	(18,180)	1,142,854
Net unrealized gains on other-than-trading securities	—	—	—	24	—	—	—	24	—	24
Net asset transfers (to) from joint operating agreement participants, net	(679,480)	—	—	341,798	315,973	21,709	—	—	—	—
Net assets released from restrictions for capital additions	—	(1)	3,326	2,276	4,491	143	—	10,235	—	10,235
Amortization of accumulated hedge accounting losses	458	—	—	—	—	—	—	458	—	458
Pension-related changes other than net periodic pension cost	8,991	—	404	8,748	—	—	—	9,152	—	9,152
Transfer (to) from affiliates	938	—	(8,570)	(421)	—	—	—	—	—	—
Other	17,131	10,689	31,649	607,186	463,031	34,839	(154)	846	(1,903)	(1,057)
Increase in net assets without donor restrictions	17,131	10,689	31,649	607,186	463,031	34,839	17,224	1,181,749	(20,083)	1,161,666
Change in net assets with donor restrictions:										
Contributions	—	—	3,747	—	25	—	—	3,772	—	3,772
Net assets released from restrictions	—	—	(3,004)	(43)	(230)	(2)	—	(3,279)	—	(3,279)
Change in beneficial interest in net assets of foundations	—	—	413	2,955	3,167	(223)	—	6,312	—	6,312
Increase in net assets with donor restrictions	—	—	1,156	2,912	2,962	(225)	—	6,805	—	6,805
Increase in net assets	17,131	10,689	32,805	610,098	465,993	34,614	17,224	1,188,554	(20,083)	1,168,471
Net assets at beginning 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
Net assets at end of year	\$ 651,239	83,522	239,882	2,963,083	2,938,506	225,405	28,600	7,130,237	(234,872)	6,895,365

See accompanying independent auditors' report.