

City of Tampa, Florida Health System Revenue Bonds, BayCare Health System Issue, Series 2016A, \$200,000,000, Dated April 1, 2016

Polk County Industrial Development Authority (Florida), Health System Revenue Bonds, BayCare Health System Issue, Series 2014A  
\$100,000,000 consisting of \$50,000,000 Series 2014A-1 and \$50,000,000 Series 2014A-2, Dated: May 1, 2014

City of Tampa, Florida Health System Revenue Bonds, BayCare Health System Issue, Series 2012A, \$188,625,000, Dated May 3, 2012

City of Tampa, Florida Health System Revenue Bonds, BayCare Health System Issue, Series 2012B, \$77,215,000, Dated May 3, 2012

City of Tampa, Florida Health System Revenue Bonds, BayCare Health System Issue, Series 2012C, \$77,215,000, Dated May 24, 2012

City of Tampa, Florida Health System Revenue Bonds, BayCare Health System Issue, Series 2012D, \$50,000,000, Dated May 24, 2012

City of Tampa, Florida Health System Revenue Bonds, BayCare Health System Issue, Series 2012E, \$50,000,000 Dated May 24, 2012

City of Tampa, Florida Health System Revenue Bonds, BayCare Health System Issue, Series 2010, \$199,455,000, Dated: May 20, 2010

Pinellas County Health Facilities Authority (Florida), Health System Revenue Bonds, BayCare Health System Issue, Series 2009A,  
\$200,000,000 consisting of \$75,000,000 Series 2009A-1, \$75,000,000 Series 2009A-2 and \$50,000,000 Series 2009A-3, Dated: April 9, 2009

Pinellas County Health Facilities Authority (Florida), Health System Revenue Bonds, BayCare Health System Issue, Series 2003A-2,  
\$35,950,000, Dated: October 9, 2003

### **BayCare Obligated Group Members**

- 1 BayCare Health System, Inc.
- 2 St. Joseph's Health Care Center, Inc.
- 3 St. Joseph's Hospital, Inc.
- 4 St. Anthony's Hospital, Inc.
- 5 Morton Plant Mease Health Care, Inc.
- 6 Trustees of Mease Hospital, Inc.
- 7 Morton Plant Hospital Association, Inc.
- 8 South Florida Baptist Hospital, Inc.
- 9 Winter Haven Hospital, Inc.
- 10 Bartow Regional Medical Center, Inc.

### **Obligated Group and Other System Affiliates Share of Total Revenues, Excess (Deficiency) of Revenues and Gains over Expenses and Total Assets As of and for the year ended December 31, 2016 (In Thousands)**

	<b><u>Total Revenues</u></b>	<b><u>Excess (Deficiency) of Revenues and Gains over Expenses</u></b>	<b><u>Total Assets</u></b>
BayCare Obligated Group	3,071,892	746,313	6,659,877
Other System Affiliates	604,859	(134,422)	302,069
Total	<u>3,676,751</u>	<u>611,891</u>	<u>6,961,946</u>

### **Utilization**

	<b>Year Ended December 31</b>		
	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>
<b><u>Acute Care</u></b>			
Licensed Beds	3,433	3,419	3,487
Available Beds	2,892	3,076	2,986
Total Admissions	144,457	158,909	171,650
Total Patient Days	689,206	738,438	775,422
Average Length of Stay (days)	4.8	4.6	4.5
Percentage of Occupancy (%)	65.3	65.8	71.0
Births	14,612	15,436	15,178
Outpatient Surgeries	58,448	59,761	60,820
Emergency Room Visits	544,678	592,487	658,191
<b><u>Long-Term Care</u></b>			
Licensed Beds	163	163	163
Available Beds	163	163	163
Patient Days	55,962	56,457	54,852
<b><u>Other</u></b>			
Home Health Visits/Hours	741,695	845,288	855,106
Primary Care Visits	1,125,770	1,201,400	1,437,482

## Management's Discussion of Recent Financial Performance

BAYCARE HEALTH SYSTEM, INC.

MANAGEMENT'S DISCUSSION OF RECENT FINANCIAL PERFORMANCE FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

Continuing the commitment to build upon its clinical framework to enable population health management, BayCare Health System (the System) continued to invest in physician services and urgent care centers. In 2016, BayCare Medical Group added 42 physicians across the spectrum of primary care, hospitalists and specialists. BayCare Urgent Care opened two additional urgent care centers. Each center is fully equipped to provide a total care experience including imaging, laboratory services, diagnostics, and pharmacy. In 2016, Physician Partners ACO provided care management to approximately 43,000 Medicare lives. In addition, effective January 1, 2016, the system became the sole member of Bartow Regional Medical Center, Inc. (Bartow). Bartow owns and operates a 72-bed acute care hospital in Polk County, Florida with a medical staff comprised of 188 physicians. The acquisition allowed the Organization to advance its not-for-profit mission to improve the health of its communities with personalized, customer centered health care delivery models in and around rural south Polk County and northern Hardee County.

The System generated \$318.8 million in operating income on revenue of \$3.7 billion, an 8.7% operating margin compared to 8.5% operating margin in 2015. On a same facility basis, the System generated \$291.7 million in operating income on revenue of \$3.5 billion, an 8.4% operating margin which matched the 2015 operating margin.

*The System opened St. Joseph's Hospital-South in February 2015 and acquired Bartow Regional Medical Center in January 2016. Same facility is defined as BayCare excluding St. Joseph's Hospital-South and Bartow Regional Medical Center, in order to compare 2016 and 2015.*

Revenues for 2016 were up 10.3% over the prior year due to favorable increases in adjusted discharges (8.5%) and physician visits (13.2%). Gross patient service revenue increased 14.2% from 2015 to 2016. Bad debt as a percentage of gross revenue was 1.8% in 2016, down from 2.1% in 2015. Federal EMR incentive payments associated with meaningful use acceptance in 2016 were \$5.1 million compared to \$11.8 million in 2015. On a same facility basis, revenues were up 7.7% and adjusted discharges were up 4.1% over the prior year.

Expenses increased in 2016 by 10.2% over 2015. Same facility expenses increased by 7.7%. Salaries and benefits increased by 10.2% (full-time equivalents increased 6.1%). Supplies increased 15.0% over 2015, primarily attributable to volumes and inflation. Other expenses in 2016 include additional investment in information services initiatives, as the System prepares its technology infrastructure to drive improvement in clinical outcomes while supporting care management and population health initiatives. Specific areas of significant investment in 2016 included continued improvement and expansion of the EMR system and integration of Bartow into the Organization's standard clinical and administrative systems. Specific investments were also made to provide a convenient customer-centric healthcare experience. Examples include a consolidated call center, provider to patient texting, and advancements in telehealth.

Non-operating gains increased 742.4% from 2015. The \$338.7 million increase was primarily due to more favorable market conditions during 2016.

The System had an unfunded pension obligation of \$69.5 million as of December 31, 2016, which was an increase of \$1.2 million over 2015. Please see footnotes 9(a) and (b) in the financial statements for additional details.

The System opened St. Joseph's Hospital-South in February 2015 and acquired Bartow Regional Medical Center in January 2016. Same facility is defined as BayCare excluding St. Joseph's Hospital-South and Bartow Regional Medical Center, in order to compare 2016 and 2015.

As of December 31, 2016, BayCare had \$2.2 billion of unrestricted cash and investments that were liquid within one week of notification, within a total unrestricted cash and investment portfolio of \$3.7 billion.

**Liquidity and Capitalization****Cash and Cash Equivalents, Investments and Assets Limited as to Use  
(In Thousands)**

	<b>31-Dec</b>	
	<b><u>2015</u></b>	<b><u>2016</u></b>
Unrestricted Cash and Cash Equivalents and Investments	<u>3,084,752</u>	<u>3,715,287</u>
Assets Limited as to Use		
By Bond Designated Construction Fund	<u>-</u>	<u>-</u>
By Board	<u>-</u>	<u>-</u>
Insurance Captive Fund	<u>127,737</u>	<u>163,838</u>
Other	<u>9,954</u>	<u>9,988</u>
Total Assets Limited as to Use	<u>137,691</u>	<u>173,826</u>
Total Unrestricted Cash and Cash Equivalents, Investments and Assets Limited as to Use	<u><u>3,222,443</u></u>	<u><u>3,889,113</u></u>

**Debt to Capitalization  
(In Thousands)**

	<b>31-Dec</b>	
	<b><u>2015</u></b>	<b><u>2016</u></b>
Total Long-Term Debt	<u>1,020,082</u>	<u>1,147,557</u>
Unrestricted Net Assets	<u>3,961,644</u>	<u>4,577,719</u>
Total Capitalization	<u><u>4,981,726</u></u>	<u><u>5,725,276</u></u>
Debt to Capitalization	<u><u>20.5%</u></u>	<u><u>20.0%</u></u>

### Outstanding Long-Term Indebtedness

### Amount Outstanding December 31, 2016 (In Thousands)

1	Revenue Bond Series 2003A	31,775
2	Revenue Bond Series 2009A	200,000
3	Revenue Bond Series 2010	140,890
4	Revenue Bond Series 2012A	188,625
5	Revenue Bond Series 2012B	77,215
6	Revenue Bond Series 2012C	77,215
7	Revenue Bond Series 2012D	50,000
8	Revenue Bond Series 2012E	50,000
9	Revenue Bond Series 2014A	100,000
10	Revenue Bond Series 2016A	200,000
11	Other Indebtedness and Capital Leases	10,016
12	Premium/Discount/Cost of Issuance	21,821
	<b>Total</b>	<b>1,147,557</b>

### Debt Service Coverage Ratio

### Debt Service Coverage (In Thousands)

	31-Dec	
	2015	2016
Excess of Revenues and Gains over Expenses	239,059	611,892
Unrealized (Gains) on Investments	164,046	(202,457)
(Gains) on Swaps	-	(4,859)
(Gains) on Contribution Received from Business Acquisition	-	-
(Gains) Loss on Debt Refunding	(1)	-
Loss on Impairment	-	-
Depreciation and Amortization	197,003	207,182
Interest Expense	30,452	36,222
Income Available for Debt Service	630,559	647,980
Debt Service on Existing Debt	62,849	71,068
Debt Service Coverage (x)	10.03	9.12

### Sources of Patient Service Revenue

Source	2015	2016
Medicare	47.6	47.2
Managed Care	23.4	23.1
Medicaid	15.7	16.1
Other	13.3	13.6
Total	100.0	100.0

### Litigation

There are various medical malpractice claims, both threatened and pending, against members of the BayCare Obligated Group. Management is of the opinion that existing funding levels and coverage limits will adequately cover those potential liability exposures.

In addition, there are various claims, both threatened and pending, against members of the BayCare Obligated Group not involving claims of professional liability. Management is of the opinion that the final disposition of those claims will not have a material adverse effect upon the financial condition of the BayCare Obligated Group in the aggregate.

There also are other pending matters involving Members of the BayCare Obligated Group, such as investigations of billing practices, audits, withholdings and other regulatory issues.