



**BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**  
Combined Financial Statements and Combining Information  
December 31, 2017 and 2016  
(With Independent Auditors' Report Thereon)

## BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

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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, 2017 and 2016, 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, 2017 and 2016, 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.



### **Other Matters**

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

*KPMG LLP*

March 5, 2018  
Certified Public Accountants

**BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

Combined Balance Sheets

December 31, 2017 and 2016

(In thousands)

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Current assets:		
Cash and cash equivalents	\$ 69,730	46,299
Collateral received for securities lending transactions	248,215	193,757
Investments held on behalf of others	33,952	29,253
Short-term investments	3,234	1,291
Assets limited as to use	18,232	2,729
Accounts receivable, less allowance for uncollectible accounts of approximately \$335,663 and \$296,977, respectively	389,863	411,856
Inventories	91,498	88,534
Estimated third-party settlements	39,322	—
Prepaid and other current assets	55,441	52,583
Total current assets	949,487	826,302
Investments	4,286,896	3,668,988
Assets limited as to use	199,799	171,097
Property and equipment, net	2,142,980	2,047,458
Beneficial interest in net assets of foundations	167,369	149,542
Other assets	108,770	98,559
Total assets	\$ 7,855,301	6,961,946
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 210,459	207,058
Employee compensation and benefits	293,754	268,283
Estimated third-party settlements	—	36,845
Current portion of long-term debt	35,568	24,189
Long-term debt, subject to short-term put arrangements	195,965	195,965
Liabilities for investments held on behalf of others	33,952	29,253
Liabilities under securities lending transactions	248,215	193,757
Total current liabilities	1,017,913	955,350
Long-term debt, less current portion	914,455	927,403
Other liabilities	410,369	391,946
Total liabilities	2,342,737	2,274,699
Net assets:		
Unrestricted	5,395,556	4,577,719
Temporarily restricted	81,149	75,577
Permanently restricted	35,859	33,951
Total net assets	5,512,564	4,687,247
Total liabilities and net assets	\$ 7,855,301	6,961,946

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, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Operating revenue:		
Patient service revenue (net of contractual adjustments and discounts)	\$ 4,075,326	3,811,066
Provision for bad debts	<u>(266,442)</u>	<u>(259,596)</u>
Net patient service revenue less provision for bad debts	3,808,884	3,551,470
Other revenue	<u>120,923</u>	<u>125,281</u>
Total operating revenue	<u>3,929,807</u>	<u>3,676,751</u>
Operating expenses:		
Salaries and benefits	1,978,660	1,859,132
Supplies	722,343	681,134
Other expenses	649,138	574,278
Depreciation and amortization	207,776	207,180
Interest	37,246	36,222
Gain on disposal of business	<u>(8,081)</u>	<u>—</u>
Total operating expenses	<u>3,587,082</u>	<u>3,357,946</u>
Operating income	<u>342,725</u>	<u>318,805</u>
Nonoperating gains, net:		
Investment income, net	443,155	281,362
Gain on interest rate swaps	3,553	4,859
Other nonoperating gains, net	<u>14,013</u>	<u>6,865</u>
Total nonoperating gains, net	<u>460,721</u>	<u>293,086</u>
Excess of revenue and gains over expenses	\$ <u>803,446</u>	<u>611,891</u>

See accompanying notes to combined financial statements.

**BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Unrestricted net assets:		
Excess of revenue and gains over expenses	\$ 803,446	611,891
Net unrealized losses on other-than-trading securities	(43)	(28)
Net assets released from restrictions for capital additions	6,251	5,385
Amortization of accumulated hedge accounting losses	458	458
Pension-related changes other than net periodic pension cost	8,072	1,157
Other	<u>(347)</u>	<u>(2,788)</u>
Increase in unrestricted net assets	<u>817,837</u>	<u>616,075</u>
Temporarily restricted net assets:		
Contributions	206	355
Net unrealized gains on other-than-trading securities	85	38
Change in beneficial interest in net assets of foundations	5,559	(1,033)
Net assets released from restrictions for operations and capital additions	(278)	(360)
Other	<u>—</u>	<u>(2)</u>
Increase (decrease) in temporarily restricted net assets	<u>5,572</u>	<u>(1,002)</u>
Permanently restricted net assets:		
Change in beneficial interest of net assets of foundations	<u>1,908</u>	<u>1,542</u>
Increase in permanently restricted net assets	<u>1,908</u>	<u>1,542</u>
Increase in net assets	825,317	616,615
Net assets at beginning of year	<u>4,687,247</u>	<u>4,070,632</u>
Net assets at end of year	\$ <u><u>5,512,564</u></u>	<u><u>4,687,247</u></u>

See accompanying notes to combined financial statements.

**BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

Combined Statements of Cash Flows

Years ended December 31, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase in net assets	\$ 825,317	616,615
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains:		
Provision for bad debts	266,442	259,596
Depreciation and amortization	207,776	207,180
Amortization of bond premiums, net	(1,890)	(1,951)
Amortization of bond issue costs	595	588
Loss on sale of property and equipment	1,718	2,239
Other operating losses, net	4,170	—
Gain on sale of business	(8,081)	—
Change in net unrealized gains on investments	(174,439)	(202,467)
Net realized gains on investments	(186,657)	(13,364)
Gain on interest rate swaps	(4,012)	(5,317)
Change in beneficial interest in net assets of foundations	(17,827)	(5,813)
Restricted contributions	(206)	(355)
Pension-related changes other than net periodic pension cost	(8,072)	(1,157)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable, net	(244,449)	(262,839)
Inventories	(6,164)	(7,866)
Prepaid and other current assets	(2,340)	64,045
Accounts payable and accrued expenses	3,813	17,163
Employee compensation and benefits	55,471	17,089
Estimated third-party settlements	(76,167)	(54,250)
Other liabilities	(2,293)	25,060
Net cash provided by operating activities and nonoperating gains	<u>632,705</u>	<u>654,196</u>
Cash flows from investing activities:		
Purchases of property and equipment	(225,847)	(267,411)
Proceeds from sales of property and equipment	224	463
Payment for acquired business	(89,782)	(64,491)
Proceeds from sale of businesses	9,681	—
Purchases of assets limited as to use and investments	(2,185,195)	(1,439,818)
Proceeds from sales of assets limited as to use and investments	1,882,235	935,402
Decrease (increase) in other assets	(5,921)	1,990
Net cash used in investing activities	<u>(614,605)</u>	<u>(833,865)</u>
Cash flows from financing activities:		
Restricted contributions	206	355
Payment of debt issue costs	58	(2,213)
Proceeds from the issuance of debt	634,101	874,901
Repayments of long-term debt	(629,034)	(745,660)
Net cash provided by financing activities	<u>5,331</u>	<u>127,383</u>
Increase (decrease) in cash and cash equivalents	23,431	(52,286)
Cash and cash equivalents at beginning of year	<u>46,299</u>	<u>98,585</u>
Cash and cash equivalents at end of year	\$ <u>69,730</u>	<u>46,299</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 40,806	37,198
Change in the acquisition of property and equipment through accrued expenses	(884)	(19,119)
Change in purchases of property and equipment to adjust for asset retirement obligations	512	—
Change in property and equipment through elimination of acquired capital leases	(3,111)	—

See accompanying notes to combined financial statements.



## **BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

### **Notes to Combined Financial Statements**

December 31, 2017 and 2016

#### **(1) Organization**

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

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

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

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

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

#### **(2) Summary of Significant Accounting Policies**

##### **(a) Use of Estimates**

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

##### **(b) Cash and Cash Equivalents**

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

##### **(c) Securities Lending Transactions**

The Organization participates in securities lending transactions whereby a portion of investments and assets limited as to use are loaned to various brokers in return for cash and securities from the brokers as collateral for the securities loaned. Pursuant to these arrangements, the collateral received must always equal at least 102% of the market value of the securities loaned, which is determined at the end of each business day. Collateral received for securities lending transactions and the related liabilities are considered Level 1 investments (see note 2(o) for discussion of Level 1, Level 2, and Level 3

# **BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

## Notes to Combined Financial Statements

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valuation methods). The collateral held for the securities loaned and a related payable of equal value at December 31, 2017 and 2016 have been reflected in the accompanying combined balance sheets.

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

		<b>December 31</b>	
		<b>2017</b>	<b>2016</b>
Equity securities:			
U.S.	\$	18,912	48,908
Global		40,468	35,005
U.S. fixed income securities:			
U.S.		162,775	83,620
Global		18,439	19,995
Total	\$	<u>240,594</u>	<u>187,528</u>

The Organization recorded net investment income of approximately \$457,000 and \$580,000 on these transactions for the years ended December 31, 2017 and 2016, respectively. Net investment income represents the amount received as investment income on the securities received as collateral, offset by the fees paid to the various brokers, and the investment earnings on the securities loaned to the brokers. Security lending fees were approximately \$1,993,000 and \$521,000 during the years ended December 31, 2017 and 2016, respectively.

### **(d) Investments and Investment Income**

The Organization has designated substantially all of its investments as trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices. Investments in limited partnerships are reported using the estimated net asset value (NAV) 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 \$450,000,000 in capital to these limited partnerships, HarbourVest, Metropolitan Real Estate, Park Street, Golub, and White Oak, as of December 31, 2017, with \$234,962,000 unfunded as of the year-end. The Organization had committed \$250,000,000 in capital to these limited partnerships, HarbourVest, Metropolitan Real Estate, and Park Street, as of December 31, 2016, with \$104,146,000 unfunded as of the prior year-end.

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

## BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

### Notes to Combined Financial Statements

December 31, 2017 and 2016

The Organization holds certain investments on behalf of others in the Investment Pool. Certain affiliated, uncombined not-for-profit foundations are participants in the Investment Pool. The combined financial statements present investments held on behalf of others, at fair value, as a current asset with a corresponding current liability representing the obligation to return the value of the investments to the foundations participating in the Investment Pool. The investments held, and related liability of equal value at December 31, 2017 and 2016, have been reflected in the accompanying combined balance sheets.

#### **(e) Assets Limited as to Use**

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

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Captive	\$ 192,305	163,838
Escrow Fund – Equipment Purchase	15,314	—
Other	10,412	9,988
	218,031	173,826
Less amount included in current assets	18,232	2,729
	<u>\$ 199,799</u>	<u>171,097</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.

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.

**BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

## Notes to Combined Financial Statements

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Land	\$ 153,885	153,602
Land improvements	68,375	61,101
Buildings and improvements	2,696,094	2,381,838
Equipment	1,639,253	1,581,982
	4,557,607	4,178,523
Less accumulated depreciation and amortization	2,494,143	2,320,183
	2,063,464	1,858,340
Construction in progress	79,516	189,118
Property and equipment, net	\$ 2,142,980	2,047,458

The Organization recorded approximately \$206,394,000 and \$205,927,000 of depreciation expense for the years ended December 31, 2017 and 2016, respectively. Interest costs of approximately \$3,589,000 and \$2,161,000 were capitalized during the years ended December 31, 2017 and 2016, respectively. Included in buildings and equipment are assets leased under capital leases of approximately \$3,126,000 and \$7,514,000, net of accumulated amortization of approximately \$3,987,000 and \$10,754,000, at December 31, 2017 and 2016, respectively. Approximately \$8,242,000 and \$21,432,000 of fully depreciated assets were removed from the combined balance sheets in 2017 and 2016, respectively, as these assets were no longer utilized by the Organization.

The Organization had construction and information technology commitments of approximately \$99,296,000 relating to various projects as of December 31, 2017. The Organization expects to fund the commitments through operations and unrestricted assets.

The Organization reviews whether events and circumstances have occurred to indicate if the remaining useful life of long-lived assets may warrant revision or that the remaining balance of an asset may not be recoverable. If such an event occurs, an assessment of possible impairment is based on whether the carrying amount of the assets exceeds the expected total undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the undiscounted cash flows are less than the net book value of the assets, an impairment loss based on the fair value of the assets is recognized. No impairments were recorded in 2017 and 2016.

**(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.

## BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

### Notes to Combined Financial Statements

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**(i) Self-Insurance**

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

**(j) Temporarily and Permanently Restricted Net Assets**

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

Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity, the income from which is expendable to support the Organization's operations.

**(k) Net Patient Service Revenue**

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

Revenue from the Medicare and Medicaid programs accounted for approximately 35% and 10% and 34% and 9%, respectively, of the Organization's net patient service revenue for the years ended December 31, 2017 and 2016. The composition of patient service revenue (net of contractual adjustments and discounts) but before the provision for bad debts recognized from these major payor sources is as follows (in thousands):

	December 31	
	2017	2016
Third-party payors	\$ 3,976,131	3,719,688
Self-pay	99,195	91,378
Total all payors	\$ 4,075,326	3,811,066

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

The Organization analyzes contractual amounts due from patients who have third-party coverage and provides an allowance for doubtful accounts and a provision for bad debts. For self-pay patients, which includes those patients without insurance coverage and patients with deductibles and copayment balances for which third-party coverage exists for a portion of the bill, the Organization records a

## **BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

### **Notes to Combined Financial Statements**

**December 31, 2017 and 2016**

significant provision for bad debts for patients that are unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted. The Organization follows established guidelines for placing certain past-due patient balances with collection agencies.

The Organization's allowance for uncollectible accounts for self-pay patients was 84% and 82% of self-pay accounts receivable as of December 31, 2017 and 2016, respectively. The Organization has not experienced significant changes in write-off trends and has not changed its uninsured discount policy for the years ended December 31, 2017 and 2016. Effective October 1, 2016, the System no longer pursues collection of amounts due from certain patients that fall under presumptive charity care specifications. Previously, collections were pursued and these accounts were included in revenue with a corresponding charge to bad debts if not collected. Under the new policy, such amounts are no longer recorded as revenue, which correspondingly reduces the provision for bad debts. For the years ended December 31, 2017 and 2016, there has not been a significant impact to net patient service revenue as a result of this policy change.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term. As a result, provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined or as years are no longer subject to audits, reviews, and investigations. Net patient service revenue increased approximately \$42,713,000 and \$37,479,000 during the years ended December 31, 2017 and 2016, respectively, due to final settlements on open cost report filings, specific settlement of certain appeal issues, and changes in recorded estimates for retroactive adjustments.

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net patient accounts receivable included approximately \$140,537,000 or 36% and \$147,150,000 or 36% due from the Medicare program and approximately \$37,729,000 or 10% and \$38,819,000 or 9% due from the Medicaid program as of December 31, 2017 and 2016, 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.

#### **(I) Community Commitment**

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

The Agency for Health Care Administration (AHCA) defines traditional charity care eligibility at 200% of the federal poverty guidelines, unless the amount due from the patient exceeds 25% of annual family income limited to four times the poverty level. In an effort to meet its mission, the Organization affords its patients a hardship charity, which is defined as 250% of the federal poverty guidelines. Beginning in 2016, the Organization provides financial assistance to certain eligible patients under its presumptive charity policy even if the patient does not request assistance. Accordingly, healthcare services are

# **BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

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

		Year ended December 31, 2016			
		Charity care	Medicaid and other means-tested programs	Unbilled community services	Total
Community commitment	\$	111,279	239,777	19,926	370,982
Subsidized costs		(1,500)	(22,695)	(952)	(25,147)
Net community commitment	\$	109,779	217,082	18,974	345,835

## **BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

### **Notes to Combined Financial Statements**

December 31, 2017 and 2016

#### ***(m) Excess of Revenue and Gains over Expenses and Changes in Unrestricted Net Assets***

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

#### ***(n) Income Taxes***

The majority of the affiliates within the Organization are not-for-profit organizations described in Section 501(c)(3) of the Internal Revenue Code, and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code, and are also exempt from state income taxes. The Organization accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Management has determined that no material unrecognized tax benefits or liabilities exist as of December 31, 2017 or 2016.

#### ***(o) Fair Value Measurements***

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

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

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

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

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

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

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



# BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

## Notes to Combined Financial Statements

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### (p) Adoption of New Accounting Standards

During 2017, the Organization early adopted a portion of FASB ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*. Accordingly, the Organization has removed the fair value disclosure previously presented in note 4.

### (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, 2017 (in thousands). See note 2(o) for a discussion of valuation methodologies.

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

**BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

## Notes to Combined Financial Statements

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

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

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

# **BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

## Notes to Combined Financial Statements

December 31, 2017 and 2016

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, 2016 (in thousands). See note 2(o) for a discussion of valuation methodologies.

	<b>December 31, 2016</b>	<b>Fair value measurements at reporting date</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Asset class:				
Cash	\$ 5,086	5,086	—	—
Equity securities:				
U.S.	1,045,242	571,029	474,213	—
International	579,514	145,591	433,923	—
Fixed income securities:				
Core holdings	1,335,704	18,744	1,316,947	13
Bank loan funds	23,323	23,323	—	—
TIPS	15,624	—	15,624	—
	3,004,493	\$ 763,773	2,240,707	13
Accrued income	7,644			
Recorded at net asset value	753,965			
Recorded using equity method	107,256			
	3,873,358			
Less amount included in current assets	33,273			
	\$ 3,840,085			

# BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

## Notes to Combined Financial Statements

December 31, 2017 and 2016

The table below summarizes the changes in Level 3 assets for the year ended December 31, 2016 (in thousands):

	<b>Level 3</b>		
	<b>Fixed income securities</b>	<b>Other</b>	<b>Total</b>
Beginning balance	\$ 1,364	44	1,408
Total losses (realized/unrealized) included in excess of revenues and gains over expenses	(10)	—	(10)
Purchases	—	—	—
Sales	(1,329)	—	(1,329)
Settlements	(12)	(44)	(56)
Transfers into Level 3	—	—	—
Ending balance	\$ 13	—	13

The Organization's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. During 2016, there were no transfers into or out of Level 3. Transfers between Level 1 and Level 2 during the year are considered insignificant to the financial statements as a whole. During 2017, the Organization re-evaluated the investments reported using the NAV per share to determine as to whether they have a readily determinable fair value. Based on this reevaluation, certain investments previously recorded as NAV and excluded from the fair value hierarchy in the amount of \$413,259 as of December 31, 2016 are now included as Level 2 investments.

The following investments have been estimated using the NAV per share of the investments as of December 31, 2017 and 2016 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2017 and 2016.

	<b>December 31</b>		<b>Redemption frequency</b>	<b>Redemption notice period</b>
	<b>2017</b>	<b>2016</b>		
Asset category:				
Hedge fund of funds (a)	\$ 239,263	224,854	Semiannually	95 days
Global fixed income partnership (b)	—	158,038	Monthly	15 days
Private real estate investment trust (c)	132,490	123,486	Quarterly	90 days
Master limited partnership (MLP) (d)	294,099	247,587	Monthly	30 days
	<u>\$ 665,852</u>	<u>753,965</u>		

# BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

## Notes to Combined Financial Statements

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- (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 investment objective of the global fixed income partnership is to outperform the Barclays Capital Multiverse Index by including exposure to the emerging market debt plus the ability to invest in other markets.
- (c) 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.
- (d) The master limited partnership's (MLP) investment objective is to seek absolute total return by investing directly or via long only equity swaps without leverage in income-producing publicly traded MLPs, with a particular focus on energy sector MLPs.

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

	<b>Year ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Investment income:		
Interest and dividends	\$ 82,101	65,541
Realized gains, net	186,657	13,364
Net unrealized gains on trading investments	174,397	202,457
	443,155	281,362
Other changes in net assets:		
Net unrealized gains on other-than-trading securities	42	10
Total investment return	\$ 443,197	281,372

Investment income is recorded net of investment expense, which was approximately \$10,199,000 and \$9,065,000 during the years ended December 31, 2017 and 2016, respectively.

### (4) Debt and Capital Leases

BayCare has \$125,000,000 available under a line of credit with a bank. At December 31, 2017 and 2016, \$10,000,000 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 approximately 1.94% and 1.14% as of December 31, 2017 and 2016, 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

# **BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

## Notes to Combined Financial Statements

December 31, 2017 and 2016

Indenture and constitute BayCare Obligated Group indebtedness. The covenants in connection with the long-term debt agreements described below provide for the maintenance of certain levels of debt coverage and working capital, certain restrictions on additional indebtedness, and certain types and amounts of insurance protection.

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
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	15,654	16,030
Debt net of unamortized premium and debt issuance costs	215,654	216,030
Polk County Industrial Development Authority Health System Revenue Bonds, Series 2014A, interest rate determined on a weekly basis (approximately 1.99% and 1.00% at December 31, 2017 and 2016, respectively) payable through 2044:		
Principal amount	100,000	100,000
Unamortized debt issuance costs	(1,360)	(1,410)
Debt less unamortized debt issuance costs	98,640	98,590
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	6,837	7,403
Debt net of unamortized premium and debt issuance costs	195,462	196,028
City of Tampa, Florida, Health System Revenue Bonds, Series 2012B, interest rate determined on a weekly basis (approximately 2.01% and 1.02% at December 31, 2017 and 2016, respectively) payable through 2033:		
Principal amount	77,215	77,215
Unamortized debt issuance costs	(551)	(586)
Debt less unamortized debt issuance costs	76,664	76,629

# BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

## Notes to Combined Financial Statements

December 31, 2017 and 2016

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
City of Tampa, Florida, Health System Revenue Bonds, Series 2012 C, D, and E, interest rate determined on a monthly basis (approximately 1.58% and 1.18% at December 31, 2017 and 2016, respectively) payable through 2042:		
Principal amount	\$ 177,215	177,215
Unamortized debt issuance costs	<u>(143)</u>	<u>(190)</u>
Debt less unamortized debt issuance costs	<u>177,072</u>	<u>177,025</u>
City of Tampa, Florida, Health System Revenue Bonds, Series 2010, at rates from 3.25% to 5.00%, payable through 2023:		
Principal amount	123,540	140,890
Net unamortized premium and debt issuance costs	<u>718</u>	<u>1,343</u>
Debt net of unamortized premium and debt issuance costs	<u>124,258</u>	<u>142,233</u>
Pinellas County Health Facilities Authority Revenue Bonds, Series 2009A, interest rate determined on a weekly basis (approximately 1.75% and 0.82% at December 31, 2017 and 2016, respectively) payable through 2038:		
Principal amount	200,000	200,000
Less unamortized debt issuance costs	<u>(264)</u>	<u>(314)</u>
Debt less unamortized debt issuance costs	<u>199,736</u>	<u>199,686</u>
Pinellas County Health Facilities Authority Revenue Bonds, Series 2003A, interest rate determined on a weekly basis (approximately 2.23% and 1.07% at December 31, 2017 and 2016, respectively) payable through 2023:		
Principal amount	27,410	31,775
Less unamortized debt issuance costs	<u>(389)</u>	<u>(455)</u>
Debt less unamortized debt issuance costs	<u>27,021</u>	<u>31,320</u>
Other	<u>31,481</u>	<u>10,016</u>
	1,145,988	1,147,557
Less current portion of long-term debt	(35,568)	(24,189)
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>\$ 914,455</u>	<u>927,403</u>

## BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

### Notes to Combined Financial Statements

December 31, 2017 and 2016

Aggregate scheduled maturities of long-term debt and capital lease obligations as of December 31, 2017 follow (in thousands):

2018	\$	35,568
2019		26,095
2020		27,029
2021		28,214
2022		27,988
Thereafter		<u>980,657</u>
		1,125,551
Unamortized premium and debt issue costs, net		<u>20,437</u>
	\$	<u><u>1,145,988</u></u>

In March 2016, the Organization issued \$200,000,000 of City of Tampa, Florida Health System Revenue Bonds (the Series 2016A Bonds). The Series 2016A Bonds were used for (1) reimbursing the cost of construction, equipping, and installation of certain capital improvements to healthcare facilities owned and operated by certain Members of the Obligated Group and (2) paying costs associated with the issuance of the Series 2016A Bonds.

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, 2017, the principal amount of such bonds has been classified as a current obligation in the accompanying combined financial statements.

The 2012B Bonds were issued as VRDB. These bonds are subject to long-term amortization and may be put to the Organization at the option of the bondholders in connection with certain remarketing arrangements. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after December 31, 2017, 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.



# BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

## Notes to Combined Financial Statements

December 31, 2017 and 2016

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

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

### (5) Interest Rate Swap Agreements

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

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

Expiration date	The Organization pays fixed payor rate	The Organization receives	Notional amount	
			2017	2016
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	5,749,254	5,949,237
		67% of 1-month USD-LIBOR		
September 2034	5.076	plus 160 bps	17,249,746	17,849,763
September 2034	3.457	67% of 1-month USD-LIBOR	11,501,000	11,901,000
September 2036	3.841	67% of 1-month USD-LIBOR	13,140,000	13,700,000
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>\$ 402,070,000</u>	<u>403,830,000</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 \$8,512,000 and \$9,986,000 for the years ended December 31, 2017 and 2016, respectively.

# BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

## Notes to Combined Financial Statements

December 31, 2017 and 2016

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

<b>Derivatives not designated as hedging instruments</b>	<b>Counterparty</b>	<b>Balance sheet location</b>	<b>2017</b>	<b>2016</b>
Interest rate swap contracts	Morgan Stanley	Other liabilities \$	37,927,000	41,215,000
Interest rate swap contracts	Goldman Sachs	Other liabilities	20,906,000	21,629,000

During 2008, the Organization discontinued hedge accounting for all swaps previously designated as hedges as the swaps were no longer considered to be highly effective. The Organization continues to carry the swaps at fair value with the subsequent changes in fair value included in nonoperating (losses) gains, net. Losses of approximately \$7,215,000 and \$7,673,000 at December 31, 2017 and 2016, respectively, that were accumulated in unrestricted net assets prior to the discontinuance of hedge accounting are being amortized in nonoperating (losses) gains, net using the straight-line method over the remaining life of the swaps.

The change in fair value of the interest rate swaps resulted in gains of approximately \$4,012,000 and \$5,317,000 for the years ended December 31, 2017 and 2016, respectively, included in nonoperating (losses) gains, net.

## (6) Business Acquisitions and Sales

### (a) Medical Office Buildings

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

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

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

## BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

### Notes to Combined Financial Statements

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

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

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

#### **(b) Outpatient Pharmacies**

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

#### **(7) Goodwill**

Goodwill of approximately \$30,081,000 and \$28,839,000 at December 31, 2017 and 2016, 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, 2017 and 2016 and it was determined that no impairment existed. No recent events or circumstances have occurred to indicate that impairment may exist.

#### **(8) Commitments and Contingencies**

##### **(a) Professional Liability**

The nature of the Organization's business inherently subjects the Organization to the risks of professional liability litigation. Estimated losses arising from events identified under the Organization's incident reporting system have been recorded in the accompanying combined financial statements. In addition, an accrual for possible losses attributable to incidents that may have occurred, but that have not been identified under the incident reporting system has been estimated. The estimate is valued at

## BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

### Notes to Combined Financial Statements

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the undiscounted expected future cash flows based on historical experience, relevant trend factors, and advice from consulting actuaries. The Organization is presently a defendant in various professional liability related legal actions. The Organization may be liable for losses in excess of the amount recorded at December 31, 2017; 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 \$219,638,000 and \$174,554,000 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, 2017 and 2016, 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.

#### **(c) *Operating Leases***

The Organization has entered into noncancelable operating lease agreements for the rental of building space, computer software, and equipment. Future minimum lease payments associated with these lease agreements (with initial or remaining lease terms in excess of one year) for each of the five years and thereafter subsequent to December 31, 2017 are (in thousands) as follows:

2018	\$	19,548
2019		16,256
2020		13,327
2021		11,746
2022		8,017
Thereafter		<u>22,195</u>
Total	\$	<u><u>91,089</u></u>

Rental expense for operating leases totaled approximately \$25,853,000 and \$27,168,000 for the years ended December 31, 2017 and 2016, respectively.

## BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

### Notes to Combined Financial Statements

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#### (9) Retirement Plans

##### (a) Pension Plans – BayCare

Effective October 1, 2001, the Organization's board of trustees approved a system wide BayCare Health System Retirement Plan (Retirement Plan), a defined contribution plan that covers substantially all employees who meet certain service requirements. For these employees, the Retirement Plan provides that the Organization will contribute 2% of wages and also match 50% of the employee's contributions up to 6% of the contributing employee's wages. Prior existing defined contribution plans were rolled into the Retirement Plan. Contribution expense attributable to the defined contribution plan was approximately \$59,304,000 and \$52,059,000 for the years ended December 31, 2017 and 2016, 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 unrestricted net assets of unrecognized gains or losses, prior service costs or credits, and transition assets or obligations existing at the time of adoption. The funded status is measured as the difference between the fair value of the defined benefit pension plan's assets and the projected benefit obligation of the plan. The valuation of plan assets and the calculation of benefit obligations and funded status utilized a measurement date of December 31, 2017 and 2016.

The following are deferred pension costs, which have not yet been recognized in periodic pension expense, but instead are accrued in unrestricted net assets as of December 31, 2017 (in thousands):

	<b>Amounts recognized in unrestricted net assets at December 31, 2017</b>	<b>Amounts in unrestricted net assets to be recognized during the next fiscal year</b>
Net actuarial loss	\$ 25,560	(3,031)

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

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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, 2017 and 2016, the measurement dates (in thousands):

	<b>Year ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ (171,329)	(170,140)
Service cost	—	(1,436)
Interest cost	(6,634)	(6,907)
Actuarial loss	(4,654)	(3,960)
Benefits paid	9,635	9,846
Curtailments	—	1,268
Projected benefit obligation at end of year	<u>(172,982)</u>	<u>(171,329)</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	115,016	114,591
Actual return on plan assets	14,529	7,806
Contributions made	30,000	2,465
Benefits paid	<u>(9,635)</u>	<u>(9,846)</u>
Fair value of plan assets at end of year	<u>149,910</u>	<u>115,016</u>
Net amount recognized as accrued pension cost included in other noncurrent liabilities	\$ <u>(23,072)</u>	<u>(56,313)</u>

The accumulated benefit obligation for the pension plan was approximately \$172,982,000 and \$171,329,000 at December 31, 2017 and 2016, respectively.

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

	<b>Year ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Service cost	\$ —	1,436
Interest cost	6,634	6,907
Expected return on plan assets	(6,076)	(5,515)
Amortization of net actuarial loss	<u>2,440</u>	<u>2,679</u>
Net periodic pension cost	\$ <u>2,998</u>	<u>5,507</u>

**BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

## Notes to Combined Financial Statements

December 31, 2017 and 2016

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

	<b>Year ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rate	4.03 %	4.22 %
Projected rate of increase in future compensation levels	—	3.00
Expected long-term rate of return on plan assets	5.61	5.10

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

	<b>Year ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rate	3.56 %	4.03 %
Projected rate of increase in future compensation levels	N/A	N/A

The Organization expects to contribute to the SJH-SAH Plan in 2018, but the amount of the contribution has not yet been determined.

The benefits expected to be paid in each year from 2018 to 2022 are approximately \$13,134,000, \$12,916,000, \$12,083,000, \$12,134,000, and \$11,746,000, respectively. The aggregate benefits expected to be paid in the five years from 2023 to 2027 are approximately \$50,359,000. The expected benefits to be paid are based on the same assumptions used to measure the Organization's benefit obligation at December 31, 2017. 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, 13% domestic equities, 8% international equities, 10% hedge funds, and 10% MLPs. 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, 2017 and 2016

The table below summarizes the fair values of pension plan assets as of December 31, 2017 (in thousands) (see note 2(o) for discussion of valuation methods):

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

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



# BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

## Notes to Combined Financial Statements

December 31, 2017 and 2016

The table below summarizes the fair values of pension plan assets as of December 31, 2016 (in thousands):

	December 31, 2016	Fair value measurements at reporting date	
		Level 1	Level 2
Asset category:			
Cash	\$ 90	90	—
Equity securities:			
U.S.	36,013	6,705	29,308
International	16,680	4,088	12,592
Fixed income Securities:			
Long duration	19,175	—	19,175
Core holdings	18,201	—	18,201
Bank loan funds	2,272	2,272	—
	92,431	\$ 13,155	79,276
Accrued income	14		
Recorded at net asset value	22,571		
Total	\$ 115,016		

The Organization's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. There were no transfers between levels during 2016. During 2017, the Organization re-evaluated the investments reported using the NAV per share to determine as to whether they have a readily determinable fair value. Based on this re-evaluation, certain investments previously recorded as net asset value and excluded from the fair value hierarchy in the amount of \$12,592 as of December 31, 2016 are now included as Level 2 investments.

The following pension plan assets have been estimated using the NAV per share of the investments as of December 31, 2017 and 2016 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2017 and 2016.

	December 31		Redemption frequency	Redemption notice period
	2017	2016		
Asset category:				
Hedge fund of funds (a)	\$ 13,533	11,607	Semiannually	95 days
Master limited partnership (MLPs) (b)	15,192	10,964	Monthly	30 days
	\$ 28,725	22,571		

## BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

### Notes to Combined Financial Statements

December 31, 2017 and 2016

- (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 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 multiemployer plan. A qualified employee is one who is over the age of 21, has received credit for at least 1,000 hours of service in a 12-month period, and was not over the age of 60 when hired. The Plan is funded to at least the minimum required Employee Retirement Income Security Act (ERISA) contribution.

On November 26, 2013, the Organization's board approved 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 unrestricted net assets as of December 31, 2017 (in thousands):

	<b>Amounts recognized in unrestricted net assets at December 31, 2017</b>	<b>Amounts in unrestricted net assets to be recognized during the next fiscal year</b>
Net actuarial loss	\$ (5,407)	53

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, 2017 and 2016

The following table sets forth changes to the Plan's benefit obligation, plan assets, and funded status (included in other noncurrent liabilities) as of December 31, 2017 and 2016, the measurement dates (in thousands):

	<b>Year ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ (54,535)	(56,052)
Service cost	(790)	(425)
Interest cost	(2,009)	(2,147)
Actuarial loss	(1,428)	(1,306)
Plan settlements	3,292	4,929
Benefits paid	569	466
Projected benefit obligation at end of year	<u>(54,901)</u>	<u>(54,535)</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	41,336	43,272
Actual return on plan assets	4,785	2,159
Contributions made	1,300	1,300
Plan settlements	(3,292)	(4,929)
Benefits paid	<u>(569)</u>	<u>(466)</u>
Fair value of plan assets at end of year	<u>43,560</u>	<u>41,336</u>
Net amount recognized as accrued pension cost included in other noncurrent liabilities	\$ <u>(11,341)</u>	<u>(13,199)</u>

The accumulated benefit obligation for the Plan was approximately \$54,901,000 and \$54,535,000 at December 31, 2017 and 2016, respectively.

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

	<b>Year ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Service cost	\$ 790	425
Interest cost	2,009	2,147
Expected return on plan assets	(2,195)	(2,376)
Settlement loss	324	642
Amortization of net loss	<u>216</u>	<u>87</u>
Net periodic pension cost	\$ <u>1,144</u>	<u>925</u>

**BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

## Notes to Combined Financial Statements

December 31, 2017 and 2016

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

	<b>Year ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rate	3.84 %	3.97 %
Projected rate of increase in future compensation levels	N/A	N/A
Expected long-term rate of return on plan assets	5.61	5.70

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

	<b>Year ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rate	3.40 %	3.84 %
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 2018.

The benefits expected to be paid in each year from 2018 to 2022 are approximately \$4,587,000, \$2,893,000, \$2,979,000, \$3,011,000, and \$3,083,000, respectively. The aggregate benefits expected to be paid in the five years from 2023 to 2027 are approximately \$16,167,000. The expected benefits to be paid are based on the same assumptions used to measure Winter Haven's benefit obligation at December 31, 2017.

The plan assets are administered by a trustee and are invested in the following percentages in various instruments at December 31, 2017: 49% fixed income, 22% domestic equities, 15% international equities, 9% hedge funds, and 5% MLPs.

# **BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

## **Notes to Combined Financial Statements**

December 31, 2017 and 2016

The table below summarizes the fair values of pension plan assets as of December 31, 2017 (in thousands) (see note 2(o) for discussion of valuation methods):

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

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

# BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

## Notes to Combined Financial Statements

December 31, 2017 and 2016

The table below summarizes the fair values of pension plan assets as of December 31, 2016 (in thousands):

	December 31, 2016	Fair value measurements at reporting date	
		Level 1	Level 2
Asset category:			
Cash	\$ 15	15	—
Equity securities:			
U.S.	10,214	1,902	8,312
International	6,208	1,522	4,686
Fixed income securities:			
Core holdings	8,094	—	8,094
Long duration	9,254	—	9,254
Bank loan funds	861	861	—
	34,646	\$ 4,300	30,346
Accrued income	6		
Recorded at net asset value	6,684		
Total	\$ 41,336		

The Organization's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstance that caused the transfer. There were no transfers between levels during 2016. During 2017, the Organization re-evaluated the investments reported using the NAV per share to determine as to whether they have a readily determinable fair value. Based on this re-evaluation, certain investments previously recorded as NAV and excluded from the fair value hierarchy in the amount of \$4,686 as of December 31, 2016 are now included as Level 2 investments.

The following pension plan assets have been estimated using the NAV per share of the investments as of December 31, 2017 and 2016 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2017 and 2016.

	December 31		Redemption frequency	Redemption notice period
	2017	2016		
Asset category:				
Hedge fund of funds (a)	\$ 3,595	4,401	Semiannually	95 days
Master Limited partnerships (MLPs) (b)	2,242	2,283	Monthly	30 days
	\$ 5,837	6,684		

## **BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES**

### **Notes to Combined Financial Statements**

December 31, 2017 and 2016

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

#### **(10) Functional Expenses**

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

#### **(11) Subsequent Events**

The Organization has evaluated events and transactions occurring subsequent to December 31, 2017 as of March 5, 2018, which is the date the combined financial statements were issued. On December 14, 2017 an asset purchase agreement was signed to sell substantially all of the assets and certain specified liabilities of John Knox Village of Tampa Bay, Inc. to Concordia of Florida, Inc. The transaction is expected to be definitive in 2018 when certain conditions are satisfied and all required permits and licenses are obtained by Concordia of Florida, Inc. Management believes that no other material events have occurred since December 31, 2017 that require recognition or disclosure in the combined financial statements.

## **COMBINING INFORMATION**



## BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Balance Sheet Information

December 31, 2017

(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	\$ 66,297	197	9	410	2,816	1	—	69,730	—	69,730
Collateral received for securities lending transactions	248,215	—	—	—	—	—	—	248,215	—	248,215
Investments held on behalf of others	33,952	—	—	—	—	—	—	33,952	—	33,952
Short-term investments	2,683	—	551	—	—	—	—	3,234	—	3,234
Assets limited as to use	15,313	—	—	2,919	—	—	—	18,232	—	18,232
Accounts receivable, net	53,826	6,742	32,020	171,393	112,999	12,883	—	389,863	—	389,863
Inventories	25,686	1,661	8,443	31,743	20,468	3,497	—	91,498	—	91,498
Estimated third-party settlements	—	(526)	(1,878)	58,362	(19,945)	3,309	—	39,322	—	39,322
Prepaid and other current assets	53,064	231	4,537	8,702	4,932	899	15	72,380	(16,939)	55,441
Total current assets	499,036	8,305	43,682	273,529	121,270	20,589	15	966,426	(16,939)	949,487
Investments	4,200,602	—	86,294	—	—	—	—	4,286,896	—	4,286,896
Assets limited as to use	1,485	—	—	6,009	—	—	192,305	199,799	—	199,799
Property and equipment, net	324,080	44,672	163,213	906,374	660,673	43,968	—	2,142,980	—	2,142,980
Beneficial interest in net assets of foundations	—	—	15,753	36,917	105,987	8,712	—	167,369	—	167,369
Due from affiliates	(2,765,128)	(3,239)	(98,239)	1,174,117	1,576,794	119,759	—	4,064	(4,064)	—
Other assets	244,769	19,431	12,968	25,217	9,809	821	8,832	321,847	(213,077)	108,770
Total assets	\$ 2,504,844	69,169	223,671	2,422,163	2,474,533	193,849	201,152	8,089,381	(234,080)	7,855,301
<b>Liabilities and Net Assets</b>										
Current liabilities:										
Accounts payable and accrued expenses	\$ 129,600	2,214	11,182	44,797	34,996	2,987	1,622	227,398	(16,939)	210,459
Employee compensation and benefits	215,345	1,240	8,284	36,663	29,332	2,890	—	293,754	—	293,754
Current portion of long-term debt	33,946	201	207	381	833	—	—	35,568	—	35,568
Long-term debt, subject to short-term put arrangements	195,965	—	—	—	—	—	—	195,965	—	195,965
Liabilities for investments held on behalf of others	33,952	—	—	—	—	—	—	33,952	—	33,952
Liabilities under securities lending transactions	248,215	—	—	—	—	—	—	248,215	—	248,215
Total current liabilities	857,023	3,655	19,673	81,841	65,161	5,877	1,622	1,034,852	(16,939)	1,017,913
Long-term debt, less current portion	908,806	1,178	—	110	4,361	—	—	914,455	—	914,455
Other liabilities	174,065	64	17,180	45,290	342	623	175,974	413,538	(3,169)	410,369
Total liabilities	1,939,894	4,897	36,853	127,241	69,864	6,500	177,596	2,362,845	(20,108)	2,342,737
Net assets:										
Unrestricted	564,950	64,272	179,965	2,268,407	2,324,387	183,991	23,556	5,609,528	(213,972)	5,395,556
Temporarily restricted	—	—	5,887	21,096	50,808	3,358	—	81,149	—	81,149
Permanently restricted	—	—	966	5,419	29,474	—	—	35,859	—	35,859
Total net assets	564,950	64,272	186,818	2,294,922	2,404,669	187,349	23,556	5,726,536	(213,972)	5,512,564
Total liabilities and net assets	\$ 2,504,844	69,169	223,671	2,422,163	2,474,533	193,849	201,152	8,089,381	(234,080)	7,855,301

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, 2017

(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
Operating revenue:										
Patient service revenue (net of contractual adjustments and discounts)	\$ 485,407	65,146	351,231	1,777,188	1,259,482	157,472	—	4,095,926	(20,600)	4,075,326
Provision for bad debts	(24,797)	(8,859)	(24,975)	(123,224)	(68,854)	(15,733)	—	(266,442)	—	(266,442)
Net patient service revenue less provision for bad debts	460,610	56,287	326,256	1,653,964	1,190,628	141,739	—	3,829,484	(20,600)	3,808,884
Other revenue	593,571	326	4,943	37,865	19,277	787	—	656,769	(535,846)	120,923
Total operating revenue	1,054,181	56,613	331,199	1,691,829	1,209,905	142,526	—	4,486,253	(556,446)	3,929,807
Operating expenses:										
Salaries and benefits	714,300	22,795	135,898	622,280	453,458	51,980	—	2,000,711	(22,051)	1,978,660
Supplies	89,757	9,910	63,645	298,901	236,434	23,696	—	722,343	—	722,343
Other expenses	224,199	17,496	83,934	444,448	328,307	37,243	—	1,135,627	(486,490)	649,137
Depreciation and amortization	45,423	4,856	14,715	86,696	50,267	5,819	—	207,776	—	207,776
Interest	39,407	82	2,300	19,396	14,156	1,452	—	76,793	(39,546)	37,247
Gain on disposal of business	(8,081)	—	—	—	—	—	—	(8,081)	—	(8,081)
Total operating expenses	1,105,005	55,139	300,492	1,471,721	1,082,622	120,190	—	4,135,169	(548,087)	3,587,082
Operating (loss) income	(50,824)	1,474	30,707	220,108	127,283	22,336	—	351,084	(8,359)	342,725
Nonoperating gains, net:										
Investment income, net	428,184	—	8,270	3	19	—	6,679	443,155	—	443,155
Gain on interest rate swaps	2,553	—	1,000	—	—	—	—	3,553	—	3,553
Other nonoperating (losses) gains, net	420	2	1,205	4,193	6,930	1,541	—	14,291	(278)	14,013
Total nonoperating gains, net	431,157	2	10,475	4,196	6,949	1,541	6,679	460,999	(278)	460,721
Excess (deficit) of revenue and gains over expenses	\$ 380,333	1,476	41,182	224,304	134,232	23,877	6,679	812,083	(8,637)	803,446

## BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2017

(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
Unrestricted net assets:										
Excess (deficit) of revenue and gains over expenses	\$ 380,330	1,476	41,182	224,304	134,235	23,877	6,679	812,083	(8,637)	803,446
Net unrealized losses on other-than-trading securities	—	—	—	(43)	—	—	—	(43)	—	(43)
Net asset transfers (to) from joint operating agreement participants, net	(266,379)	—	—	64,952	205,096	(3,669)	—	—	—	—
Net assets released from restrictions for capital additions	—	—	153	1,514	4,519	65	—	6,251	—	6,251
Amortization of accumulated hedge accounting losses	458	—	—	—	—	—	—	458	—	458
Pension-related changes other than net periodic pension cost	—	—	1,718	6,354	—	—	—	8,072	—	8,072
Transfer (to) from affiliates	9,357	—	(9,357)	—	—	—	—	—	—	—
Other	(5,593)	—	—	3	—	—	26	(5,564)	5,217	(347)
Increase in unrestricted net assets	118,173	1,476	33,696	297,084	343,850	20,273	6,705	821,257	(3,420)	817,837
Temporarily restricted net assets:										
Contributions	—	—	—	123	83	—	—	206	—	206
Net unrealized gains on other-than-trading securities	—	—	—	85	—	—	—	85	—	85
Change in beneficial interest in net assets of foundations	—	—	316	1,681	3,790	(228)	—	5,559	—	5,559
Net assets released from restrictions for operations and capital additions	—	—	(6)	(110)	(155)	(7)	—	(278)	—	(278)
Increase (decrease) in temporarily restricted net assets	—	—	310	1,779	3,718	(235)	—	5,572	—	5,572
Permanently restricted net assets:										
Change in beneficial interest in net assets of foundations	—	—	—	392	1,516	—	—	1,908	—	1,908
Increase in permanently restricted net assets	—	—	—	392	1,516	—	—	1,908	—	1,908
Increase in net assets	118,173	1,476	34,006	299,255	349,084	20,038	6,705	828,737	(3,420)	825,317
Net assets at beginning of year	446,778	62,796	152,812	1,995,667	2,055,584	167,311	16,851	4,897,799	(210,552)	4,687,247
Net assets at end of year	\$ 564,951	64,272	186,818	2,294,922	2,404,668	187,349	23,556	5,726,536	(213,972)	5,512,564

See accompanying independent auditors' report.