Interim Unaudited Consolidated Financial Statements and Supplementary Information

Baptist Health Care Corporation and Subsidiaries
For the Nine Months Ended June 30, 2017

Baptist Health Care Corporation and Subsidiaries

Interim Unaudited Consolidated Financial Statements and Supplementary Information

Three and Nine Months Ended June 30, 2017

Contents

Consolidated Financial Statements

Supplementary Information

Baptist Health Care Corporation and Subsidiaries

Consolidated Balance Sheets

		June 30, 2017		September 30, 2016
		(In Thousands)		
Assets				
Current assets:				
Cash and cash equivalents	**$**	**173,085**	$	176,533
Short-term investments		**127,059**		108,119
Accounts receivable, net		**65,048**		60,797
Contracts receivable		**16,831**		13,576
Current portion of investments limited as to use		**2,461**		2,821
Inventories		**13,765**		14,229
Prepaid expenses and other current assets		**16,336**		13,278
Total current assets		**414,585**		389,353
Investments limited as to use, less current portion		**87,876**		83,544
Net property, plant, and equipment		**240,658**		227,524
Other assets		**18,073**		18,860
Total assets	**$**	**761,192**	$	719,281
Liabilities and net assets				
Current liabilities:				
Accounts payable	**$**	**54,200**	$	62,421
Accrued compensation and benefits		**23,729**		21,914
Accrued interest		**3,486**		1,323
Estimated third party settlements		**16,255**		14,751
Current portion of long-term debt		**9,692**		9,743
Other current liabilities		**38,751**		38,349
Total current liabilities		**146,113**		148,501
Long-term debt, less current portion		**221,185**		208,759
Other long-term liabilities		**76,492**		76,473
Total liabilities		**443,790**		433,733
Net assets:				
Unrestricted				
Controlling interest		**303,964**		273,162
Noncontrolling interests in subsidiaries		**5,890**		5,721
		309,854		278,883
Temporarily restricted - controlling interest		**7,548**		6,665
Total net assets		**317,402**		285,548
Total liabilities and net assets	**$**	**761,192**	$	719,281

See accompanying notes.

Baptist Health Care Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Three Months Ended June 30, 2017	2016
	(In Thousands)	
Unrestricted revenues and other support:		
Patient service revenue	**$ 155,392**	$ 150,206
Provision for bad debts	**(18,434)**	(15,758)
Net patient service revenue	**136,958**	134,448
Federal, state, and other awards	**17,640**	16,467
Vocational service contracts	**41,675**	36,872
Contract revenue	**7,987**	8,092
EHR incentive payments	**93**	126
Other revenue	**7,416**	5,981
Net assets released from restrictions used for operations	**171**	187
Total unrestricted revenues and other support	**211,940**	202,173
Expenses:		
Salaries and benefits	**102,936**	96,561
Supplies	**34,009**	33,932
General, administrative, and other	**25,960**	23,475
Professional fees and purchased services	**27,530**	23,884
Contract medical costs	**5,214**	5,109
Depreciation and amortization	**5,836**	5,860
Interest	**2,648**	2,532
Total expenses	**204,133**	191,353
Income from operations before gain related to weather events	**7,807**	10,820
Gain related to weather events	**248**	–
Income from operations	**8,055**	10,820
Nonoperating gains (losses):		
Change in fair value of interest rate swap agreements	**141**	(285)
Unrealized gains on trading securities	**3,051**	1,957
Investment income	**1,075**	1,334
Other, net	**(689)**	(533)
	3,578	2,473
Excess of revenues, other support and gains over expenses and losses	**11,633**	13,293
Less excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	**1,158**	777
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interest	**10,475**	12,516

Continued on next page.

Baptist Health Care Corporation and Subsidiaries

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

	Three Months Ended June 30,	
	2017	**2016**
	(In Thousands)	
Unrestricted net assets:		
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interest	**$ 10,475**	$ 12,516
Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	**1,158**	777
Net unrealized gains on other-than-trading securities	**51**	60
Pension adjustments	**(1,887)**	(946)
Other	**(1,966)**	(479)
Increase in unrestricted net assets before discontinued operations	**7,831**	11,928
Loss from discontinued operations	**–**	(20)
Increase in unrestricted net assets	**7,831**	11,908
Temporarily restricted net assets:		
Contributions	**402**	253
Unrealized gains on other-than-trading securities	**126**	92
Net assets released from restrictions	**(171)**	(187)
Other	**26**	14
Increase in temporarily restricted net assets	**383**	172
Increase in net assets	**8,214**	12,080
Net assets at beginning of period	**309,188**	264,569
Net assets at end of period	**$ 317,402**	$ 276,649

See accompanying notes.

Baptist Health Care Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Nine Months Ended June 30,	
	2017	**2016**
	(In Thousands)	
Unrestricted revenues and other support:		
Patient service revenue	**$ 463,336**	$ 439,603
Provision for bad debts	**(51,647)**	(44,356)
Net patient service revenue	**411,689**	395,247
Federal, state, and other awards	**51,257**	48,896
Vocational service contracts	**118,922**	108,796
Contract revenue	**24,069**	21,768
EHR incentive payments	**136**	153
Other revenue	**17,234**	15,856
Net assets released from restrictions used for operations	**765**	509
Total unrestricted revenues and other support	**624,072**	591,225
Expenses:		
Salaries and benefits	**304,303**	283,108
Supplies	**102,812**	100,535
General, administrative, and other	**73,945**	67,015
Professional fees and purchased services	**73,968**	71,334
Contract medical costs	**14,971**	13,621
Depreciation and amortization	**17,634**	17,401
Interest	**7,839**	7,557
Total expenses	**595,472**	560,571
Income from operations before gain related to weather events	**28,600**	30,654
Gain related to weather events	**748**	–
Income from operations	**29,348**	30,654
Nonoperating gains (losses):		
Change in fair value of interest rate swap agreements	**692**	(312)
Unrealized gains on trading securities	**1,600**	2,809
Investment income	**7,204**	2,576
Other, net	**(2,338)**	(2,198)
	7,158	2,875
Excess of revenues, other support and gains over expenses and losses	**36,506**	33,529
Less excess of revenues, other support and gains over expenses and losses attributable to noncontrolling interests	**3,502**	1,916
Excess of revenues, other support and gains over expenses and losses attributable to controlling interest	**33,004**	31,613

Continued on next page.

Baptist Health Care Corporation and Subsidiaries

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

	Nine Months Ended June 30, 2017	2016
	(In Thousands)	
Unrestricted net assets:		
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interest	**$ 33,004**	$ 31,613
Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	**3,502**	1,916
Net unrealized gains on other-than-trading securities	**130**	178
Pension adjustments	**(2,379)**	(978)
Other	**(3,286)**	(2,030)
Increase in unrestricted net assets before discontinued operations	**30,971**	30,699
Loss from discontinued operations	**–**	(60)
Increase in unrestricted net assets	**30,971**	30,639
Temporarily restricted net assets:		
Contributions	**1,308**	816
Unrealized gains (losses) on other-than-trading securities	**287**	(21)
Net assets released from restrictions	**(765)**	(509)
Other	**53**	29
Increase in temporarily restricted net assets	**883**	315
Increase in net assets	**31,854**	30,954
Net assets at beginning of period	**285,548**	245,695
Net assets at end of period	**$ 317,402**	$ 276,649

See accompanying notes.

Baptist Health Care Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Nine Months Ended June 30,	
	2017	**2016**
	(In Thousands)	
Operating activities		
Increase in net assets	**$ 31,854**	$ 30,954
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on discontinued operations	–	60
Restricted contributions received	**(1,308)**	(816)
Depreciation and amortization	**17,634**	17,401
Change in fair value of interest rate swap agreements	**(692)**	312
Unrealized gains on other than trading securities	**(417)**	(157)
Unrealized gains on trading securities	**(1,600)**	(2,809)
Pension adjustment	**2,379**	978
Provision for bad debts	**51,647**	44,356
Distribution to noncontrolling interests	**3,333**	2,247
(Decrease) increase in other long-term liabilities	**(1,704)**	2,576
Net increase in components of working capital	**(64,084)**	(31,680)
Net cash provided by operating activities	**37,042**	63,422
Investing activities		
Purchase of investments	**(33,536)**	(25,389)
Proceeds from sale of investments	**12,641**	15,124
Change in other assets	**787**	2,836
Capital expenditures	**(30,732)**	(22,494)
Net cash used in investing activities	**(50,840)**	(29,923)
Financing activities		
Repayments of long-term debt	**(3,469)**	(4,939)
Issuance of long-term debt	**15,844**	6,392
Distribution to noncontrolling interests	**(3,333)**	(2,247)
Restricted contributions received	**1,308**	816
Net cash provided by financing activities	**10,350**	22
Net (decrease) increase in cash and cash equivalents	**(3,448)**	33,521
Cash and cash equivalents, beginning of period	**176,533**	141,098
Cash and cash equivalents, end of period	**$ 173,085**	$ 174,619

See accompanying notes.

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the note disclosures and information required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the nine months ended June 30, 2017 are not necessarily indicative of the results to be expected for the year ending September 30, 2017. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended September 30, 2016.

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

2. Organization

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

- Baptist Hospital, Inc. (Baptist) – a tax-exempt organization that operates two acute care hospitals and a multi-specialty physician enterprise. Baptist also owns controlling interests in various joint venture arrangements which are consolidated in its financial statements.

- Baptist Health Ventures, Inc. (Ventures) – a taxable corporation that oversees the operations of various for-profit subsidiaries.

- Lakeview Center, Inc. (LCI) – a tax-exempt organization whose mission is to help people overcome life’s challenges by providing behavioral health services, vocational services, and child protection services.

- Jay Hospital, Inc. (Jay) – a tax-exempt organization that operates an acute care hospital.

2. Organization (continued)

- Escambia County Alabama Community Hospitals, Inc. (ECACH) – a tax-exempt organization that operates Atmore Community Hospital, an acute care hospital with home health services and a primary care physician practice, serving Atmore, Alabama, and its surrounding communities. As described in Note 15, BHCC's agreement with ECACH to operate Atmore Community Hospital ended on May 31, 2015.

- Baptist Health Care Foundation (HCF) – a public foundation with the primary purpose of raising funds to support the activities of the tax-exempt subsidiaries of BHCC.

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

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

3. Recent Accounting Pronouncements

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

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

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other* (ASU 2017-04). The amendments in ASU 2017-04 require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount

3. Recent Accounting Pronouncements (continued)

exceeds the reporting unit's fair value. The loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Entities will continue to have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Management is currently evaluating the impact of ASU 2017-04 on BHCC's consolidated financial statements.

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

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

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

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows-Restricted Cash* (ASU 2016-18). The amendments in ASU 2016-18 require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on

3. Recent Accounting Pronouncements (continued)

the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of ASU 2016-18 on BHCC's consolidated financial statements.

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

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

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The amendments in ASU 2016-14 change the presentation of not-for-profit financial statements by requiring two classes of net assets on the statement of financial position rather than for the currently required three classes, and presenting the amount of the change in each of these two classes on the statement of activities. A not-for-profit that uses the direct method of cash flow reporting will no longer be required to present or disclose the indirect method reconciliation, and not-for-profits will continue to have the option to utilize either the direct or indirect method for the statement of cash flows. Not-for-profits will no longer be required to disclose netted expenses when reporting investment returns, and will be required to provide certain enhanced disclosures. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of ASU 2016-14 on BHCC's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02). The amendments in ASU 2016-02 require lessees to recognize the assets and liabilities arising from leases on their balance sheets, but recognize expenses on their income statements similar to current accounting

3. Recent Accounting Pronouncements (continued)

requirements. The amendments also eliminate real estate-specific provisions for all entities. For lessors, the amendments modify classification criteria and the accounting for sales-type and direct financing leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the impact of ASU 2016-02 on BHCC's consolidated financial statements.

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

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

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

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share* (ASU 2015-07). Under the amendments in ASU 2015-07, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient are no longer required to be included in the fair value hierarchy leveling tables. Investments that calculate net asset value per share (or its equivalent),

3. Recent Accounting Pronouncements (continued)

but for which the practical expedient is not applied will continue to be included in the fair value hierarchy leveling tables. BHCC adopted ASU 2015-07 effective October 1, 2016. The adoption of this standard did not have an impact on BHCC's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* (ASU 2015-05). The amendments in ASU 2015-05 provide guidance to customers about whether a cloud computing arrangement includes a software license. BHCC adopted ASU 2015-05 effective October 1, 2016.

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

In February 2015, the FASB issued ASU No. 2015-01, *Income Statement - Extraordinary and Unusual Items* (ASU 2015-01). The amendments in ASU 2015-01 simplify income statement presentation by eliminating the need to determine whether to classify an item as an extraordinary item. Current presentation and disclosure requirements for an event and transaction that is of an unusual nature of a type that indicates infrequency of occurrence have been retained. BHCC adopted ASU 2015-01 effective October 1, 2016. The adoption of this standard did not have an impact on BHCC's consolidated financial statements.

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

3. Recent Accounting Pronouncements (continued)

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

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

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

Patient service revenue is reduced by the provision for bad debts and accounts receivable are reduced by an allowance for uncollectible accounts based on management's assessment of historical and expected net collections for each major payor source, considering business and economic conditions, trends in healthcare coverage and other collection indicators. Management regularly reviews collections data by major payor sources in evaluating the sufficiency of the allowance for uncollectible accounts. On the basis of historical experience, a significant portion of self-pay patients will be unable or unwilling to pay for the services provided. Thus, BHCC records a significant provision for bad debts in the period services are provided to self-pay

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

patients. BHCC's allowance for uncollectible accounts for self-pay patients was 76% and 75% of self-pay accounts receivable as of June 30, 2017 and September 30, 2016, respectively. For receivables associated with patients who have third-party coverage, BHCC analyzes contractually due amounts and provides a provision for bad debts, if necessary. Accounts receivable are written off after collection efforts have been followed in accordance with BHCC policies.

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

	Three Months Ended June 30	
	2017	**2016**
Third-party payors, net of contractual allowances	$ 144,129	$ 136,573
Self-pay patients, net of discounts	11,263	13,633
	$ 155,392	$ 150,206

	Nine Months Ended June 30	
	2017	**2016**
Third-party payors, net of contractual allowances	$ 426,794	$ 396,845
Self-pay patients, net of discounts	36,542	42,758
	$ 463,336	$ 439,603

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

5. Weather Events

In August 2016, Baptist sustained property and equipment damage from heavy flooding affecting northwest Florida. BHCC carries both property damage (with a $100 deductible per event) and business interruption insurance. Estimated losses related to this event recorded during the year ended September 30, 2016 totaled $3,484, and through June 30, 2017, BHCC has received $748 from insurers used for recovery of costs. Included in the accompanying consolidated statements of operations and changes in net assets is a gain related to remediation from this 2016 flooding totaling $748 for the nine months ended June 30, 2017.

6. Investments

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

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

7. Investments Limited As To Use

A summary of investments limited as to use is as follow:

	June 30, 2017	September 30, 2016
Internally designated:		
For expansion	**$ 42,871**	$ 40,701
Malpractice trust funds	**7,031**	6,992
Other-restricted	**6,497**	6,123
Other-ECACH (Note 15)	**998**	996
Other	**19,504**	18,117
Held by trustee under bond indenture agreement:		
Debt service reserve fund	**13,436**	13,436
	90,337	86,365
Less amount to pay current liabilities	**2,461**	2,821
	$ 87,876	$ 83,544

8. Derivative Financial Instruments

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

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

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

8. Derivative Financial Instruments (continued)

Substantially all of BHCC's derivative instruments contain provisions that require BHCC to maintain an investment grade credit rating. If BHCC's credit rating was to fall below investment grade, it would be in violation of such provisions, and the counterparties to the derivative instruments could request immediate payment on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position at June 30, 2017 and September 30, 2016 was $1,217 and $1,909, respectively. If the credit-risk-related contingent features underlying these agreements had been triggered on June 30, 2017, BHCC could have been required to settle the agreements with the counterparties, requiring cash or other liquid assets of $1,227.

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

	Liability Derivatives		
		Fair Value	
Derivatives not designated as hedging instruments	Balance Sheet Location	June 30, 2017	September 30, 2016
Interest rate swap agreements	Other long-term liabilities	$ 1,217	$ 1,909

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

		Amount of Gain (Loss) on Derivatives Recognized in Excess of Revenues, Other Support and Gains over Expenses and Losses	
		Three Months Ended June 30	
Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in Excess of Revenues, Other Support and Gains over Expenses and Losses	2017	2016
Interest rate swap agreements	Change in fair value of interest rate swap agreements	$ 141	$ (285)
	Nonoperating gains (losses): Other, net	(84)	(149)
		$ 57	$ (434)

8. Derivative Financial Instruments (continued)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in Excess of Revenues, Other Support and Gains over Expenses and Losses	Amount of Gain (Loss) on Derivatives Recognized in Excess of Revenues, Other Support and Gains over Expenses and Losses — Nine Months Ended June 30 — 2017	2016
Interest rate swap agreements	Change in fair value of interest rate swap agreements	$ 692	$ (312)
	Nonoperating gains (losses): Other, net	(319)	(324)
		$ 373	$ (636)

9. Fair Value Measurements

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

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

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

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

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset

9. Fair Value Measurements (continued)

or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. BHCC has no financial assets or financial liabilities with significant Level 3 inputs.

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

The fair value of financial assets and liabilities measured at fair value on a recurring basis was as follows:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 173,085	$ –	$ –	$ 173,085
Short-term investments				
U.S. corporate obligations	–	13,889	–	13,889
U.S. Treasury obligations	2,983	–	–	2,983
U.S. government agencies and sponsored entities	–	5,758	–	5,758
Collateralized debt obligations	–	2,652	–	2,652
Domestic equities	41,373	–	–	41,373
Foreign equities	33,776	–	–	33,776
Other	–	4,696	–	4,696
Total short-term investments	78,132	26,995	–	105,127
Investments limited as to use				
Cash and cash equivalents	4,575	–	–	4,575
U.S. corporate obligations	–	12,344	–	12,344
U.S. Treasury obligations	9,824	–	–	9,824
U.S. government agencies and sponsored entities	–	3,125	–	3,125
Collateralized debt obligations	–	1,129	–	1,129
Domestic equities	22,113	–	–	22,113
Foreign equities	15,700	–	–	15,700
Other	6,621	3,422	–	10,043
Total investments limited as to use	58,833	20,020	–	78,853
	$ 310,050	$ 47,015	$ –	$ 357,065
Liabilities				
Interest rate swap agreements	$ –	$ 1,217	$ –	$ 1,217

9. Fair Value Measurements (continued)

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

9. Fair Value Measurements (continued)

Reconciliation to the Consolidated Balance Sheet

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

	June 30, 2017	September 30, 2016
Short-term investments, at fair value	$ 105,127	$ 96,659
Alternative investments accounted for under the equity method	21,932	11,460
Total short-term investments	$ 127,059	$ 108,119
Investments limited as to use, at fair value	$ 78,853	$ 79,193
Alternative investments accounted for under the equity method	9,742	5,352
Other	1,742	1,820
Total investments limited as to use	$ 90,337	$ 86,365

See Note 8 for location of interest rate swap liabilities in the consolidated balance sheets.

9. Fair Value Measurements (continued)

Valuation Techniques and Inputs

The fair values of the securities included in Level 1 were determined through quoted market prices, while the fair values of Level 2 securities were determined as follows:

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

Interest rate swaps – The fair values of interest rate swaps was determined through the use of widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. The analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, such as interest rate curves. In addition, credit valuation adjustments are included to reflect both BHCC's nonperformance risk and the respective counterparty's nonperformance risk. BHCC pays fixed rates ranging from 3.3% to 3.5% and receives cash flows based primarily on percentages of LIBOR, ranging from 67% to 74% of LIBOR.

The carrying value of accounts receivable, accounts payable, and accrued liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The fair values of BHCC's fixed-rate bonds are estimated using Level 2 inputs based on quoted market prices for the same or similar issues and approximate $164,337 and $170,797 as of June 30, 2017 and September 30, 2016, respectively. The carrying values of these fixed-rate bonds were $149,901 and $150,728 as of June 30, 2017 and September 30, 2016, respectively. The carrying amount approximates fair value for all other long-term debt.

10. Long-Term Debt

In October 2016, Baptist entered into an agreement to borrow up to $25,000 to finance the purchase and implementation of a new Electronic Health Record (Note 14). The debt will be interest only until September 2017 at LIBOR plus 125 basis points and then will convert to a fully amortizing note, payable over ten years, at a fixed interest rate of 2.56%. At June 30, 2017, $15,844 was outstanding under the loan.

11. Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2012 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

BHCC accounts for HITECH incentive payments as a gain contingency. Income from incentive payments is recognized as revenue after BHCC has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period and the cost report period that will be used to determine the final incentive payment has ended. BHCC has recorded incentive payments of $136 and $153 for the nine months ended June 30, 2017 and 2016, respectively. Accounts receivable related to the EHR incentive program totaled $1,533 as of September 30, 2016. Income from incentive payments is subject to retrospective adjustment and audit by the federal government.

12. Commitments and Contingencies

BHCC leases certain equipment and building space under operating leases, and entered into developer agreements for the construction of additional building space. The developer acquired parcels of land, funded the construction of the building space, and now leases the space to BHCC. BHCC followed the guidance in ASC 840, *Leases*, in evaluating the agreements as build-to-suit transactions to determine whether BHCC would be considered the accounting owner of the buildings during the construction period. In applying the accounting guidance, BHCC concluded that BHCC is not the accounting owner during the construction period, and the projects do not require capitalization by BHCC.

13. Pension Plan

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

The components of net periodic pension cost were as follows:

	Three Months Ended June 30	
	2017	**2016**
Interest cost	$ 1,252	$ 1,448
Expected return on plan assets	(1,160)	(1,382)
Amortization of actuarial loss	524	690
Amortization of prior service cost	7	13
Amortization of settlement/curtailment due to ECACH spinoff	–	466
Net periodic pension cost	$ 623	$ 1,235

	Nine Months Ended June 30	
	2017	**2016**
Interest cost	$ 3,756	$ 4,343
Expected return on plan assets	(3,480)	(4,146)
Amortization of actuarial loss	1,573	2,069
Amortization of prior service cost	20	38
Amortization of settlement/curtailment due to ECACH spinoff	–	1,397
Net periodic pension cost	$ 1,869	$ 3,701

14. Electronic Health Record Implementation

In October 2015, BHCC finalized its vendor selections for the purchase and implementation of a new Electronic Health Record (EHR) impacting BHCC's acute care and ambulatory practices, as well as certain ancillary and revenue cycle systems. BHCC executed a ten-year agreement for implementation costs and services, as well as ongoing maintenance and support for a total of $34.7 million over the life of the contract. LCI also selected a vendor for the purchase of an EHR impacting behavioral medicine for a total of $1.6 million over a five-year contract term. The costs include acquisition, implementation, and ongoing support and maintenance. Through June 30, 2017, BHCC and LCI have capitalized $21.7 million and $1.2 million, respectively, related to the EHR projects. Project implementation is expected to have a 2017 go-live date.

15. Discontinued Operations - Atmore Community Hospital

BHCC's management services agreement with Atmore Community Hospital expired May 31, 2015, and BHCC transferred its interest in ECACH to the Authority at that time. In accordance with ASC Topic 810, *Consolidation*, ECACH deconsolidated from BHCC's balance sheet as of June 1, 2015. Pursuant to a transition agreement, the pension liability related to employees of Atmore Community Hospital (Atmore) remained temporarily at BHCC, and upon successful establishment of a new pension plan by ECACH in 2016, the pension liability was assumed by ECACH and was derecognized by BHCC. Additionally, the transition agreement allowed BHCC to delay remittance of cash and investments of Atmore to satisfy various accounts payable, accrued liabilities and the pension liability. Further, the transition agreement required BHCC's assistance for a limited duration in the collection of accounts receivable that existed at May 31, 2015. ECACH cash and investments (included as investments limited to use in the accompanying consolidated balance sheets) recorded by BHCC at June 30, 2017 and September 30, 2016 was $998 and $996, respectively. BHCC divestiture costs recorded to discontinued operations were $60 for the nine months ended June 30, 2016.

16. Changes in Consolidated Unrestricted Net Assets

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

	Total	Controlling Interest	Noncontrolling Interests
Balance September 30, 2016	$ 278,883	$ 273,162	$ 5,721
Excess of revenues, other support and gains over expenses and losses	36,506	33,004	3,502
Distributions	(3,333)	–	(3,333)
Other activity	(2,202)	(2,202)	–
Change in unrestricted net assets	30,971	30,802	169
Balance June 30, 2017	$ 309,854	$ 303,964	$ 5,890

	Total	Controlling Interest	Noncontrolling Interests
Balance March 31, 2017	$ 302,023	$ 295,410	$ 6,613
Excess of revenues, other support and gains over expenses and losses	11,633	10,475	1,158
Distributions	(1,881)	–	(1,881)
Other activity	(1,921)	(1,921)	–
Change in unrestricted net assets	7,831	8,554	(723)
Balance June 30, 2017	$ 309,854	$ 303,964	$ 5,890

16. Changes in Consolidated Unrestricted Net Assets (continued)

	Total	Controlling Interest	Noncontrolling Interests
Balance September 30, 2015	$ 239,049	$ 232,834	$ 6,215
Excess of revenues, other support and gains over expenses and losses	33,529	31,613	1,916
Distributions	(2,247)	–	(2,247)
Discontinued operations	(60)	(60)	–
Other activity	(583)	(583)	–
Change in unrestricted net assets	30,639	30,970	(331)
Balance June 30, 2016	$ 269,688	$ 263,804	$ 5,884

	Total	Controlling Interest	Noncontrolling Interests
Balance March 31, 2016	$ 257,780	$ 251,934	$ 5,846
Excess of revenues, other support and gains over expenses and losses	13,293	12,516	777
Distributions	(739)	–	(739)
Discontinued operations	(20)	(20)	–
Other activity	(626)	(626)	–
Change in unrestricted net assets	11,908	11,870	38
Balance June 30, 2016	$ 269,688	$ 263,804	$ 5,884

17. Subsequent Events

BHCC evaluated events and transactions occurring subsequent to June 30, 2017 through August 11, 2017, the date the consolidated financial statements were issued. During this period, there were no subsequent events that required recognition or disclosure in the consolidated financial statements.

Supplementary Information

Baptist Health Care Corporation and Subsidiaries

Consolidating Balance Sheet Information

June 30, 2017

(In Thousands)

	Consolidated Total	Consolidating / Eliminating Entries	Other	Combined Group
Assets				
Current assets:				
Cash and cash equivalents	**$ 173,085**	$ –	$ 3,754	$ 169,331
Short-term investments	**127,059**	(109,969)	114,605	122,423
Accounts receivable, net	**65,048**	–	4,331	60,717
Contracts receivable	**16,831**	–	–	16,831
Current portion of investments limited as to use	**2,461**	–	395	2,066
Inventories	**13,765**	–	2,041	11,724
Prepaid expenses and other current assets	**16,336**	–	6,556	9,780
Total current assets	**414,585**	(109,969)	131,682	392,872
Investments limited as to use, less current portion	**87,876**	(58,824)	68,635	78,065
Net property, plant, and equipment	**240,658**	–	57,154	183,504
Other assets	**18,073**	(96,512)	6,543	108,042
Total assets	**$ 761,192**	$ (265,305)	$ 264,014	$ 762,483
Liabilities and net assets				
Current liabilities:				
Accounts payable	**$ 54,200**	$ –	$ 8,601	$ 45,599
Accrued compensation and benefits	**23,729**	–	7,272	16,457
Accrued interest	**3,486**	–	61	3,425
Estimated third-party settlements	**16,255**	–	900	15,355
Current portion of long-term debt	**9,692**	–	1,579	8,113
Other current liabilities	**38,751**	(249)	4,401	34,599
Total current liabilities	**146,113**	(249)	22,814	123,548
Long-term debt, less current portion	**221,185**	–	30,000	191,185
Other long-term liabilities	**76,492**	(2,748)	22,465	56,775
Due to affiliated organizations	**–**	(140,263)	140,263	–
Total liabilities	**443,790**	(143,260)	215,542	371,508
Net assets:				
Unrestricted				
Controlling interest	**303,964**	(120,265)	42,220	382,009
Noncontrolling interests in subsidiaries	**5,890**	–	718	5,172
	309,854	(120,265)	42,938	387,181
Temporarily restricted - controlling interest	**7,548**	(1,780)	5,534	3,794
Total net assets	**317,402**	(122,045)	48,472	390,975
Total liabilities and net assets	**$ 761,192**	$ (265,305)	$ 264,014	$ 762,483

Baptist Health Care Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Information

Nine Months Ended June 30, 2017

(In Thousands)

	Consolidated Total	Consolidating / Eliminating Entries	Other	Combined Group
Unrestricted revenues and other support:				
Patient service revenue	**$ 463,336**	$ 384	$ 25,760	$ 437,192
Provision for bad debts	**(51,647)**	–	(1,620)	(50,027)
Net patient service revenue	**411,689**	384	24,140	387,165
Federal, state, and other awards	**51,257**	–	–	51,257
Vocational service contracts	**118,922**	–	–	118,922
Contract revenue	**24,069**	–	–	24,069
EHR incentive payments	**136**	–	–	136
Other revenue	**17,234**	(43,720)	53,985	6,969
Net assets released from restrictions used for operations	**765**	–	765	–
Total unrestricted revenues and other support	**624,072**	(43,336)	78,890	588,518
Expenses:				
Salaries and benefits	**304,303**	(152)	47,996	256,459
Supplies	**102,812**	–	5,146	97,666
General, administrative, and other	**73,945**	(43,578)	21,750	95,773
Professional fees and purchased services	**73,968**	(885)	7,840	67,013
Contract medical costs	**14,971**	–	–	14,971
Depreciation and amortization	**17,634**	(74)	2,546	15,162
Interest	**7,839**	(259)	796	7,302
Total expenses	**595,472**	(44,948)	86,074	554,346
Income from operations before gain related to weather events	**28,600**	1,612	(7,184)	34,172
Gain related to weather events	**748**	–	–	748
Income (loss) from operations	**29,348**	1,612	(7,184)	34,920
Nonoperating gains (losses):				
Change in fair value of interest rate swap agreements	**692**	–	–	692
Unrealized gains (losses) on trading securities	**1,600**	(1,582)	1,653	1,529
Investment income	**7,204**	(7,221)	6,124	8,301
Other, net	**(2,338)**	(1,353)	(20)	(965)
	7,158	(10,156)	7,757	9,557
Excess (deficiency) of revenues, other support and gains over expenses and losses	**36,506**	(8,544)	573	44,477
Less excess of revenues, other support and gains over expenses and losses attributable to noncontrolling interests	**3,502**	–	267	3,235
Excess (deficiency) of revenues, other support and gains over expenses and losses attributable to controlling interest	**33,004**	(8,544)	306	41,242

Continued on next page.

Baptist Health Care Corporation and Subsidiaries

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

Nine Months Ended June 30, 2017

(In Thousands)

	Consolidated Total	Consolidating / Eliminating Entries	Other	Combined Group
Unrestricted net assets:				
Excess (deficiency) of revenues, other support, and gains over expenses and losses attributable to controlling interest	**$ 33,004**	$ (8,544)	$ 306	$ 41,242
Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	**3,502**	–	267	3,235
Unrealized gains on other-than-trading securities	**130**	–	130	–
Pension adjustments	**(2,379)**	–	–	(2,379)
Other	**(3,286)**	31	(133)	(3,184)
Increase (decrease) in unrestricted net assets	**30,971**	(8,513)	570	38,914
Temporarily restricted net assets:				
Contributions	**1,308**	–	802	506
Unrealized gains on other-than-trading securities	**287**	–	287	–
Net assets released from restrictions	**(765)**	–	(765)	–
Other	**53**	(233)	(6)	292
Increase (decrease) in temporarily restricted net assets	**883**	(233)	318	798
Increase (decrease) in net assets	**31,854**	(8,746)	888	39,712
Net assets at beginning of period	**285,548**	(113,299)	47,584	351,263
Net assets at end of period	**$ 317,402**	$ (122,045)	$ 48,472	$ 390,975

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

Combining Balance Sheet Information

June 30, 2017
(In Thousands)

	Combined Total	Combining/ Eliminating Entries	Baptist Hospital, Inc.	Lakeview Center, Inc. and Subsidiaries
Assets				
Current assets:				
Cash and cash equivalents	$ 169,331	$ –	$ 110,786	$ 58,545
Short-term investments	122,423	–	73,223	49,200
Accounts receivable, net	60,717	–	56,223	4,494
Contracts receivable	16,831	–	–	16,831
Current portion of investments limited as to use	2,066	–	2,066	–
Inventories	11,724	–	11,432	292
Prepaid expenses and other current assets	9,780	–	7,569	2,211
Total current assets	392,872	–	261,299	131,573
Investments limited as to use, less current portion	78,065	–	34,941	43,124
Net property, plant, and equipment	183,504	–	163,813	19,691
Other assets	108,042	144	90,321	17,577
Total assets	$ 762,483	$ 144	$ 550,374	$ 211,965
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 45,599	$ –	$ 34,239	$ 11,360
Accrued compensation and benefits	16,457	–	13,653	2,804
Accrued interest	3,425	–	3,425	–
Estimated third-party settlements	15,355	–	15,355	–
Current portion of long-term debt	8,113	–	8,105	8
Other current liabilities	34,599	–	22,605	11,994
Total current liabilities	123,548	–	97,382	26,166
Long-term debt, less current portion	191,185	–	190,439	746
Other long-term liabilities	56,775	–	56,775	–
Due to affiliated organizations	–	144	–	(144)
Total liabilities	371,508	144	344,596	26,768
Net assets:				
Unrestricted				
Controlling interest	382,009	–	198,592	183,417
Noncontrolling interests in subsidiaries	5,172	–	5,172	–
	387,181	–	203,764	183,417
Temporarily restricted - controlling interest	3,794	–	2,014	1,780
Total net assets	390,975	–	205,778	185,197
Total liabilities and net assets	$ 762,483	$ 144	$ 550,374	$ 211,965

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

Combining Statement of Operations and Changes in Net Assets Information

Nine Months Ended June 30, 2017

(In Thousands)

	Combined Total	Combining/ Eliminating Entries	Baptist Hospital, Inc.	Lakeview Center, Inc. and Subsidiaries
Unrestricted revenues and other support:				
Patient service revenue	$ 437,192	$ –	$ 426,058	$ 11,134
Provision for bad debts	(50,027)	–	(49,763)	(264)
Net patient service revenue	387,165	–	376,295	10,870
Federal, state, and other awards	51,257	–	–	51,257
Vocational service contracts	118,922	–	–	118,922
Contract revenue	24,069	–	–	24,069
EHR incentive payments	136	–	136	–
Other revenue	6,969	(4,470)	9,301	2,138
Total unrestricted revenues and other support	588,518	(4,470)	385,732	207,256
Expenses:				
Salaries and benefits	256,459	–	164,170	92,289
Supplies	97,666	–	91,873	5,793
General, administrative, and other	95,773	–	69,509	26,264
Professional fees and purchased services	67,013	(3,677)	24,829	45,861
Contract medical costs	14,971	–	–	14,971
Depreciation and amortization	15,162	–	13,260	1,902
Interest	7,302	–	7,248	54
Total expenses	554,346	(3,677)	370,889	187,134
Income from operations before gain related to weather events	34,172	(793)	14,843	20,122
Gain related to weather events	748	–	748	–
Income from operations	34,920	(793)	15,591	20,122
Nonoperating gains (losses):				
Change in fair value of interest rate swap agreements	692	–	692	–
Unrealized gains on trading securities	1,529	–	624	905
Investment income	8,301	–	5,419	2,882
Other, net	(965)	793	(1,758)	–
	9,557	793	4,977	3,787
Excess of revenues, other support, and gains over expenses and losses	44,477	–	20,568	23,909
Less excess of revenues, other support and gains over expenses and losses attributable to noncontrolling interests	3,235	–	3,235	–
Excess of revenues, other support and gains over expenses and losses attributable to controlling interest	41,242	–	17,333	23,909

Continued on next page.

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

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

Nine Months Ended June 30, 2017

(In Thousands)

	Combined Total	Combining/ Eliminating Entries	Baptist Hospital, Inc.	Lakeview Center, Inc. and Subsidiaries
Unrestricted net assets:				
Excess of revenues, other support, and gains over				
expenses and losses attributable to controlling interest	$ 41,242	$ –	$ 17,333	$ 23,909
Excess of revenues, other support, and gains over				
expenses and losses attributable to noncontrolling interests	3,235	–	3,235	–
Pension adjustments	(2,379)	–	(2,379)	–
Other	(3,184)	–	(3,068)	(116)
Increase in unrestricted net assets	38,914	–	15,121	23,793
Temporarily restricted net assets:				
Contributions	506	–	506	–
Other	292	–	59	233
Increase in temporarily restricted net assets	798	–	565	233
Increase in net assets	39,712	–	15,686	24,026
Net assets at beginning of period	351,263	–	190,092	161,171
Net assets at end of period	$ 390,975	$ –	$ 205,778	$ 185,197