

**BAPTIST HEALTH SOUTH FLORIDA, INC.**  
**AND AFFILIATES**

**Condensed Consolidated Financial Statements (Unaudited) as of June 30, 2017,  
and September 30, 2016, and the Interim Three- and Nine-Month Periods Ended  
June 30, 2017 and 2016, Report of Management and Independent Auditors'  
Review Report**

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

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## REPORT OF MANAGEMENT

The management of Baptist Health South Florida, Inc. is responsible for the integrity and objectivity of the financial statements of Baptist Health and affiliates (“Baptist Health”). The condensed consolidated interim financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and include amounts that are based on our best judgments with due consideration given to materiality.

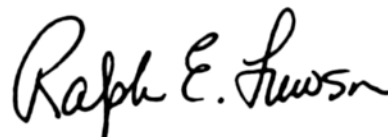
Management is responsible for establishing and maintaining a system of internal controls over financial reporting and safeguarding assets against unauthorized acquisition, use or disposition. This system is designed to provide reasonable assurance as to the integrity and reliability of financial reporting and safeguarding of assets. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal controls, and that the cost of such systems should not exceed the benefits to be derived from them.

Management believes that the foundation of an appropriate system of internal controls is a strong ethical company culture and climate. It has always been the policy and practice of Baptist Health to conduct its affairs in a highly ethical and socially responsible manner. This responsibility is characterized and reflected in Baptist Health’s Code of Ethics (the “Code”) that is distributed throughout Baptist Health. Management maintains a systematic program to ensure compliance with this Code.

The Audit and Compliance Committee of the Board of Trustees, which is composed of independent persons who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which these groups are performing their responsibilities and to carry out the Audit and Compliance Committee’s oversight role with respect to auditing, internal controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet privately with the Audit and Compliance Committee and have access to its individual members.



Brian E. Keeley  
President and Chief Executive Officer



Ralph E. Lawson  
Executive Vice President and  
Chief Financial Officer

## **INDEPENDENT AUDITORS' REVIEW REPORT**

To the Board of Trustees of Baptist Health South Florida, Inc. and Affiliates:

We have reviewed the accompanying condensed consolidated balance sheet of Baptist Health South Florida, Inc. and affiliates (BHSF) as of June 30, 2017, and the related condensed consolidated statements of operations the three-month and nine-month periods ended June 30, 2017 and 2016, and the change in net assets, and cash flows for the nine-month periods ended June 30, 2017 and 2016 (the "interim financial information").

### **Management's Responsibility for the Interim Financial Information**

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

### **Auditors' Responsibility**

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

### **Conclusion**

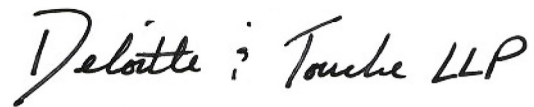
Based on our reviews, we are not aware of any material modifications that should be made to the interim financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

### **Report on Condensed Consolidated Balance Sheet as of September 30, 2016**

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of BHSF as of September 30, 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 20, 2016. In our opinion, the accompanying condensed consolidated balance sheet of the Company as of September 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## **Supplementary Information**

The supplemental consolidating balance sheet and statement of operations information of BHSF on pages 19 and 20 and the supplemental combining balance sheet and statement of operations information of Baptist Health South Florida, Inc. Hospitals on pages 21 and 22 are presented for the purpose of additional analysis and are not a required part of the interim financial information. This supplemental information is the responsibility of BHSF's management. We have reviewed the supplemental information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the supplemental information and, accordingly, do not express an opinion on such information.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

August 14, 2017

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2017	September 30, 2016
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$82,684,808	\$119,139,925
Assets whose use is limited	50,722,699	25,497,378
Accounts receivable - net	289,688,522	263,976,660
Other current assets	144,768,892	120,574,948
Total current assets	567,864,921	529,188,911
ASSETS WHOSE USE IS LIMITED	2,709,975,440	2,412,904,524
OTHER INVESTMENTS	77,750,148	71,964,136
PROPERTY AND EQUIPMENT - NET	1,845,418,237	1,762,403,496
GOODWILL	68,590,799	52,587,743
OTHER ASSETS	64,635,528	55,924,191
TOTAL ASSETS	<u>\$5,334,235,073</u>	<u>\$4,884,973,001</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$20,471,309	\$16,097,507
Estimated third-party payor settlements	6,550,889	7,863,491
Commercial paper notes	50,000,000	25,000,000
Current maturities of long-term debt	13,912,941	13,909,846
Accrued wages, salaries and benefits	199,428,835	237,650,227
Accrued expenses and other current liabilities	316,465,727	329,138,565
Total current liabilities	606,829,701	629,659,636
LONG-TERM DEBT	1,192,839,261	945,375,807
OTHER LIABILITIES	150,161,868	144,855,647
Total liabilities	<u>1,949,830,830</u>	<u>1,719,891,090</u>
COMMITMENTS AND CONTINGENCIES (see Note 10)		
NET ASSETS:		
Unrestricted:		
Baptist Health South Florida, Inc. and Affiliates	3,250,585,738	3,064,162,101
Noncontrolling interests	36,593,998	15,483,553
Total unrestricted net assets	3,287,179,736	3,079,645,654
Temporarily restricted	83,605,746	72,275,283
Permanently restricted	13,618,761	13,160,974
Total net assets	<u>3,384,404,243</u>	<u>3,165,081,911</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$5,334,235,073</u>	<u>\$4,884,973,001</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

**BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
**PERIODS ENDED JUNE 30, 2017 AND 2016**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:				
Net patient service revenue before provision for doubtful accounts	\$725,835,645	\$661,335,874	\$2,110,878,949	\$1,982,191,457
Provision for doubtful accounts	(112,568,337)	(74,263,854)	(302,361,514)	(251,185,555)
Net patient service revenue	613,267,308	587,072,020	1,808,517,435	1,731,005,902
Rental revenue	2,647,391	2,642,484	7,645,840	8,106,517
Other operating revenue	16,116,990	13,375,645	46,879,185	45,365,618
Total unrestricted revenues, gains and other support	632,031,689	603,090,149	1,863,042,460	1,784,478,037
EXPENSES:				
Wages, salaries and benefits	356,533,179	324,977,541	1,017,561,557	982,735,210
Supplies	93,921,141	94,124,960	285,088,949	272,818,291
Malpractice and other insurance	18,170,386	16,395,470	53,549,891	49,855,597
Administrative and general	118,796,635	114,497,794	349,141,563	354,884,787
Depreciation and amortization	41,840,181	34,111,332	120,110,873	102,648,784
Interest	13,196,841	8,039,682	33,853,284	25,727,245
Total expenses	642,458,363	592,146,779	1,859,306,117	1,788,669,914
(LOSS) INCOME FROM OPERATIONS	(10,426,674)	10,943,370	3,736,343	(4,191,877)
OTHER INCOME:				
Investment income	72,911,517	30,154,511	191,387,697	108,280,548
Other income (expense) - net	150	(836)	36,281	38,011
Total other income	72,911,667	30,153,675	191,423,978	108,318,559
EXCESS OF REVENUES OVER EXPENSES BEFORE INCOME TAX (BENEFIT) PROVISION AND NONCONTROLLING INTERESTS	62,484,993	41,097,045	195,160,321	104,126,682
INCOME TAX (BENEFIT) PROVISION	(101,509)	(16,397)	652,125	702,249
EXCESS OF REVENUES OVER EXPENSES FROM CONSOLIDATED OPERATIONS	62,586,502	41,113,442	194,508,196	103,424,433
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(5,979,199)	(3,179,106)	(14,805,831)	(9,156,259)
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES	\$56,607,303	\$37,934,336	\$179,702,365	\$94,268,174

See accompanying notes to condensed consolidated financial statements (unaudited).

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATESCONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (UNAUDITED)  
NINE-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	2017	2016
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses from consolidated operations	\$194,508,196	\$103,424,433
Net assets released from restrictions used for property and equipment acquisitions	6,800,000	4,743,329
Change in value of split-interest agreements	(94,093)	(176,723)
Transfers from (to) temporarily restricted net assets	15,365	(10,000)
Noncontrolling interest related to surgery centers	17,459,016	5,359,838
Sale of limited partnership interests	1,154,707	326,705
Purchase of limited partnership interests		(552,897)
Partnership distributions	(12,309,109)	(8,707,282)
Increase in unrestricted net assets	207,534,082	104,407,403
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	19,146,882	14,687,024
Transfers (to) from unrestricted net assets	(15,365)	10,000
Provision for uncollectable pledges	(335,558)	(38,500)
Net assets released from restrictions	(7,619,619)	(7,076,499)
Restricted income (loss) on temporarily restricted contributions	154,123	(12,204)
Increase in temporarily restricted net assets	11,330,463	7,569,821
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	457,787	224,667
Increase in permanently restricted net assets	457,787	224,667
INCREASE IN NET ASSETS	219,322,332	112,201,891
NET ASSETS - BEGINNING OF YEAR	3,165,081,911	2,982,345,172
NET ASSETS - END OF PERIOD	\$3,384,404,243	\$3,094,547,063

See accompanying notes to condensed consolidated financial statements (unaudited).



**BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**NINE-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$219,322,332	\$112,201,891
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	120,110,873	102,648,784
Provision for doubtful accounts	302,361,514	251,185,555
Accretion of bond premium and issue costs - net	(328,395)	(420,561)
Deferred income tax	111,038	1,275,330
Realized (gain) loss on sales of securities - net	(68,360,935)	51,896,486
Change in net unrealized gains and losses	(80,174,384)	(119,442,647)
Noncontrolling interest related to surgery center acquisitions	(17,459,016)	(5,359,838)
Sale of limited partnership interests	(1,154,707)	(326,705)
Purchase of limited partnership interests		552,897
Partnership distributions	12,309,109	8,707,282
Gain on disposal of assets - net	(692,379)	(26,319)
Changes in assets and liabilities:		
Net increase in accounts receivable	(332,277,854)	(224,108,604)
Net increase in other assets	(17,435,113)	(6,924,226)
Net increase in accounts payable	4,373,802	5,855,399
Net decrease in third-party payor settlements	(1,312,602)	(203,471)
Net (decrease) increase in accrued expenses and other liabilities	(29,297,937)	15,220,743
Net cash provided by operating activities	<u>110,095,346</u>	<u>192,731,996</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment - net	(214,841,174)	(259,247,155)
Deposit on asset purchase	(13,173,918)	
Acquisition of surgery centers	(1,153,236)	(2,463,668)
Sale of limited partnership interests	1,154,707	326,705
Purchase of limited partnership interests		(552,897)
Purchase of investments	(3,091,822,290)	(2,848,099,315)
Proceeds from sales and maturities of investments	<u>2,908,759,232</u>	<u>2,927,912,885</u>
Net cash used in investing activities	<u>(411,076,679)</u>	<u>(182,123,445)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contribution restricted for property and equipment purchases	4,204,478	
Proceeds from issuance of commercial paper notes	24,835,903	25,000,000
Proceeds from issuance of long-term debt	250,000,000	
Debt issue costs	(2,138,000)	
Repayment of debt	(67,056)	(42,936)
Partnership distributions	(12,309,109)	(8,707,282)
Net cash provided by financing activities	<u>264,526,216</u>	<u>16,249,782</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>(36,455,117)</u>	<u>26,858,333</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>119,139,925</u>	<u>79,676,156</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u><u>\$82,684,808</u></u>	<u><u>\$106,534,489</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for interest - net of amounts capitalized	<u>\$21,314,625</u>	<u>\$14,742,837</u>
Cash paid for income taxes	<u>\$941,380</u>	<u>\$1,233,600</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Baptist Health South Florida, Inc., a not-for-profit Florida corporation located in Miami-Dade County, Florida, is the parent of a system of not-for-profit hospitals (Baptist Hospital of Miami, Inc., Doctors Hospital, Inc., Homestead Hospital, Inc., Mariners Hospital, Inc., South Miami Hospital, Inc., and West Kendall Baptist Hospital, Inc., collectively, the “BHSF Hospitals”) and other not-for-profit and for-profit corporations (collectively, “BHSF”).

In February 2017, BHSF signed an agreement to acquire substantially all of the assets of Fishermen’s Hospital, Inc., an organization comprised of a non-profit critical access hospital and other related entities in Marathon, Florida. The asset purchase was completed effective July 1, 2017 (see Note 11).

In October 2015, BHSF and Bethesda Health, Boynton Beach, an organization comprised of two not-for-profit hospitals and other related entities in Palm Beach County, Florida, signed an agreement to affiliate, pursuant to a 24-month transition period culminating on September 30, 2017. Full affiliation is scheduled to occur on October 1, 2017, subject to compliance with contractual provisions and regulatory requirements.

Baptist Health Enterprises, Inc. (“BHE”) is a for-profit Florida corporation, which is wholly owned by BHSF.

BHE, through its subsidiaries, owns interests, between approximately 26% and 71%, in limited liability companies (“LLC”) and limited partnerships (“LP”) which own and operate ambulatory surgery centers (“ASCs” or “surgery centers”) and sleep centers. BHE has variable interests in the LLCs and LPs through its equity ownership interests. Each LLC and LP is considered a Variable Interest Entity (“VIE”) due to its structure as a limited partnership or functional equivalent. For those LLCs and LPs which BHE consolidates, BHE is considered the primary beneficiary due to the partnership agreements allowing BHE to govern the day-to-day activities and thereby control the most significant economic activities. The total assets (excluding goodwill and intangible assets, net) of the consolidated VIEs within the ambulatory services segment, which are included in the accompanying consolidated balance sheets, as of June 30, 2017 and September 30, 2016, were approximately \$42,942,000 million and \$34,600,000 million, respectively, and the total liabilities of the consolidated VIEs were approximately \$9,152,000 million and \$6,176,000 million, respectively.

During the nine-months ended June 30, 2017, the subsidiaries of BHE finalized its joint venture agreements related to two single-specialty ambulatory surgical centers. BHE determined that it is the primary beneficiary due to having the power to direct the majority of activities that most significantly impact the economic performance of the VIE. As a result, BHSF consolidated the results of operations of the VIE in the accompanying consolidated balance sheets, statements of operations and statements of cash flows as of and for the period ended June 30, 2017.

In January 2017, subsidiaries of BHE acquired controlling interests in two single-specialty ambulatory surgery centers in Miami, Florida. The total amount of cash consideration paid for a 26% interest in the two centers was approximately \$5,480,000. Additionally, the transactions resulted in recording goodwill of approximately \$16,003,000 (See Note 5). The purchase price of these acquisitions was allocated to the identifiable assets acquired and liabilities assumed based on estimates of their fair value, with the excess purchase price recorded as goodwill. BHSF has not yet finalized the purchase accounting for the acquisition. This acquisition was immaterial based on the BHSF's consolidated financial position and results of operations.

GAAP requires VIEs to be consolidated if an entity’s interest in the VIE is a controlling financial interest. Under the variable interest model, a controlling financial interest is determined based on which entity, if any, has (i) the power to direct the activities of the VIE that most significantly impacts the VIE’s economic performance and (ii) the obligations to absorb the losses that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. BHE performs assessments of (i) whether entities acquired in the current period should be accounted for under the VIE framework, and (ii) whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain triggering events, and therefore would be subject to the VIE consolidation framework. The consolidation status of the VIEs with which BHE is involved may change as a result of such reassessments. Changes in consolidation status are applied prospectively with assets and liabilities of a newly consolidated VIE initially recorded at fair value.

Pursuant to a Master Trust Indenture, an obligated group (the “BHSF Obligated Group”) was created which, at June 30, 2017 and September 30, 2016, consisted of BHSF, the BHSF Hospitals and Baptist Outpatient Services, Inc. (“BOS”). Each member of the BHSF Obligated Group is jointly and severally liable for all debt issued under the Master Trust Indenture (see Note 6).

In management’s opinion, the accompanying Unaudited Condensed Consolidated Financial Statements of BHSF contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, the condensed consolidated financial position of BHSF, the results of its operations, changes in its net assets and its cash flows for the periods presented. The accompanying Unaudited Condensed Consolidated Financial Statements have been condensed or omit information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Audited Consolidated Financial Statements and Notes to Consolidated Financial Statements as of September 30, 2016, and for the year then ended. The accounting policies followed for interim financial reporting are the same as those disclosed in Note 1 - “Organization and Summary of Significant Accounting Policies” of the September 30, 2016, Notes to Consolidated Financial Statements.

Adoption of New Accounting Pronouncements – In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Cost* (“ASU 2015-03”). ASU 2015-03 provides guidance to simplify the presentation of debt issue costs in the financial statements. Under ASU 2015-03, debt issue costs will be presented as a direct deduction from the related debt liability. The guidance provided in ASU 2015-03 is effective for fiscal years beginning after December 15, 2015. BHSF adopted ASU 2015-03 as of October 1, 2016 and has applied it retrospectively, as required. As of June 30, 2017 and September 30, 2016, BHSF reclassified \$3.7 million of debt issuance costs previously recorded in other assets to long-term debt in the condensed consolidated balance sheet. As of June 30, 2017 and June 30, 2016, BHSF reclassified \$268.9 thousand, previously presented as an increase in other assets, to net accretion of bond premium and issue costs in the operating activities section of the condensed consolidated statements of cash flows.

In April 2015, the FASB issued ASU 2015-05, *Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement* (“ASU 2015-05”). ASU 2015-05 provides guidance on determining whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software. The new guidance requires fees related to the software license element of the cloud computing arrangement to be accounted for in a consistent manner with the acquisition of other software licenses. The guidance provided in ASU 2015-05 is effective for fiscal years beginning after December 15, 2015. BHSF adopted ASU 2015-05 prospectively as of October 1, 2016. Adoption of this standard did not have a material effect on our consolidated financial statements.

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”). ASU 2017-01 clarifies 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 with annual periods beginning after December 15, 2019. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In January 2017, the FASB issued ASU 2017-02, *Update 2017-02—Not-for-Profit Entities—Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity* (“ASU 2017-02”). ASU 2017-02 amends the consolidation guidance to 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. ASU 2017-02 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). ASU 2017-04 simplified the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

## 2. CASH AND CASH EQUIVALENTS, ASSETS WHOSE USE IS LIMITED AND OTHER INVESTMENTS

Cash and cash equivalents, assets whose use is limited and other investments at June 30, 2017, and September 30, 2016, are summarized as follows:

	June 30, 2017	September 30, 2016
Cash and cash equivalents:		
Operating cash	\$82,684,808	\$119,139,925
Assets whose use is limited:		
Board designated for:		
Funded depreciation	\$2,471,214,583	\$2,343,807,175
Education	335,043	335,043
Capital improvements (see Note 6)	1,701,235	70,040,479
2017 Taxable Notes proceeds (see Note 6)	258,670,589	
Insurance reserves	28,776,689	24,219,205
Total	2,760,698,139	2,438,401,902
Less current portion	(50,722,699)	(25,497,378)
Assets whose use is limited	\$2,709,975,440	\$2,412,904,524
Other investments:		
Unrestricted	\$22,492,734	\$25,995,850
Temporarily restricted	42,358,215	33,212,874
Permanently restricted	12,899,199	12,755,412
Other investments	\$77,750,148	\$71,964,136

Investment income and gains and losses for cash and cash equivalents, assets whose use is limited and other investments for the three- and nine-month periods ended June 30, 2017 and 2016, consisted of the following:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Investment income:				
Interest and dividends income	\$19,641,929	\$14,218,533	\$42,852,378	\$40,734,387
Realized gains on sales of securities	35,701,453	41,499,467	140,371,439	128,151,570
Realized losses on sales of securities	(18,694,365)	(42,987,392)	(72,010,504)	(180,048,056)
Change in net unrealized gains and losses	36,262,500	17,423,903	80,174,384	119,442,647
Investment income	\$72,911,517	\$30,154,511	\$191,387,697	\$108,280,548
Other changes in temporarily restricted net assets:				
Investment income (loss)	\$78,299	\$158,961	\$154,123	(\$12,204)

## 3. NET PATIENT SERVICE REVENUE

Net patient service revenue is recorded based upon established billing rates less allowances for contractual adjustments and a provision for doubtful accounts. Revenue is recorded during the period the healthcare services are provided, based upon the estimated amounts due from the patients and third-party payors, including federal and state agencies (under Medicare and Medicaid programs), managed care health plans, commercial insurance companies and employers. Estimates of contractual allowances under managed care health plans are based upon payment terms specified in the related contractual agreements. The bases for payment under these agreements include prospectively determined rates per diagnosis, per diem or per procedure rates, or discounts from established charges.

BHSF provides charity care to patients who are financially unable to pay for the healthcare services they receive. Uninsured patients treated at BHSF facilities with household income at or below 300% of the federal poverty level are eligible for free care. In addition, uninsured patients may be eligible for charity care if incurred charges are considered beyond the patient's ability to pay. The federal poverty level is established by the federal government and is based on income and family size. BHSF provided charity care at a cost of approximately \$23,228,000 and \$22,244,000 for the three-month periods ended June 30, 2017 and 2016, respectively, and \$65,142,000 and \$69,789,000 for the nine-month periods ended June 30, 2017 and 2016, respectively. The estimated cost of providing charity services is based on recent historical cost-to-charge ratios for charity patients from BHSF's cost accounting system applied to the current period gross uncompensated charges associated with providing care to charity patients. BHSF provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. Additions to the allowance for doubtful accounts are made by means of the provision for doubtful accounts. Accounts written off as uncollectible are deducted from the allowance and

subsequent recoveries are added. BHSF estimates the allowance for doubtful accounts by reserving a percentage of accounts receivable based on historical and expected collections, business and economic conditions, trends in reimbursement, and other collection indicators. For receivables associated with services provided to patients who have third-party coverage, including receivables from government agencies, BHSF analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for doubtful accounts. For all payor types, when BHSF can no longer reasonably estimate collectability of an account, based on the aging of the balance due and the volatility and unpredictable nature of the amount, BHSF reserves substantially all amounts due. Recoveries on written-off accounts receivable are recorded in the period the recovery occurs as an increase in net patient service revenue through an adjustment to the provision for doubtful accounts. Recoveries collected for the three-month periods ended June 30, 2017 and 2016, were \$7,538,000 and \$8,463,000, respectively, and for the nine-month periods ended June 30, 2017 and 2016, were \$26,917,000 and \$25,692,000, respectively, which relate to accounts written-off in prior periods.

Collections are impacted by the ability of patients to pay and the effectiveness of BHSF's collection efforts. Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect BHSF's collection of accounts receivable and the estimates of the collectability of future accounts receivable. The process of estimating the allowance for doubtful accounts requires BHSF to estimate the collectability of self-pay accounts receivable, which is primarily based on its collection history, adjusted for expected recoveries and, if available, anticipated changes in collection trends. BHSF also continually reviews its overall reserve adequacy by monitoring historical cash collections as well as by analyzing payor classification, aged accounts receivable by payor, days revenue outstanding, and business and economic conditions.

The following summarizes net patient service revenue before the provision for doubtful accounts by payor class for the three- and nine-month periods ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Net patient service revenue before provision for doubtful accounts				
Medicare	\$71,362,162	\$83,388,346	\$239,874,678	\$257,621,579
Medicare managed care	70,461,768	76,892,014	241,187,048	243,864,437
Medicaid	23,090,198	12,855,593	68,260,001	38,815,564
Medicaid managed care	24,699,850	26,151,185	78,554,935	92,513,244
Managed care	423,063,664	389,947,885	1,190,781,546	1,107,606,627
Other	113,158,003	72,100,851	292,220,741	241,770,006
Net patient service revenue before provision for doubtful accounts	<u>\$725,835,645</u>	<u>\$661,335,874</u>	<u>\$2,110,878,949</u>	<u>\$1,982,191,457</u>

The following summarizes the activity in BHSF's allowance for doubtful accounts for the nine months ended June 30, 2017 and 2016:

	2017	2016
Balance, beginning of year	\$174,451,279	\$176,675,794
Provision, during the period	302,361,514	251,185,555
Accounts written off (net of recoveries)	<u>(281,518,668)</u>	<u>(229,055,970)</u>
Balance, end of period	<u>\$195,294,125</u>	<u>\$198,805,379</u>

During the nine months ended June 30, 2017 and 2016, BHSF received approximately \$4,100,000 and \$23,720,000, respectively, related to favorable settlements of outstanding disputes with third-party payors. Third-party payor settlements are recorded as an increase to net patient service revenue when the disputes are settled and the cash settlements are received. During the nine-month periods ended June 30, 2017 and 2016, BHSF recorded an increase to net patient service revenue of approximately \$4,476,000 and \$5,766,000, respectively, to reflect changes in prior-year Medicare reimbursement estimates related to the filing of the FY 2016 and FY 2015 cost reports and the timing of the issuance of the notices of program reimbursement. In March 2017, BHSF received approximately a combined \$28,537,000 in Low Income Pool (LIP) dollars from the state of Florida for Homestead and Mariners hospitals; the state revised the methodology for distributing these funds and the new formula recognized the significant amount of uncompensated care provided at these facilities. No such amounts were received during the nine-month period ended June 30, 2016.

#### 4. PROPERTY AND EQUIPMENT - NET

Property and equipment - net at June 30, 2017, and September 30, 2016, are summarized as follows:

	June 30, 2017	September 30, 2016
Land and land improvements	\$327,663,900	\$318,161,310
Buildings and improvements	1,652,551,224	1,344,982,568
Equipment and software	1,092,310,898	986,083,173
Total	3,072,526,022	2,649,227,051
Less accumulated depreciation	(1,365,005,381)	(1,258,155,421)
Total	1,707,520,641	1,391,071,630
Construction in process	137,897,596	371,331,866
Property and equipment - net	<u>\$1,845,418,237</u>	<u>\$1,762,403,496</u>

The following summarizes BHSF's interest cost and depreciation expense for the three- and nine- month periods ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Interest cost	<u>\$14,282,948</u>	<u>\$11,672,680</u>	<u>\$39,685,325</u>	<u>\$34,555,832</u>
Capitalized interest	<u>\$1,086,107</u>	<u>\$3,632,998</u>	<u>\$5,832,041</u>	<u>\$8,828,587</u>
Depreciation expense on property and equipment	<u>\$41,837,454</u>	<u>\$34,106,408</u>	<u>\$120,102,692</u>	<u>\$102,634,012</u>

In the first quarter of fiscal year 2017, BHSF completed construction of a new outpatient facility on the Baptist Hospital campus as part of the Miami Cancer Institute ("MCI"). The research facility, also on the Baptist Hospital campus and part of MCI, is currently in the construction phase, and is projected to be completed in the first quarter of fiscal year 2018. The total cost of both facilities is projected to be approximately \$394,000,000. During fiscal year 2011, BHSF issued long-term, taxable debt, the proceeds of which are being used to fund this project (see Note 6).

As of June 30, 2017, and September 30, 2016, BHSF has accrued approximately \$14,617,000 and \$32,278,000, respectively, for the acquisition of property and equipment. These amounts are included in accounts payable and accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheets.

#### 5. GOODWILL - NET

Goodwill arose from the acquisition of Doctors Hospital in October 2003 and from various acquisitions by BHE, including the acquisitions of several endoscopy, surgical and sleep centers from 2009 through 2017. Goodwill is subject to, at a minimum, an annual assessment for impairment by applying a fair-value based test. BHSF performs an annual impairment test during the fourth quarter of each fiscal year or more frequently, when events or other changes in circumstances indicate that the carrying value of goodwill may not be recoverable. During the nine-month period ended June 30, 2017, there were no indications of impairment which would require an interim additional goodwill impairment test.

A summary of the changes in goodwill at June 30, 2017, and September 30, 2016, is listed below:

	June 30, 2017	September 30, 2016
Goodwill, beginning of year	\$52,587,743	\$46,486,447
Ambulatory surgery center acquisitions	16,003,056	6,101,296
Goodwill, end of period	<u>\$68,590,799</u>	<u>\$52,587,743</u>

## 6. DEBT

On May 16, 2007, the BHSF Obligated Group issued through the City of South Miami Health Facilities Authority \$800,000,000 of its Hospital Revenue Bonds, Series 2007 (“2007 Bonds”) in accordance with the provisions of a new Master Trust Indenture dated as of May 1, 2007. The 2007 Bonds bear interest at rates ranging from 4.62% to 5.00%, payable semiannually each February 15 and August 15, and mature annually on August 15 through 2042. Payment of principal and interest on the 2007 Bonds is wholly dependent on the credit of the BHSF Obligated Group. Certain proceeds of the 2007 Bonds, together with other available funds, were used to refund outstanding bonds and pay expenses incurred in connection with the issuance of the 2007 Bonds; and the remaining proceeds were used for acquiring, constructing, renovating, rehabilitating and equipping certain healthcare facilities of BHSF.

On May 25, 2011, the BHSF Obligated Group issued \$250,000,000 of its Baptist Health South Florida Obligated Group Taxable Notes, Series 2011 (the “2011 Taxable Notes”). The 2011 Taxable Notes were issued under the Master Trust Indenture, as amended and supplemented by a First Supplemental Master Trust Indenture. The 2011 Taxable Notes bear interest at 4.59% per annum and mature on August 15, 2021. Proceeds of the 2011 Taxable Notes may be used for any corporate purposes; however, BHSF has used these proceeds to construct and equip the new Miami Cancer Institute facilities on the campus of Baptist Hospital.

On December 21, 2011, the BHSF Obligated Group implemented a commercial paper program that allows BHSF to issue up to \$150,000,000 of taxable commercial paper notes for general corporate purposes at an interest rate to be determined at the time of the commercial paper notes issuance. The commercial paper program was issued under the Master Trust Indenture, as amended and supplemented by a Second Supplemental Master Trust Indenture. As of June 30, 2017, a note of \$50,000,000 has been issued and is outstanding; this note bears an interest rate of 1.15% per annum, with a maturity date of July 26, 2017; this commercial paper note was subsequently reissued in the fourth quarter of fiscal year 2017 (see Note 11).

On January 9, 2017, the BHSF Obligated Group issued \$250,000,000 of its Baptist Health South Florida Obligated Group Taxable Notes, Series 2017 (the “2017 Taxable Notes”). The 2017 Taxable Notes were issued under the Master Trust Indenture, as amended and restated by a Third Supplemental Master Trust Indenture. The 2017 Taxable Notes bear interest at 4.34% per annum and will mature on November 15, 2041. Proceeds of the 2017 Taxable Notes may be used for any corporate purposes.

Under the Master Trust Indenture, the BHSF Obligated Group has certain restrictions on incurrence of additional debt and certain other covenants. As of June 30, 2017, the BHSF Obligated Group was in compliance with all of its financial debt covenants.

A summary of debt at June 30, 2017, and September 30, 2016, is as follows:

	June 30, 2017	September 30, 2016
2007 Bonds (net of unaccreted bond premium: June 30, 2017 - \$10,238,113; September 30, 2016 - \$10,875,610, and deferred issue costs: June 30, 2017: \$2,739,615; September 30, 2016 - \$2,873,859)	\$709,263,498	\$709,766,750
2011 Taxable Notes (net of deferred issue costs: June 30, 2017 - \$742,893; September 30, 2016 - \$874,995)	249,257,107	249,125,005
2017 Taxable Notes (net of deferred issue costs: June 30, 2017 - \$2,095,243)	247,904,757	
Capital lease obligation	326,840	393,898
Commercial paper notes (including unamortized discount: June 30, 2017 - \$39,931; September 30, 2016 - \$5,000)	50,000,000	25,000,000
Total debt	1,256,752,202	984,285,653
Amount representing current maturities	(63,912,941)	(38,909,846)
Long-term debt	<u>\$1,192,839,261</u>	<u>\$945,375,807</u>

## 7. NET ASSETS

Changes in consolidated unrestricted net assets attributable to BHSF and noncontrolling interests for the nine-month period ended June 30, 2017, are as follows:

	Total	BHSF	Noncontrolling Interests
Unrestricted net assets, beginning of year	\$3,079,645,654	\$3,064,162,101	\$15,483,553
Excess of revenues over expenses	194,508,196	179,702,365	14,805,831
Net assets released from restrictions used for property and equipment acquisitions	6,800,000	6,800,000	
Change in value of split-interest agreements	(94,093)	(94,093)	
Transfer to temporarily restricted net assets	15,365	15,365	
Noncontrolling interests related to surgery center acquisitions	17,459,016		17,459,016
Sale of limited partnership interests	1,154,707		1,154,707
Partnership distributions	(12,309,109)		(12,309,109)
Increase in unrestricted net assets	207,534,082	186,423,637	21,110,445
Unrestricted net assets, end of period	\$3,287,179,736	\$3,250,585,738	\$36,593,998

Changes in consolidated unrestricted net assets attributable to BHSF and noncontrolling interests for the nine-month period ended June 30, 2016, are as follows:

	Total	BHSF	Noncontrolling Interests
Unrestricted net assets, beginning of year	\$2,901,724,063	\$2,892,690,987	\$9,033,076
Excess of revenues over expenses	103,424,433	94,268,174	9,156,259
Net assets released from restrictions used for property and equipment acquisitions	4,743,329	4,743,329	
Change in value of split-interest agreements	(176,723)	(176,723)	
Transfer from temporarily restricted net assets	(10,000)	(10,000)	
Noncontrolling interests related to surgery center acquisitions	5,359,838		5,359,838
Sale of limited partnership interests	326,705		326,705
Purchase of limited partnership interests	(552,897)		(552,897)
Partnership distributions	(8,707,282)		(8,707,282)
Increase in unrestricted net assets	104,407,403	98,824,780	5,582,623
Unrestricted net assets, end of period	\$3,006,131,466	\$2,991,515,767	\$14,615,699

Temporarily and permanently restricted net assets were available for the following purposes at June 30, 2017, and September 30, 2016:

	Temporarily Restricted		Permanently Restricted	
	June 30, 2017	September 30, 2016	June 30, 2017	September 30, 2016
Equipment and building fund	\$40,670,216	\$39,210,143		
Indigent care	6,668,727	6,615,918	\$5,891,185	\$5,864,185
Health education and research	36,266,803	26,449,222	7,727,576	7,296,789
Temporarily and permanently restricted net assets	\$83,605,746	\$72,275,283	\$13,618,761	\$13,160,974

BHSF's endowment consists of funds that have been limited by donors to a specific time period or purpose. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. All endowments received by BHSF have been recorded as permanently restricted net assets due to the donor imposed restrictions. Endowment funds received are included in assets whose use is limited and invested in accordance with BHSF's investment policy. Accumulated gains from these investments are not included in the permanently restricted net assets balance.

All permanently restricted net assets are endowments. Gifts donated to the permanently restricted endowments are classified as permanently restricted net assets at their original fair value. Gifts donated with temporary restrictions are classified as temporarily restricted net assets at their original fair value, until those amounts are appropriated for expenditure by the BHSF Hospitals or



BOS in accordance with donors' wishes. Income derived from permanently and temporarily restricted net assets is available to support the BHSF Hospitals and BOS, absent explicit donor stipulations to the contrary.

Changes in permanently restricted endowments for the nine-month periods ended June 30, 2017 and 2016, are as follows:

	June 30, 2017	June 30, 2016
Change in permanently restricted endowments:		
Permanently restricted endowments, beginning of year	\$13,160,974	\$12,864,114
Contributions	492,200	233,909
Investment income	153,501	139,079
Amounts used for expenditures	(153,501)	(139,079)
Present value allowance adjustments	(34,413)	(9,242)
Permanently restricted endowments, end of period	<u>\$13,618,761</u>	<u>\$13,088,781</u>

## 8. MEDICAL MALPRACTICE AND GENERAL LIABILITY INSURANCE

BHSF is self-insured for professional and general liability coverage. Coverage in excess of the self-insurance limits, less coinsurance, is provided on a claims-made basis by Pineapple Insurance Company, a single-parent, Cayman Islands captive insurance company, which reinsures 100% of the professional and general liability risk with unrelated commercial insurance carriers. The adequacy of the coverage provided and the provisions for losses are reviewed at least semiannually by independent actuaries. Should the claims-made policies be terminated, or not renewed or replaced with equivalent insurance, claims based on incidents during their term, but reported subsequently, will be uninsured. At June 30, 2017, and September 30, 2016, BHSF has accrued undiscounted estimates of approximately \$186,130,000 and \$184,588,000, respectively, which represents the cost to settle malpractice and general liability claims reported and claims incurred but not reported. Approximately \$42,791,000 and \$51,452,000 is included in accrued expenses and other current liabilities and approximately \$143,339,000 and \$133,136,000 is included in other liabilities in the accompanying condensed consolidated balance sheets at June 30, 2017, and September 30, 2016, respectively.

## 9. FAIR VALUE

Assets whose use is limited and other investments - BHSF has elected the fair value option for all investments in debt and equity securities. BHSF classifies investments according to a hierarchy of techniques used to determine fair value based on the types of inputs.

Level 1 inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that are available as of the measuring date. Securities in this category are primarily cash and short-term investments, U.S. Treasury obligations, corporate equity instruments and foreign exchange contracts.

Level 2 inputs are quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets other than quoted prices in Level 1 or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities. Investments classified as Level 2 primarily include debt securities such as U.S. Agency obligations, municipal bonds, domestic and foreign corporate bonds, and foreign government bonds. BHSF's bank custodians use independent pricing services to provide fair values for these securities. These pricing services use the market and income approaches and utilize pricing models that vary by asset class and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, these pricing services utilize available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. As of June 30, 2017, and September 30, 2016, BHSF has recorded the valuations, without adjustment, which were provided by the pricing services. The Level 2 classification also includes BHSF's investment in the global properties securities fund. This fund is valued using the net asset value provided by the investment manager.

Level 3 inputs are unobservable inputs that are supported by little or no market activity and are significant to the fair value of the asset or liability. Unobservable inputs reflect BHSF's own judgment about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments for which fair values are determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. As of June 30, 2017 and September 30, 2016, BHSF had alternative investments which are Level 3 on the fair value hierarchy, as noted in the tables below. BHSF's Level 3 investments are valued using the net asset value provided by the investment manager.

Transfers between levels occur when there are changes in the determination of whether inputs are observable or not, as well as due to changes in market activity. At June 30, 2017, there were no changes to level classifications for securities held at September 30, 2016.

The disclosure of fair value measurements as of June 30, 2017, is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Financial assets:				
Cash and short-term investments	\$154,299,577			\$154,299,577
U.S. Treasury obligations	152,185,179			152,185,179
U.S. Agency obligations		\$82,945,547		82,945,547
Municipal bonds		6,297,146		6,297,146
Corporate equity instruments	1,322,308,910			1,322,308,910
Corporate bonds		553,279,508		553,279,508
Foreign government bonds		192,975,084		192,975,084
Foreign corporate bonds		82,758,412		82,758,412
Foreign exchange contracts	3,287,936			3,287,936
Global properties securities fund		56,206,691		56,206,691
Infrastructure fund			\$43,930,326	43,930,326
Private debt fund			66,547,363	66,547,363
Private real estate funds			121,426,608	121,426,608
Total	<u>\$1,632,081,602</u>	<u>\$974,462,388</u>	<u>\$231,904,297</u>	<u>\$2,838,448,287</u>
Financial liabilities:				
Derivative liabilities	<u>\$16,286,000</u>			<u>\$16,286,000</u>

The disclosure of fair value measurements as of September 30, 2016, is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Financial assets:				
Cash and short-term investments	\$153,550,575			\$153,550,575
U.S. Treasury obligations	109,282,427			109,282,427
U.S. Agency obligations		\$77,778,803		77,778,803
Municipal bonds		6,638,418		6,638,418
Corporate equity instruments	1,150,353,504	244,643		1,150,598,147
Corporate bonds		514,225,409		514,225,409
Foreign government bonds		140,789,151		140,789,151
Foreign corporate bonds		91,739,817		91,739,817
Foreign exchange contracts	1,463,643			1,463,643
Global properties securities fund		55,769,246		55,769,246
Infrastructure fund			\$44,015,219	44,015,219
Private debt fund			57,171,568	57,171,568
Private real estate funds			107,343,615	107,343,615
Total	<u>\$1,414,650,149</u>	<u>\$887,185,487</u>	<u>\$208,530,402</u>	<u>\$2,510,366,038</u>
Financial liabilities:				
Derivative liabilities	<u>\$8,768,000</u>			<u>\$8,768,000</u>

A summary of the change in the fair value of BHSF's Level 3 alternative investments for the nine-month period ended June 30, 2017, and the year ended September 30, 2016, is as follows:

	June 30, 2017		
	Private Debt Fund	Infrastructure Fund	Private Real Estate Funds
Balance, beginning of year	\$57,171,568	\$44,015,219	\$107,343,615
Purchases	7,661,135		8,300,000
Sales and distributions	(297,657)	(1,760,761)	(3,122,494)
Realized and unrealized gains and losses - net	2,012,317	1,675,868	8,905,487
Balance, end of period	<u>\$66,547,363</u>	<u>\$43,930,326</u>	<u>\$121,426,608</u>

	September 30, 2016		
	Private Debt Fund	Infrastructure Fund	Private Real Estate Funds
Balance, beginning of year	\$58,171,228	\$45,510,000	
Purchases			\$104,352,927
Sales and distributions	(5,313,590)	(583,154)	(602,926)
Realized and unrealized gains and losses - net	4,313,930	(911,627)	3,593,614
Balance, end of period	<u>\$57,171,568</u>	<u>\$44,015,219</u>	<u>\$107,343,615</u>

BHSF's investment policy provides for a diversified investment portfolio which considers return, risk, social values and BHSF's short-term and long-term liquidity needs, and supports its self-liquidity program. This policy allows participation in alternative investment funds. BHSF's investments in the global properties securities, private debt, infrastructure, and private real estate funds are considered alternative investments and do not have readily determinable fair values. All of BHSF's alternative investments contain restrictions on an investor's ability to liquidate the investment. All funds may restrict redemptions if, in their respective determinations, it would be in the best interest of the fund to do so. Absent the fund manager's election to restrict, redemptions differ from each fund.

The following is a schedule of additional information regarding the alternative investments held by BHSF for the nine-month period ended June 30, 2017, and the year ended September 30, 2016:

	June 30, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global property securities	\$56,206,691		Monthly	15 days
Infrastructure fund	\$43,930,326		Bi-Annually	90 days
Private debt	\$66,547,363		Not currently eligible	
Private real estate funds	\$121,426,608	\$53,950,000	Quarterly	One quarter in advance, 30 days in advance

	September 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global property securities	\$55,769,246		Monthly	15 days
Infrastructure fund	\$44,015,219		Bi-Annually	90 days
Private debt	\$57,171,568		Not currently eligible	
Private real estate funds	\$107,343,616	\$62,250,000	Quarterly	One quarter in advance, 30 days in advance

**Debt** - The combined estimated fair value of BHSF's 2007 Bonds, 2011 Taxable Notes, and 2017 Taxable Notes at June 30, 2017 and September 30, 2016, were \$1,246,267,000 and \$1,005,603,000, respectively (See Note 6). The fair values of the 2007 Bonds, 2011 Taxable Notes, and 2017 Taxable Notes are determined using a market pricing approach by using trade data, comparable trades, and other information using observable inputs and are considered Level 2 on the fair value hierarchy.

**Other Assets and Liabilities** - The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, other assets, estimated third-party payor settlements and accrued expenses and other liabilities approximate fair value because of the short maturity of these instruments.

## 10. COMMITMENTS AND CONTINGENCIES

Other Industry Risks - The healthcare industry is subject to numerous laws and regulations of federal, state and local governments, which are complex and subject to interpretation. Compliance with these laws and regulations, including those relating to the Medicare and Medicaid programs, can be subject to governmental review and interpretation. Federal government activity has increased with respect to investigations and allegations concerning possible violations of laws and regulations by healthcare providers. Unfavorable outcomes related to these regulatory investigations could result in the imposition of significant monetary fines, and civil and criminal penalties, as well as significant repayments of previously billed and collected revenue from patient services, and exclusion from participation in the Medicare and Medicaid programs. Currently, as a result of one of those government reviews, South Miami Hospital is operating under a Corporate Integrity Agreement entered into with the Department of Health and Human Services Office of the Inspector General that is in place until December 5, 2021.

Other Matters - Since 2013, the United States Department of Justice (“USDOJ”) has been investigating a non-employed physician who has privileges at South Miami Hospital, Inc. In July 2015, the USDOJ informed South Miami Hospital, Inc., that it also is being investigated with respect to the hospital’s conduct in this matter. South Miami Hospital, Inc., and BHSF are cooperating with this investigation and complying with applicable investigative requests, including grand jury subpoenas. At this time, we cannot predict when the above-noted matter will be resolved, any estimated loss or range of loss to BHSF in connection with it, or what impact, if any, it might have on BHSF’s consolidated financial position, results of operations or cash flows.

Construction - BHSF has made certain commitments associated with its continuous construction programs. BHSF’s future construction expenditures related to these commitments in periods subsequent to June 30, 2017 are estimated at \$100,863,000, including construction related to the Miami Cancer Institute research facility on the campus of Baptist Hospital. Actual construction expenditures may vary from these estimates.

Information Technology and Other Purchase Commitments - BHSF has made certain commitments for various information technology products and services, as well as other equipment and services. These expenditures are payable up to twelve years subsequent to June 30, 2017 and are estimated at \$241,643,000. Actual expenditures may vary from these estimates.

Litigation - BHSF is subject to claims and suits, including malpractice allegations, arising in the ordinary course of business. It is management’s opinion, based on consultation with legal counsel and prior experience with similar cases, that the ultimate resolution of such suits now pending will not have a material adverse effect on BHSF’s future financial position, results from operations or its cash flows.

Income Tax - BHSF is periodically audited by federal and state taxing authorities. The outcome of these audits may result in BHSF being assessed taxes in addition to amounts previously paid. Federal returns for fiscal years 2013 through 2016 remain open and subject to examination by the IRS.

Physician Income Guarantees - BHSF Hospitals provide income and revenue guarantee agreements to certain physicians and physician groups who agree to fill a community need in the hospitals’ service areas and commit to remain in practice there for a specified period of time. Under such agreements, BHSF Hospitals are required to make payments to the physicians and physician groups in excess of the amounts earned or revenue collected in their practices up to the amount of the guarantees. The income and revenue collection guarantee agreements in effect at June 30, 2017, expire at various times through March 31, 2019.

At June 30, 2017, the maximum potential amount of future payments under the income and revenue collection guarantees was approximately \$29,504,000. At June 30, 2017, a liability for future payments under the income and revenue collection guarantees in the amount of approximately \$27,171,000 is included in accrued expenses and current liabilities and other liabilities in the accompanying condensed consolidated balance sheet.

## 11. SUBSEQUENT EVENTS

BHSF evaluated events and transactions for potential recognition or disclosure through August 14, 2017, the date the condensed consolidated financial statements were issued.

On July 1, 2017, Fishermen’s Health, Inc., an affiliate of BHSF, acquired the assets of Fishermen’s Hospital, Inc. The sole consideration for the acquisition was approximately \$13,174,000, the amount needed to repay the outstanding liabilities of Fishermen’s Hospital, Inc. As of August 14, 2017, the date the condensed consolidated financial statements were issued, the initial accounting for the asset purchase was not finalized, therefore, in accordance with GAAP, certain required disclosures related to business combinations were not available.

In the fourth quarter of fiscal year 2017, BHSF repaid and reissued its outstanding \$50,000,000 commercial paper note and reissued notes for \$50,000,000, at an average rate of 1.11% per annum, with a maturity date of August 23, 2017.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET INFORMATION (UNAUDITED)  
JUNE 30, 2017

	BHSF Obligated Group					
	Baptist Health South Florida, Inc.	BHSF Hospitals	Baptist Outpatient Services, Inc.	Combined Non-Obligated Group Affiliates	Consolidating Entries	Consolidated
<u>ASSETS</u>						
CURRENT ASSETS:						
Cash and cash equivalents	\$57,188,567	\$76,470	\$564	\$25,419,207		\$82,684,808
Assets whose use is limited	50,387,656	335,043				50,722,699
Accounts receivable - net	21,169	252,219,844	7,090,143	30,357,366		289,688,522
Due from affiliates	111,171,748				(\$111,171,748) (2)	0
Other current assets	67,890,615	66,782,877	1,959,181	8,136,219		144,768,892
Total current assets	286,659,755	319,414,234	9,049,888	63,912,792	(111,171,748)	567,864,921
ASSETS WHOSE USE IS LIMITED	2,681,198,751			28,776,689		2,709,975,440
OTHER INVESTMENTS				77,750,148		77,750,148
PROPERTY AND EQUIPMENT - NET	408,195,871	1,323,844,038	37,832,701	75,545,627		1,845,418,237
BENEFICIAL INTEREST IN NET ASSETS OF BAPTIST HEALTH SOUTH FLORIDA FOUNDATION, INC.	26,588,982	88,358,171	1,327,451		(116,274,604) (3)	0
GOODWILL		22,547,681		46,043,118		68,590,799
OTHER ASSETS	21,848,578	4,274,055		38,512,895		64,635,528
DUE FROM AFFILIATES	865,382,801			209,323	(865,592,124) (2)	0
NOTE RECEIVABLE - AFFILIATE	3,260,000			1,554,691	(4,814,691) (2)	0
INVESTMENT IN AFFILIATES	434,891,727				(434,891,727) (5)	0
TOTAL ASSETS	<u>\$4,728,026,465</u>	<u>\$1,758,438,179</u>	<u>\$48,210,040</u>	<u>\$332,305,283</u>	<u>(\$1,532,744,894)</u>	<u>\$5,334,235,073</u>
<u>LIABILITIES AND NET ASSETS (DEFICIT)</u>						
CURRENT LIABILITIES:						
Accounts payable	\$20,471,309					\$20,471,309
Estimated third-party payor settlements		\$6,550,889				6,550,889
Commercial paper notes	50,000,000					50,000,000
Current maturities of long-term debt		13,701,121 (1)	\$118,879 (1)	\$92,941		13,912,941
Accrued wages, salaries and benefits	74,142,982	97,197,817	4,295,726	23,792,310		199,428,835
Accrued expenses and other liabilities	74,925,683	200,086,700	7,659,875	33,793,469		316,465,727
Due to affiliates		102,059,602	431,663	8,680,483	(\$111,171,748) (2)	0
Total current liabilities	219,539,974	419,596,129	12,506,143	66,359,203	(111,171,748)	606,829,701
LONG-TERM DEBT	247,904,757 (1)	938,718,119 (1)	5,982,486 (1)	233,899		1,192,839,261
OTHER LIABILITIES	12,684,789	124,988,412	2,091,413	10,397,254		150,161,868
NOTE PAYABLE - AFFILIATE		1,554,691		3,260,000	(4,814,691) (2)	0
DUE TO AFFILIATES	877,388,554	421,886,402		443,705,722	(1,742,980,678) (2)	0
Total liabilities	<u>1,357,518,074</u>	<u>1,906,743,753</u>	<u>20,580,042</u>	<u>523,956,078</u>	<u>(1,858,967,117)</u>	<u>1,949,830,830</u>
NET ASSETS (DEFICIT):						
Unrestricted:						
Baptist Health South Florida, Inc. and Affiliates	3,298,601,332	(236,998,788)	26,302,547	(414,277,430)	576,958,077 (5)	3,250,585,738
Noncontrolling interests					36,593,998 (4)	36,593,998
Total unrestricted net assets (deficit)	3,298,601,332	(236,998,788)	26,302,547	(414,277,430)	613,552,075	3,287,179,736
Temporarily restricted	58,288,298	76,338,695	1,327,451	78,270,703	(130,619,401) (3,5)	83,605,746
Permanently restricted	13,618,761	12,354,519		13,618,761	(25,973,280) (3,5)	13,618,761
Total net assets (deficit)	3,370,508,391	(148,305,574)	27,629,998	(322,387,966)	456,959,394	3,384,404,243
STOCKHOLDER'S EQUITY:						
Capital stock				4,200	(4,200) (5)	0
Additional paid-in-capital				20,073,166	(20,073,166) (5)	0
Retained earnings				74,065,807	(74,065,807) (5)	0
Total stockholder's equity				94,143,173	(94,143,173)	0
Noncontrolling interests				36,593,998	(36,593,998) (4)	0
Total equity				130,737,171	(130,737,171)	0
Total net assets (deficit) and stockholder's equity	<u>3,370,508,391</u>	<u>(148,305,574)</u>	<u>27,629,998</u>	<u>(191,650,795)</u>	<u>326,222,223</u>	<u>3,384,404,243</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$4,728,026,465</u>	<u>\$1,758,438,179</u>	<u>\$48,210,040</u>	<u>\$332,305,283</u>	<u>(\$1,532,744,894)</u>	<u>\$5,334,235,073</u>

Notes:

(1) The members of the BHSF Obligated Group are jointly and severally liable for the entire amount of the long-term debt issued under the Master Trust Indenture. Long-term debt has been allocated to members of the BHSF Obligated Group based on the use of the proceeds.

(2) To eliminate intercompany receivables and payables

(3) To eliminate beneficial interest in net assets of Baptist Health South Florida Foundation, Inc.

(4) To reclassify noncontrolling interests

(5) To eliminate equity in income, the investment balance in affiliates and the related retained earnings

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION (UNAUDITED)  
NINE MONTHS ENDED JUNE 30, 2017

	BHSF Obligated Group					
	Baptist Health South Florida, Inc.	BHSF Hospitals	Baptist Outpatient Services, Inc.	Combined Non-Obligated Group Affiliates	Consolidating Entries	Consolidated
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:						
Net patient service revenue before provision for doubtful accounts		\$1,885,609,951	\$71,124,600	\$154,144,398		\$2,110,878,949
Provision for doubtful accounts		(287,821,345)	(1,317,193)	(13,222,976)		(302,361,514)
Net patient service revenue		1,597,788,606	69,807,407	140,921,422		1,808,517,435
Rental revenue	\$2,904,231			9,772,789	(\$5,031,180) (6,7)	7,645,840
Other operating revenue	447,587,441	17,390,518	3,701,954	56,619,518	(478,420,246) (6)	46,879,185
Total unrestricted revenues, gains and other support	450,491,672	1,615,179,124	73,509,361	207,313,729	(483,451,426)	1,863,042,460
EXPENSES:						
Wages, salaries and benefits	207,082,302	635,106,615	24,100,792	151,156,944	114,904 (7)	1,017,561,557
Supplies	(1,862,527)	234,334,341	1,468,293	43,680,294	7,468,548 (6,7)	285,088,949
Malpractice and other insurance	50,383,380	45,109,636	699,443	7,697,874	(50,340,442) (6)	53,549,891
Administrative and general	140,281,392	519,628,463	37,463,359	71,620,197	(419,851,848) (6,7)	349,141,563
Depreciation and amortization	26,582,148	77,968,175	5,198,513	7,371,105	2,990,932 (7)	120,110,873
Interest	28,024,977	29,479,503	219,531	850,466	(24,721,193) (6)	33,853,284
Total expenses	450,491,672	1,541,626,733	69,149,931	282,376,880	(484,339,099)	1,859,306,117
EQUITY IN AFFILIATES	(6,584,348)				6,584,348 (5)	0
(LOSS) INCOME FROM OPERATIONS	(6,584,348)	73,552,391	4,359,430	(75,063,151)	7,472,021	3,736,343
OTHER INCOME:						
Investment income:						
Interest on affiliate advances	748,707			152,740	(901,447) (6)	0
Other investment income	185,269,914			6,117,783		191,387,697
Other income (expense) - net	268,092	(276,686)	51	31,050	13,774 (6,7)	36,281
Total other income (expense)	186,286,713	(276,686)	51	6,301,573	(887,673)	191,423,978
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) BEFORE INCOME TAX PROVISION AND NONCONTROLLING INTERESTS	179,702,365	73,275,705	4,359,481	(68,761,578)	6,584,348	195,160,321
INCOME TAX PROVISION				652,125		652,125
EXCESS OF (EXPENSES OVER REVENUES) REVENUES OVER EXPENSES FROM CONSOLIDATED OPERATIONS	179,702,365	73,275,705	4,359,481	(69,413,703)	6,584,348	194,508,196
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS				(14,805,831)		(14,805,831)
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) ATTRIBUTABLE TO BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES	\$179,702,365	\$73,275,705	\$4,359,481	(\$84,219,534)	\$6,584,348	\$179,702,365

Notes:

(5) To eliminate equity in income, the investment balance in affiliates and the related retained earnings

(6) To eliminate intercompany revenue and expense transactions

(7) To reclassify rental income and expense of BHSF Hospitals from other income to income from operations

BAPTIST HEALTH SOUTH FLORIDA, INC. HOSPITALS

SUPPLEMENTAL COMBINING BALANCE SHEET INFORMATION (UNAUDITED)

JUNE 30, 2017

	Baptist Hospital of Miami, Inc.	Doctors Hospital, Inc.	Homestead Hospital, Inc.	Mariners Hospital, Inc.	South Miami Hospital, Inc.	West Kendall Baptist Hospital, Inc.	Combined
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents	\$44,800	\$7,815	\$4,310	\$2,250	\$12,495	\$4,800	\$76,470
Assets whose use is limited					335,043		335,043
Accounts receivable - net	132,801,949	18,738,788	15,634,483	5,492,083	56,467,408	23,085,133	252,219,844
Other current assets	18,482,586	3,796,044	15,728,992	3,201,257	17,471,920	8,102,078	66,782,877
Total current assets	151,329,335	22,542,647	31,367,785	8,695,590	74,286,866	31,192,011	319,414,234
PROPERTY AND EQUIPMENT - NET	741,706,509	117,928,916	31,997,209	24,897,536	229,390,099	177,923,769	1,323,844,038
BENEFICIAL INTEREST IN NET ASSETS OF BAPTIST HEALTH SOUTH FLORIDA FOUNDATION, INC.	50,784,707	4,652,668	5,869,665	9,015,352	16,661,187	1,374,592	88,358,171
GOODWILL		22,547,681					22,547,681
OTHER ASSETS	112,978		2,939,990	286,833	934,254		4,274,055
<b>TOTAL ASSETS</b>	<b>\$943,933,529</b>	<b>\$167,671,912</b>	<b>\$72,174,649</b>	<b>\$42,895,311</b>	<b>\$321,272,406</b>	<b>\$210,490,372</b>	<b>\$1,758,438,179</b>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>							
<b>CURRENT LIABILITIES:</b>							
Estimated third-party payor settlements	\$1,208,583	\$1,224,583	\$1,132,004	\$1,727,145	\$1,084,464	\$174,110	\$6,550,889
Current maturities of long-term debt	3,960,299 (1)	2,245,017 (1)	2,317,717 (1)	217,646 (1)	2,835,135 (1)	2,125,307 (1)	13,701,121
Accrued wages, salaries and benefits	43,800,151	8,651,385	10,418,182	2,518,583	22,529,192	9,280,324	97,197,817
Accrued expenses and other liabilities	88,023,976	15,349,939	25,549,222	5,884,060	48,794,371	16,485,132	200,086,700
Due to affiliates	99,169,202	2,358,167			532,233		102,059,602
Total current liabilities	236,162,211	29,829,091	39,417,125	10,347,434	75,775,395	28,064,873	419,596,129
LONG-TERM DEBT	448,544,925 (1)	112,980,925 (1)	116,620,555 (1)	10,951,266 (1)	142,666,573 (1)	106,953,875 (1)	938,718,119
OTHER LIABILITIES	53,003,469	11,292,198	22,213,909	2,600,539	26,736,562	9,141,735	124,988,412
NOTE PAYABLE - AFFILIATE	1,554,691						1,554,691
DUE TO AFFILIATES	209,323		303,757,044			117,920,035	421,886,402
Total liabilities	739,474,619	154,102,214	482,008,633	23,899,239	245,178,530	262,080,518	1,906,743,753
<b>NET ASSETS (DEFICIT):</b>							
Unrestricted	153,674,203	8,917,030	(415,703,649)	9,980,720	59,097,646	(52,964,738)	(236,998,788)
Temporarily restricted	48,465,766	4,652,668	5,869,665	7,319,641	8,656,363	1,374,592	76,338,695
Permanently restricted	2,318,941			1,695,711	8,339,867		12,354,519
Total net assets (deficit)	204,458,910	13,569,698	(409,833,984)	18,996,072	76,093,876	(51,590,146)	(148,305,574)
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<b>\$943,933,529</b>	<b>\$167,671,912</b>	<b>\$72,174,649</b>	<b>\$42,895,311</b>	<b>\$321,272,406</b>	<b>\$210,490,372</b>	<b>\$1,758,438,179</b>

Notes:

(1) The members of the BHSF Obligated Group are jointly and severally liable for the entire amount of the long-term debt issued under the Master Trust Indenture. Long-term debt has been allocated to members of the BHSF Obligated Group based on the use of the proceeds.

BAPTIST HEALTH SOUTH FLORIDA, INC. HOSPITALS

SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS INFORMATION (UNAUDITED)  
NINE MONTHS ENDED JUNE 30, 2017

	Baptist Hospital of Miami, Inc.	Doctors Hospital, Inc.	Homestead Hospital, Inc.	Mariners Hospital, Inc.	South Miami Hospital, Inc.	West Kendall Baptist Hospital, Inc.	Combining Hospital Entries	Combined
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:								
Net patient service revenue before provision for doubtful accounts	\$833,103,290	\$149,258,757	\$224,589,958	\$61,057,781	\$417,570,441	\$200,029,724		\$1,885,609,951
Provision for doubtful accounts	(108,910,508)	(13,097,403)	(70,754,837)	(9,309,809)	(45,170,498)	(40,578,290)		(287,821,345)
Net patient service revenue	724,192,782	136,161,354	153,835,121	51,747,972	372,399,943	159,451,434		1,597,788,606
Other operating revenue	9,303,851	941,913	1,253,071	562,375	3,343,808	3,052,387	(\$1,066,887) (1)	17,390,518
Total unrestricted revenues, gains and other support	733,496,633	137,103,267	155,088,192	52,310,347	375,743,751	162,503,821	(1,066,887)	1,615,179,124
EXPENSES:								
Wages, salaries and benefits	284,155,363	54,338,623	71,262,022	14,524,058	145,514,461	65,312,088		635,106,615
Supplies	123,214,326	20,842,480	15,357,705	3,951,719	54,228,409	16,739,702		234,334,341
Malpractice and other insurance	10,859,064	1,675,621	10,371,020	1,282,267	17,511,325	3,410,339		45,109,636
Administrative and general	225,201,994	44,835,501	60,719,443	14,565,831	123,265,118	52,107,463	(1,066,887) (1)	519,628,463
Depreciation and amortization	38,357,398	8,273,564	3,178,729	1,855,669	18,331,655	7,971,160		77,968,175
Interest	13,446,973	3,945,271	4,278,940	401,924	3,710,426	3,695,969		29,479,503
Total expenses	695,235,118	133,911,060	165,167,859	36,581,468	362,561,394	149,236,721	(1,066,887)	1,541,626,733
INCOME (LOSS) FROM OPERATIONS	38,261,515	3,192,207	(10,079,667)	15,728,879	13,182,357	13,267,100	0	73,552,391
OTHER (EXPENSE) INCOME - NET	(114,388)	(1,218)	149,131	179,953	302,052	(792,216)		(276,686)
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	\$38,147,127	\$3,190,989	(\$9,930,536)	\$15,908,832	\$13,484,409	\$12,474,884	\$0	\$73,275,705

(1) To eliminate intercompany revenue and expense transactions