BAPTIST HEALTH SOUTH FLORIDA, INC.
AND AFFILIATES

Annual Financial Report as of and for the Years Ended September 30, 2017 and 2016

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 consolidated financial statements of Baptist Health and affiliates ("Baptist Health"). The annual consolidated 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.

Baptist Health engaged Deloitte & Touche LLP, independent auditors, to audit our accompanying consolidated financial statements as of and for the years ended September 30, 2017 and 2016, in accordance with auditing standards generally accepted in the United States of America. Their report follows.

Brian E. Keeley
President and Chief Executive Officer

Ralph E. Lawson
Executive Vice President and
Chief Financial Officer

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Baptist Health South Florida, Inc. and affiliates ("BHSF"), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the BHSF's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BHSF's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BHSF as of September 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating balance sheet and statement of operations information of BHSF on pages 30 and 31 and the supplemental combining balance sheet and statement of operations information of Baptist Health South Florida, Inc. Hospitals on pages 32 and 33 are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and are not a required part of the consolidated financial statements. This information is the responsibility of BHSF's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

December 11, 2017

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	$131,859,287	$119,139,925
Assets whose use is limited	50,335,043	25,497,378
Accounts receivable - net	276,723,762	263,976,660
Other current assets	123,737,578	120,574,948
Total current assets	582,655,670	529,188,911
ASSETS WHOSE USE IS LIMITED	2,745,452,849	2,412,904,524
OTHER INVESTMENTS	77,833,522	71,964,136
PROPERTY AND EQUIPMENT - NET	1,879,402,647	1,762,403,496
GOODWILL	72,507,450	52,587,743
OTHER ASSETS	71,440,752	55,924,191
TOTAL ASSETS	$5,429,292,890	$4,884,973,001
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$17,426,746	$16,097,507
Estimated third-party payor settlements	6,607,710	7,863,491
Commercial paper notes	50,000,000	25,000,000
Current maturities of long-term debt	14,603,996	13,909,846
Accrued wages, salaries and benefits	243,979,408	237,650,227
Accrued expenses and other current liabilities	325,297,227	329,138,565
Total current liabilities	657,915,087	629,659,636
LONG-TERM DEBT	1,178,203,099	945,375,807
OTHER LIABILITIES	141,996,239	144,855,647
Total liabilities	1,978,114,425	1,719,891,090
COMMITMENTS AND CONTINGENCIES (see Note 13)		
NET ASSETS:		
Unrestricted:		
Baptist Health South Florida, Inc. and Affiliates	3,319,994,650	3,064,162,101
Noncontrolling interests	33,151,335	15,483,553
Total unrestricted net assets	3,353,145,985	3,079,645,654
Temporarily restricted	84,376,674	72,275,283
Permanently restricted	13,655,806	13,160,974
Total net assets	3,451,178,465	3,165,081,911
TOTAL LIABILITIES AND NET ASSETS	$5,429,292,890	$4,884,973,001

See accompanying notes to consolidated financial statements.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:		
Net patient service revenue before provision for doubtful accounts	$2,814,753,493	$2,609,991,253
Provision for doubtful accounts	410,054,826	305,201,993
Net patient service revenue	2,404,698,667	2,304,789,260
Rental revenue	10,242,833	10,729,689
Other operating revenue	64,820,791	60,622,927
Total unrestricted revenues, gains and other support	2,479,762,291	2,376,141,876
EXPENSES:		
Wages, salaries and benefits	1,373,446,858	1,328,662,763
Supplies	376,075,158	361,930,502
Malpractice and other insurance	60,698,750	60,265,233
Administrative and general	491,676,336	485,610,667
Depreciation and amortization	160,774,582	139,886,526
Interest	48,428,321	33,195,533
Total expenses	2,511,100,005	2,409,551,224
LOSS FROM OPERATIONS	(31,337,714)	(33,409,348)
OTHER INCOME:		
Investment income	295,044,954	210,628,059
Other income - net	39,734	11,496
Total other income	295,084,688	210,639,555
EXCESS OF REVENUES OVER EXPENSES BEFORE INCOME TAX PROVISION AND NONCONTROLLING INTERESTS	263,746,974	177,230,207
INCOME TAX PROVISION	521,904	1,601,398
EXCESS OF REVENUES OVER EXPENSES FROM CONSOLIDATED OPERATIONS	263,225,070	175,628,809
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(18,901,083)	(12,988,099)
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES	$244,323,987	$162,640,710

See accompanying notes to consolidated financial statements.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses from consolidated operations	$263,225,070	$175,628,809
Net assets released from restrictions used for property and equipment acquisitions	11,625,480	9,162,687
Change in value of split-interest agreements	(124,379)	(342,818)
Transfers from temporarily restricted net assets	7,461	10,535
Noncontrolling interest related to surgery centers acquisitions	17,459,016	5,359,838
Sale of limited partnership interests	1,154,707	326,703
Purchase of limited partnership interests	(697,363)	(552,897)
Partnership distributions	(19,149,661)	(11,671,266)
Increase in unrestricted net assets	273,500,331	177,921,591
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	25,973,065	17,602,814
Restricted income on temporarily restricted contributions	224,168	70,454
Net assets released from restrictions	(14,048,143)	(13,135,945)
Net assets from acquisitions	295,319	
Transfers to unrestricted net assets	(7,461)	(10,535)
Provision for uncollectable pledges	(335,557)	(8,500)
Increase in temporarily restricted net assets	12,101,391	4,518,288
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	494,832	296,860
Increase in permanently restricted net assets	494,832	296,860
INCREASE IN NET ASSETS	286,096,554	182,736,739
NET ASSETS - BEGINNING OF YEAR	3,165,081,911	2,982,345,172
NET ASSETS - END OF YEAR	$3,451,178,465	$3,165,081,911

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$286,096,554	$182,736,739
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	160,774,582	139,886,526
Provision for doubtful accounts	410,054,826	305,201,993
Accretion/amortization of bond premium and issue costs - net	(430,659)	(560,748)
Deferred income tax	(173,636)	1,533,399
Realized (gains) loss on sales of securities - net	(86,794,515)	31,647,184
Change in net unrealized gains and losses	(151,211,678)	(187,557,072)
Sales of limited partnership interests	(1,154,707)	(326,703)
Purchases of limited partnership interests	697,363	552,897
Partnership distributions	19,149,661	11,671,266
Noncontrolling interest related to surgery centers acquisitions	(17,459,016)	(5,359,838)
(Gain) loss on disposal of assets - net	(215,417)	95,174
Changes in assets and liabilities:		
Net increase in accounts receivable	(427,212,142)	(274,267,052)
Net increase in other assets	(16,450,007)	(18,275,986)
Net increase (decrease) in accounts payable	1,329,239	(2,693,045)
Net decrease in third-party payor settlements	(1,255,781)	(2,914,438)
Net increase in accrued expenses and other liabilities	11,159,625	48,435,872
Net increase in accrued wages, salaries and benefits	6,329,181	33,684,797
Net cash provided by operating activities	193,233,473	263,490,965
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(284,647,470)	(347,721,185)
Acquisition of surgery centers	(1,153,236)	(2,463,668)
Acquisition of assets relating to Fishermen's Hospital	(13,095,302)	
Sales of limited partnership interests	1,154,707	326,703
Purchases of limited partnership interests	(697,363)	(552,897)
Purchases of investments	(3,799,394,981)	(3,556,844,299)
Proceeds from sales and maturities of investments	3,673,406,324	3,683,136,215
Net cash used in investing activities	(424,427,321)	(224,119,131)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contribution restricted for property and equipment purchases	4,410,214	
Proceeds from issuance of commercial paper	24,700,556	24,987,917
Proceeds from issuance of long-term debt	250,000,000	
Debt issue costs	(2,138,000)	
Repayment of debt	(13,909,899)	(13,224,716)
Partnership distributions	(19,149,661)	(11,671,266)
Net cash provided by financing activities	243,913,210	91,935
NET CHANGE IN CASH AND CASH EQUIVALENTS	12,719,362	39,463,769
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	119,139,925	79,676,156
CASH AND CASH EQUIVALENTS, END OF YEAR	$131,859,287	$119,139,925
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest - net of amounts capitalized	$44,516,000	$34,092,000
Cash paid for income taxes	$1,183,400	$1,233,600

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Baptist Health South Florida, Inc. ("BHSF" or "Baptist Health"), a not-for-profit Florida corporation located in Miami-Dade County, Florida, is the parent of a system of not-for-profit hospitals and other not-for-profit and for-profit corporations.

Mission - The mission of Baptist Health is to improve the health and well-being of individuals, and to promote the sanctity and preservation of life, in the communities it serves. Baptist Health is a faith-based organization guided by the spirit of Jesus Christ and the Judeo-Christian ethic, and is committed to maintaining the highest standards of clinical and service excellence, rooted in the utmost integrity and moral practice. Consistent with its spiritual foundation, Baptist Health is dedicated to providing high-quality, cost-effective, compassionate healthcare services to all, regardless of religion, creed, race or national origin, including, as permitted by its resources, charity care to those in need.

Organization - The not-for-profit hospitals comprising BHSF are Baptist Hospital of Miami, Inc. ("Baptist Hospital"), Doctors Hospital, Inc. ("Doctors Hospital"), Homestead Hospital, Inc. ("Homestead Hospital"), South Miami Hospital, Inc. ("South Miami Hospital") and West Kendall Baptist Hospital, Inc. ("West Kendall Baptist Hospital"), all located in south Miami-Dade County, Florida and Mariners Hospital, Inc. ("Mariners Hospital") and Fishermen's Health, Inc. ("Fishermen's Community Hospital") located in Monroe County, Florida (collectively, the "BHSF Hospitals"). BHSF also includes Baptist Outpatient Services, Inc. ("BOS"), a Florida not-for-profit corporation, which owns and operates two large diagnostic imaging centers, one located on the Baptist Hospital campus, and a second center located on the West Kendall Baptist Hospital campus, 13 satellite diagnostic imaging facilities in Miami-Dade and Broward counties, and a home health agency, and manages 17 urgent care centers, of which seven operate under the license of Baptist Hospital and ten under the license of South Miami Hospital; Baptist Health Medical Group, Inc. ("BHMG"), is a Florida not-for-profit corporation, which is the sole member of various physician practice limited liability companies that provide medical services to various BHSF affiliates, and, together with the affiliates, employ over 245 physicians; Miami Cancer Institute at Baptist Health, Inc., ("MCIBH") a Florida not-for-profit corporation whose purpose is to manage all oncology clinical and research activities for BHSF and its affiliates; and Baptist Health South Florida Foundation, Inc. (the "Foundation"), a Florida not-for-profit corporation, whose purpose is to raise funds for the other not-for-profit corporations within BHSF.

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

BHE is the sole-member of Pineapple Network Services, LLC ("PNS"), a Florida single-member limited liability company, organized to provide third party administrator services as defined by Florida Statutes Section 626.88 on behalf of BHSF and its affiliates. PNS received approval from the Florida Office of Insurance Regulation on August 17, 2017; however, there was no financial activity to report for this company during the fiscal year ended September 30, 2017.

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 and sleep services segment, which are included in the accompanying consolidated balance sheets, as of September 30, 2017 and September 30, 2016, were approximately $38,262,000 and $34,600,000, respectively, and the total liabilities of the consolidated VIEs were approximately $10,152,000 and $6,176,000, respectively.

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.

BHSF owns Pineapple Insurance Company ("PIC"), a single-parent, Cayman Islands captive insurance company, to facilitate BHSF's professional and general liability, self-insurance and property insurance programs, including contracting for reinsurance (see Note 8). Samaritan Risk Retention Group, Inc. ("SRRG", and together with PIC, the "Insurance Companies") is licensed to transact business under the laws of the state of South Carolina. SRRG is also chartered as a risk retention group and is registered to conduct business in the state of Florida. SRRG was organized for the purpose of offering professional liability insurance to qualifying physicians. In March 2006, SRRG issued a surplus note in the amount of $5,000,000 to BHSF. Until the note is satisfied, the governing Board of Directors of SRRG is elected by proxy and controlled by BHSF. Principal payments on this note began in fiscal year 2015.

In July 2015, Miami Cardiac & Vascular Institute Management Company, LLC ("MCVI Management Company"), a Florida limited liability company, was formed. MCVI Management Company was established to provide management services for the Miami Cardiac & Vascular Institute. BHSF has a 50% interest in MCVI Management Company which is accounted for using the equity method. MCVI Management Company was funded with an investment of approximately $1,580,000. BHSF's investment in MCVI Management Company, which is recorded in other assets in the accompanying consolidated balance sheet, was approximately $1,960,000 and $1,760,000, as of September 30, 2017 and 2016, respectively.

Pursuant to a Master Trust Indenture, an obligated group was created, which at September 30, 2017 and 2016, consisted of BHSF, the BHSF Hospitals and BOS (the "BHSF Obligated Group"). On October 1, 2017, certain entities within Bethesda Health, Inc. and affiliates ("Bethesda Health") were added to the BHSF Obligated Group (see Note 17). Each member of the BHSF Obligated Group is jointly and severally liable for all debt issued under the Master Trust Indenture (see Note 6).

Basis of Presentation - The consolidated financial statements include the accounts of BHSF, the BHSF Hospitals, BOS, BHMG, MCIBH, the Foundation, BHE and subsidiaries, and Insurance Companies. All intercompany transactions have been eliminated in consolidation.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: recognition of net patient service revenue; valuation of accounts receivable, including contractual allowances and allowances for doubtful accounts; reserves for losses and expenses related to employee healthcare and professional and general liability risks; asset impairments, including goodwill; and estimated third-party settlements. Future events and their effects cannot be predicted with certainty; accordingly, management's accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the accompanying consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. Management regularly evaluates the accounting policies and estimates it uses. In general, management relies on historical experience and on other assumptions believed to be reasonable under the circumstances, and may employ outside experts to assist in the evaluation, as considered necessary. Although management believes all adjustments considered necessary for fair presentation have been included, actual results may vary from those estimates.

Community Benefits - In pursuing its mission, BHSF provides services to the financially disadvantaged and to the broader community in which it operates, despite the lack or adequacy of payment for those services. These services are categorized as follows:

Charity Care - BHSF provides a level of charity care that is consistent with the needs of the community it serves and the financial resources that are available. All or a portion of the charges incurred at established rates are classified as charity by reference to BHSF's established policies. Essentially, these policies define charitable services as those for which no payment is anticipated. In assessing a patient's ability to pay, BHSF utilizes generally recognized poverty income levels for the respective community, but also includes certain cases where incurred charges are considered to be beyond the patient's ability to pay. In addition, BHSF provides services to other indigent patients under various state and local programs, which pay healthcare providers amounts that are less than the cost of the services provided. Because BHSF does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net patient service revenue in the accompanying consolidated financial statements (see Note 2).

Other Community Benefits - BHSF has entered into agreements to pay certain physician specialists for healthcare services they provide to BHSF's charity care patients. In addition to the services that are provided to the financially disadvantaged, BHSF provides services to the broader community. These services include educational programs, community information on health services, donations and the cost of healthcare in excess of payments for patients under federal and state programs. Additionally, the BHSF Hospitals have conducted individual community health needs assessments and adopted written implementation plans to focus on the particular characteristics of each hospital's patients and community, and their respective needs.

Treasury Policy - BHSF has a system-wide treasury policy, which recognizes its responsibility to oversee, manage and coordinate all affiliate operations, including the treasury functions. BHSF serves as the centralized cash receipt and disbursing agent for all BHSF entities. The treasury policy provides that each BHSF affiliate's unrestricted cash and investments may be transferred to BHSF, and that BHSF shall provide or arrange for advances and loans to its affiliates and will utilize the cash and investments held by it to provide financial support for the BHSF Hospitals and the other corporations comprising the system. These transfers have been eliminated in consolidation. Debt and related issuance costs are allocated to affiliates based on the use of debt proceeds.

New Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance, including guidance specific to the healthcare industry. This ASU provides companies the option of applying a full or modified retrospective approach upon adoption. This ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted for annual periods beginning after December 15, 2016. BHSF expects to adopt this ASU including supplemental guidance from ASUs 2016-10, 2016-12, and 2017-13 on October 1, 2018 and is currently implementing its plan for adoption and evaluating the impact on its revenue recognition policies, procedures and control framework and the resulting impact on its consolidated financial position, results of operations and cash flows. BHSF has established an implementation group for this ASU with an implementation plan to transition to the new standard and determine its impact. A significant element of executing this plan is the process of reviewing sources of revenue and evaluating the patient account population to determine the appropriate distribution of patient accounts into portfolios with similar collection experience that, when evaluated for collectability, will result in a materially consistent revenue amount for such portfolios as if each patient account was evaluated on a contract-by-contract basis. BHSF is evaluating the appropriate portfolios to apply in its collectability analysis and is considering the impact of applying the new standard when its patient accounts are evaluated in those portfolios. BHSF is also in the process of assessing the impact of the new standard on various reimbursement programs that represent variable consideration, including settlements with third party payors, disproportionate share payments, supplemental state Medicaid programs, bundled payment of care programs and other reimbursement programs in which our hospitals participate. Due to the many different forms of calculation and reimbursement that these programs take, the application of the new accounting standard could have an impact on the revenue recognized for variable consideration. In July 2017, a draft of industry guidance was issued on the application of this ASU on variable consideration resulting from settlements with third party payors, and in October 2017, a draft of industry guidance was issued on the application of this ASU on variable consideration resulting from bundled payment of care programs and other risk-sharing arrangements. BHSF is evaluating whether such industry guidance will have an impact on its current accounting policies and procedures related to third party settlements.

Additionally, the adoption of the new accounting standard will impact the presentation on BHSF's statement of operations for a significant component of its provision for bad debts. After adoption of the new standard, the majority of what is currently classified as the provision for bad debts will be reflected as an implicit price concession as defined in the standard and therefore an adjustment to net patient revenue. BHSF will continue to evaluate certain changes in collectability on its self-pay patient accounts receivable resulting from certain credit and collection issues not assessed at the date of service, including bankruptcy, and recognize such amounts in the provision for bad debts included in operating expenses on the statement of operations. BHSF has not yet decided which adoption approach it will apply. BHSF cannot reasonably estimate at this time the quantitative impact that the adoption of this accounting standard will have on its consolidated financial statements.

In August 2014, FASB issued ASU 2014-15, *Presentation of Consolidated Financial Statements - Going Concern (Subtopic 205-40)* ("ASU 2014-15"). ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern. If such conditions or events exist, disclosures are required that enable users of the consolidated financial statements to understand the nature of the conditions or events, management's evaluation of the circumstances and management's plans to mitigate the conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. The guidance provided in ASU 2014-15 is effective for annual periods ending after December 15, 2016, including interim reporting periods thereafter. The adoption of this standard had no impact on BHSF's consolidated financial statements for the year ended September 30, 2017.

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 consolidated financial statements. Under ASU 2015-03, debt issue costs are 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 September 30, 2016, BHSF reclassified $3.7 million of debt issuance costs previously recorded in other assets to long-term debt in the consolidated balance sheet. As of September 30, 2016, BHSF reclassified $358.5 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 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. The adoption of this standard did not have a material effect on BHSF's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (Issue 14-B)* ("ASU 2015-07"). ASU 2015-07 removes, from the fair value hierarchy, investments for which the practical expedient (as discussed in Accounting Standards Codification ("ASC") 820-10-35-59) is used to measure fair value at net asset value ("NAV"). Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. Further, entities must provide the disclosures in ASC 820-10-50-6A only for investments for which they elect to use the NAV practical expedient. The guidance provided in ASU 2015-07 is effective for fiscal years beginning after December 15, 2015. The adoption of this standard did not have a significant impact on BHSF's consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). ASU 2015-11 requires inventories to be valued at the lower of cost or net realizable value. ASU 2015-11 is effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statement from the adoption of this standard.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments* ("ASU 2015-16"). ASU 2015-16 requires 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. ASU 2015-16 requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. ASU 2015-16 is effective for the first interim period within annual reporting periods beginning after December 15, 2015. BHSF has adopted ASU 2015-16 in the current year. The adoption of this standard did not have a significant impact on BHSF's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes (Topic 740)* ("ASU 2015-17"). ASU 2015-17 provides guidance to simplify the presentation of deferred income taxes. Under ASU 2015-17, deferred tax liabilities and assets are required to be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for fiscal years beginning after December 15, 2017. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The update also requires an entity to separately present the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years 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 February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842): Section A-Leases: Amendments to the FASB Accounting Standards Codification; Section B-Confirming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification; and Section C-Background Information and Basis for Conclusions* ("ASU 2016-02") which supersedes existing guidance on accounting for leases and generally requires all leases to be recognized in the balance sheet. The provisions of ASU 2016-02 are effective for reporting periods beginning after December 15, 2018; early adoption is permitted. The provisions of this update are to be applied using a modified retrospective approach. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In March 2016, the FASB issued ASU 2016-07, *Investments—Equity Method and Joint Ventures (Topic 323) Simplifying the Transition to the Equity Method of Accounting* ("ASU 2016-07"). ASU 2016-07 eliminates the requirement retroactively accounting for an investment that qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. The update requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest, and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The provisions of this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2016, the FASB issued ASU 2016-14, *Not-For-Profit Entities-Presentation of Financial Statement of Not-for-Profit Entities (Topic 958)* ("ASU 2016-14"). ASU 2016-14 requires not-for-profit entities to present on the balance sheet amounts for two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) rather than the three classes currently required. Not-for-profit entities are required to enhance disclosures regarding board designations and composition of net assets with donor restrictions. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and or interim periods within fiscal years, beginning after December 15, 2018. ASU 2016-14 is applied on a retrospective basis in the year in which the guidance is adopted. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments (Topic 230)* ("ASU 2016-15"). ASU 2016-15 clarifies the guidance on the classification of certain cash receipts and payments in the statement of cash flows related to debt extinguishment costs, distributions received from equity method investees, and proceeds from the settlement of insurance claims. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 2019. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In October 2016, the FASB issued ASU 2016-17, *Consolidation – Interests Held through Related Parties That Are Under Common Control (Topic 810)* ("ASU 2016-17"). ASU 2016-17 clarifies treatment of interests held by a single decision-making entity and other related parties under common control. ASU 2016-17 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, including adoption in an interim period. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In January 2017, the FASB issued ASU 2017-01, *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 for interim or annual goodwill impairment tests performed on dates after January 1, 2017. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"), which is intended to better align risk management activities and financial reporting for hedging relationships. The new standard eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. It also eases certain documentation and assessment requirements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand and cash in depository accounts maintained with various commercial banks, which exceed federally insured limits. As such, management periodically evaluates the creditworthiness of those institutions. BHSF has not experienced any losses on such deposits. Cash equivalents also include money market funds held by the Insurance Companies.

Inventories - Inventories, totaling approximately $41,586,000 and $40,599,000 at September 30, 2017 and 2016, respectively, consisting primarily of pharmaceutical, medical and surgical supplies, are stated at average cost, and are included in other current assets in the consolidated balance sheets.

Assets Whose Use is Limited and Other Investments - Assets whose use is limited include assets set aside by the Board of Trustees for future capital improvements and education, over which the Board of Trustees retains control and may at its discretion subsequently use for other purposes, unspent note proceeds, and insurance surplus reserves. Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. Other investments are held by the Foundation and include certain assets whose use is restricted by donors (see Note 3).

BHSF manages the investment function based upon a comprehensive written investment policy approved by the Board of Trustees that provides for a diversified investment portfolio based upon return, risk, social values and projected liquidity requirements. Investment results, portfolio allocations and investment policy compliance are regularly reviewed with the Investment Review Committee of the Board of Trustees.

BHSF holds certain financial instruments with derivative features, including forward foreign exchange contracts and short sales of equity securities. BHSF records these derivatives at fair value in its consolidated balance sheets and records the changes in fair value of the derivatives as investment income in the consolidated statements of operations. The change in fair value of derivative instruments held by BHSF resulted in investment losses of approximately $272,000 and $810,000 for the years ended September 30, 2017 and 2016, respectively. BHSF also holds various hybrid financial instruments with embedded derivative features, including convertible preferred stock and convertible bonds.

BHSF records a liability for short sales and forward foreign exchange contracts that are in a loss position. The obligations arising from such transactions are recorded on a trade-date basis and carried at current market values. The majority of forward foreign exchange contract transactions are settled on a short-term basis. Contracts that are not subject to a master netting agreement represent obligations to settle the contract at a rate above the current market exchange rate. At September 30, 2017 and 2016, forward foreign exchange contract obligations totaled approximately $1,969,000 and $1,444,000, respectively. Short sale positions are held as part of a long-short equity investment strategy. At September 30, 2017 and 2016, short sale obligations totaled approximately $3,096,000 and $7,324,000, respectively. Both short sale and forward foreign exchange contract obligations are recorded in accrued expenses and other liabilities in the accompanying balance sheets.

Derivatives may expose BHSF to market risk or credit risk in excess of the amounts recorded in the consolidated balance sheets. Market risk on a derivative or foreign exchange product is the exposure created by potential fluctuations in interest rates, foreign exchange rates and other values, and is a function of the type of product, the volume of transactions, the tenor and terms of the agreement, and the underlying volatility. Credit risk is the exposure to loss in the event of non-performance by the other party to the transaction, where the value of collateral held, if any, is not adequate to cover such losses. Management does not believe that there are significant market or credit risks associated with these transactions, given BHSF's investment strategies and the overall characteristics of its investment portfolio.

BHSF held alternative investment interests in five limited partnerships as of September 30, 2017 and 2016. One of the partnerships was established to invest in a broad range of infrastructure and infrastructure-related assets located in member countries of the Organization for Economic Co-operation and Development, with a primary focus on the United States, Canada, Western Europe and Australia. The second partnership was established to construct and manage a well-diversified portfolio of publicly-traded equity securities issued by real estate investment trusts and other publicly-held real estate companies in North America, Europe and Asia. The third partnership is a long-dated private debt fund that issues senior secured loans to private, middle-market companies principally located in North America. The two remaining partnerships are private real estate funds established to invest in various commercial and residential real estate investments, primarily in the United States. These investments are accounted for using the equity method and reported at fair value. All gains and losses from these alternative investments are reflected in investment income. The carrying value of BHSF's interests in these, as of September 30, 2017 and 2016, was approximately $293,612,000 and $264,300,000, respectively (see Note 15).

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the consolidated financial statements.

Property and Equipment - Net - Property and equipment are stated at cost or, if donated, at fair market value on the date of donation, less accumulated depreciation. Depreciation is computed on the straight-line method using estimated useful lives ranging from two to forty years. Expenditures that materially increase values, change capacities or extend useful lives are capitalized, in addition to interest cost, during the period of construction. For qualifying assets, BHSF capitalizes interest cost until the assets are ready for their intended use. Gains and losses on dispositions are recorded in the year of disposal.

Gifts of long-lived assets, such as land, buildings or equipment, are reported as a direct addition to unrestricted net assets, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as additions to temporarily or permanently restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Property and equipment are described in more detail in Note 4.

BHSF management is responsible for evaluating long-lived assets for impairment by monitoring internal and external environments for events and circumstances that would indicate that the carrying value of an asset may not be recoverable. When these events occur, management measures impairment by comparing the carrying amount of the asset to future undiscounted cash flows expected to result from the use of the asset and residual value. If the undiscounted cash flows are less than the net book value of the asset, an impairment loss based on the fair value of the asset is recognized.

Determination of the fair value of acquired long-lived assets involves certain judgments and estimates. Fair value estimates are derived from appraisals, established market values of comparable assets or internal estimates of future cash flows. These fair value estimates can change by material amounts in subsequent periods. Many factors and assumptions can impact the estimates, including future financial trends, changes in healthcare trends and regulations, and the nature of the ultimate disposition of assets. In some cases, these fair value estimates assume the highest and best use of hospital assets in the future to a market place participant other than a hospital.

Malpractice Liability Claims - Provisions for losses related to malpractice liability risks are based upon actuarially-determined estimates and represent the estimated ultimate net cost of all reported and unreported losses incurred through the respective balance sheet dates. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are reviewed and adjustments are recorded as experience develops or new information becomes known.

Temporarily and Permanently Restricted Net Assets - Temporarily restricted net assets are those for which use has been limited by donors to a specific time period or purpose. Permanently restricted net assets are those for which use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of BHSF or its affiliates (see Note 7).

Excess of Revenues Over Expenses - The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), changes in the value of split-interest agreements, transfers from temporarily restricted net assets, purchase and sale of limited partnership interests and partnership distributions.

Donor-Restricted Gifts - Unconditional promises to give cash and other assets to BHSF and its affiliates are reported at fair value at the date the promise is received. Contingent promises to give and indications of intentions to give are reported at fair value at the date the contingency is met. The gifts are reported as either temporarily or permanently restricted support, if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets. Net assets released from restrictions used for operations are included in excess of revenues over expenses. Net assets released from restrictions used to purchase property and equipment are reported as a change in net assets.

Goodwill - Goodwill represents the excess of purchase price and related costs over the value assigned to net tangible assets and identifiable intangible assets of businesses acquired and accounted for under the acquisition method of accounting. Goodwill has arisen from various acquisitions by affiliates of BHSF (see Note 5).

Deferred Bond Issue Costs and Bond Premium - Deferred bond issue costs and bond premium are being amortized and accreted using the bonds-outstanding method. For the years ended September 30, 2017 and 2016, amortization of bond issue costs totaled approximately $419,000 and $359,000, respectively; and accretion of bond premium totaled approximately $850,000 and $919,000, respectively.

Indigent Care Assessment - The state of Florida Healthcare Consumer Protection and Awareness Act of 1984 created a fund to provide for the treatment of indigent patients. Hospitals in the state of Florida are required to pay into the fund an amount equal to 1.5% of net inpatient revenue and 1% of net outpatient revenue. The indigent care assessment is included in administrative and general expenses in the consolidated statements of operations.

Income and Other Taxes - BHSF, the BHSF Hospitals, BOS, BHMG, MCIBH, and the Foundation are not-for-profit corporations and are recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. BHMG affiliated physician practices are single-member LLCs, which are treated as disregarded entities for federal income tax purposes. BHE and the Insurance Companies provide for income taxes in accordance with the provisions of FASB ASC 740, *Income Taxes* ("ASC 740"). As required under ASC 740, deferred tax assets and liabilities are recognized under the balance sheet approach, which recognizes the future tax effect of temporary differences between the amounts recorded in the financial statements and the tax basis of these amounts. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax assets or liabilities are expected to be realized or settled (see Note 11). Taxes collected from patients, tenants, customers and others, concurrent with specific revenue-producing transactions and subsequently remitted to governmental authorities, are recorded on a net basis and excluded from revenues.

Asset Retirement Obligations - BHSF has various conditional asset retirement obligations for the removal of asbestos. The carrying amount of the obligations for the years ended September 30, 2017 and 2016, totaled approximately $696,000 and $615,000, respectively. For the years ended September 30, 2017 and 2016, BHSF settled obligations of approximately $72,000 and $101,000, respectively.

Electronic Health Records Incentive Payment - 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"). These provisions were designed to increase the use of electronic health records ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payments program beginning in 2011 for eligible hospitals and 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; but providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional incentive payments. Medicaid EHR incentive payments are fully funded by the federal government and administered by the states; however, the states are not required to offer EHR incentive payments to providers.

During the year ended September 30, 2017 and 2016, BHSF recognized HITECH incentives related to certain of the BHSF Hospitals that have demonstrated meaningful use of, and completed attestations as to their adoption or implementation of, certified EHR technology. The Medicare and Medicaid incentives recognized during the year ended September 30, 2017, were approximately $2,000 and $724,000, respectively. The Medicare and Medicaid incentives recognized during the year ended September 30, 2016, were approximately $112,000 and $292,000, respectively. These incentive reimbursements are included in other operating revenue in the consolidated statements of operations. BHSF accounts for EHR incentive payments using the gain contingency model. As such, BHSF recognizes EHR incentive payments when the specified meaningful use criteria have been satisfied, and all contingencies in estimating the amount of the incentive payments to be received are resolved. Medicare meaningful use attestations are subject to audit by the federal government or its designee.

2. NET PATIENT SERVICE REVENUE

Net patient service revenue is recorded based upon established billing rates less allowances for contractual adjustments. 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 the 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 the 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.

Mariners Hospital and Fishermen's Community Hospital are critical access hospitals ("CAH"). As such, they are certified to receive cost-based reimbursement for services provided to Medicare beneficiaries. Among other participation constraints, CAH status requires that Mariners Hospital and Fishermen's Community Hospital operate no more than 25 beds and that their average length of stay not exceed four days.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Federal regulations require submission of annual cost reports covering medical costs and expenses associated with the services provided by each facility to program beneficiaries. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due to BHSF under these payment programs. These audits often require several years to reach the final determination of amounts earned under the programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Such audits of the Medicare cost reports have been completed for all BHSF Hospitals through 2013, with the exception of West Kendall Baptist Hospital, which has completed audits as of fiscal year 2012, Doctors Hospital as of fiscal year 2014, and Mariners Hospital as of fiscal year 2015. The combined effects from changes in estimate related to the valuation of the prior period third-party payor settlement liability, primarily due to the completion of prior year cost report audits, was an increase in income from operations of approximately $7,513,000 and $6,482,000, for the years ended September 30, 2017 and 2016, respectively.

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 $90,113,000 and $94,352,000 for the years ended September 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 receives payments for services rendered from government agencies (primarily the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, employers and patients. BHSF's net patient service revenue related to patients participating in the traditional Medicare program during the years ended September 30, 2017 and 2016, was approximately 12% and 13% of total net patient service revenue, respectively. BHSF recognizes that revenues and receivables from the Medicare program are significant to its operations but does not believe that there are significant credit risks associated with this federal program. BHSF does not believe that there are any other significant concentrations of revenues from any particular payor that would subject it to any significant credit risks in the collection of its accounts receivable.

The concentration of net patient service accounts receivable by payor class, as a percentage of total net patient service accounts receivable, at September 30, 2017 and 2016, was as follows:

	2017	2016
Medicare	12%	11%
Medicare managed care	16%	16%
Medicaid	3%	2%
Medicaid managed care	5%	7%
Commercial managed care	56%	56%
Other	8%	8%
Total	100%	100%

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. 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 years ended September 30, 2017 and 2016, which relate to accounts written-off in prior periods, were approximately $27,544,000 and $29,852,000, respectively.

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 years ended September 30, 2017 and 2016:

	2017	2016
Net patient service revenue before provision for doubtful accounts		
Medicare	$303,388,594	$334,058,668
Medicare managed care	340,278,789	322,326,237
Medicaid	80,578,597	53,839,353
Medicaid managed care	112,269,232	127,607,468
Commercial managed care	1,585,318,888	1,473,971,396
Other	392,919,393	298,188,131
Net patient service revenue before provision for doubtful accounts	$2,814,753,493	$2,609,991,253

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

	2017	2016
Balance, beginning of year	$174,451,279	$176,675,794
Provision, during the year	410,054,826	305,201,993
Accounts written off (net of recoveries)	(365,491,606)	(307,426,508)
Balance, end of year	$219,014,499	$174,451,279

Net patient service revenue recognized for medical services rendered includes adjustments resulting from reviews and audits of prior-year Medicare and Medicaid cost reports and subsequent payment experience from patients and third-party payors. Such adjustments are considered in the recognition and estimation of revenue in the periods the adjustments become known or as cost report years are no longer subject to reviews and audits.

During the years ended September 30, 2017 and 2016, BHSF received approximately $30,772,000 and $24,070,000, respectively, related to favorable settlements of outstanding disputes with third-party payors. Third-party payor recoveries are recorded as an increase to net patient service revenue when the disputes are settled and the cash proceeds are received. In March 2017, BHSF received approximately a combined $28,537,000 in Low Income Pool (LIP) dollars from the state of Florida, for the state fiscal year ended June 2017, 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 twelve-month period ended September 30, 2016.

3. ASSETS WHOSE USE IS LIMITED AND OTHER INVESTMENTS

Assets whose use is limited and other investments at September 30, 2017, are set forth in the following table and stated at fair value:

	Assets Whose Use is Limited	Other Investments	Total
Financial assets:			
Cash and short-term investments	$90,145,858	$2,573,558	$92,719,416
U.S. Treasury obligations	148,062,823	3,855,441	151,918,264
U.S. Agency obligations	88,746,528	2,349,774	91,096,302
Municipal bonds	6,830,718	180,821	7,011,539
Corporate equity instruments	1,369,684,303	39,822,096	1,409,506,399
Corporate bonds	528,823,600	13,968,308	542,791,908
Foreign government bonds	184,298,940	4,939,113	189,238,053
Foreign corporate bonds	91,328,817	2,429,748	93,758,565
Foreign exchange contracts	1,917,175	51,379	1,968,554
Global properties securities fund	55,958,785	1,499,666	57,458,451
Infrastructure fund	44,183,853	1,184,104	45,367,957
Private debt fund	65,577,332	1,757,437	67,334,769
Private real estate funds	120,229,160	3,222,077	123,451,237
Total	$2,795,787,892	$77,833,522	$2,873,621,414

Assets whose use is limited and other investments at September 30, 2016, are set forth in the following table and stated at fair value:

	Assets Whose Use is Limited	Other Investments	Total
Financial assets:			
Cash and short-term investments	$146,944,791	$6,605,784	$153,550,575
U.S. Treasury obligations	106,362,662	2,919,765	109,282,427
U.S. Agency obligations	75,778,595	2,000,208	77,778,803
Municipal bonds	6,443,566	194,852	6,638,418
Corporate equity instruments	1,115,387,393	35,210,754	1,150,598,147
Corporate bonds	502,897,836	11,327,573	514,225,409
Foreign government bonds	136,441,524	4,347,627	140,789,151
Foreign corporate bonds	89,329,801	2,410,016	91,739,817
Foreign exchange contracts	1,419,771	43,872	1,463,643
Global properties securities fund	54,296,938	1,472,308	55,769,246
Infrastructure fund	42,496,694	1,518,525	44,015,219
Private debt fund	55,982,399	1,189,169	57,171,568
Private real estate funds	104,619,932	2,723,683	107,343,615
Total	$2,438,401,902	$71,964,136	$2,510,366,038

Other investments represent assets of the Foundation. At September 30, 2017 and 2016, other investments in the amount of approximately $38,305,000 and $33,213,000, respectively, were temporarily restricted as to use by donors, and approximately $12,939,000 and $12,755,000, respectively, were permanently restricted as to use by donors.

The following is the composition of assets whose use is limited at September 30, 2017 and 2016:

	2017	2016
Board designated for:		
Funded depreciation	$2,501,488,602	$2,343,807,175
Education	335,043	335,043
Total Board designated	2,501,823,645	2,344,142,218
Unspent note proceeds	264,171,550	70,040,479
Insurance reserves	29,792,697	24,219,205
Total	2,795,787,892	2,438,401,902
Less amount required for current liabilities	(50,335,043)	(25,497,378)
Assets whose use is limited	$2,745,452,849	$2,412,904,524

Unspent note proceeds as of September 30, 2017, represent $263,948,822 of invested proceeds, inclusive of net realized and unrealized gains, from the 2017 Taxable Notes issuance (see Note 6). The remaining amount of $222,728 and $70,040,479, as of September 30, 2017 and 2016, respectively, reflect unspent proceeds from the 2011 Taxable Notes designated for the construction and equipment of the new Miami Cancer Institute ("MCI") facilities on the Baptist Hospital campus (see Note 6).

Investment income and gains and losses for assets whose use is limited, other investments and cash and cash equivalents are comprised of the following for the years ended September 30, 2017 and 2016:

	2017	2016
Investment income:		
Interest and dividends income	$57,038,761	$54,718,171
Realized gains on sales of securities	189,568,603	174,436,571
Realized losses on sales of securities	(102,774,088)	(206,083,755)
Change in net unrealized gains and losses	151,211,678	187,557,072
Investment income	$295,044,954	$210,628,059
Other changes in temporarily restricted net assets:		
Investment income	$158,224	$313,114
Realized income (loss) on investments - net	65,944	(242,660)
Total	$224,168	$70,454

4. PROPERTY AND EQUIPMENT - NET

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

	2017	2016
Land and land improvements	$336,971,301	$318,161,310
Buildings and improvements	1,663,435,000	1,344,982,568
Equipment	851,487,626	766,146,273
Software and licenses	237,277,011	219,936,900
Total	3,089,170,938	2,649,227,051
Less accumulated depreciation	(1,382,522,995)	(1,258,155,421)
Total	1,706,647,943	1,391,071,630
Construction in progress	172,754,704	371,331,866
Property and equipment - net	$1,879,402,647	$1,762,403,496

Interest costs incurred during fiscal years 2017 and 2016 were approximately $54,011,000 and $46,165,000, respectively. Interest capitalized was approximately $5,583,000 and $12,969,000, during fiscal years 2017 and 2016, respectively. Depreciation expense on property and equipment, for the years ended September 30, 2017 and 2016, amounted to approximately $160,764,000 and $139,887,000, respectively.

During fiscal years 2017 and 2016, BHSF and certain BHSF Hospitals acquired several building and land purchases with a total cost of approximately $18,650,000 and $5,256,000, respectively. These acquisitions are for use in BHSF's clinical and administrative operations.

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 MCI. The research facility, also on the Baptist Hospital campus and part of MCI, is currently under construction with anticipated completion in the first quarter of fiscal year 2018. The total cost of these facilities is projected to be at approximately $394,000,000. These facilities were funded with the 2011 Taxable Notes and unrestricted cash (see Note 6).

As of September 30, 2017 and 2016, BHSF has accrued approximately $14,468,000 and $32,278,000, respectively, for the acquisition and construction of property and equipment. These amounts are included in accounts payable and accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

5. GOODWILL

Goodwill is subject to at least 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 fourth quarter of September 30, 2017, BHSF performed its annual goodwill impairment test and concluded there was no impairment of goodwill.

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

	2017	2016
Goodwill, beginning of year	$52,587,743	$46,486,447
Ambulatory surgery center acquisitions	16,003,056	6,101,296
Acquisition of assets relating to Fishermen's Hospital	3,916,651	
Goodwill, end of year	$72,507,450	$52,587,743

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. The 2007 Bonds are currently callable at par by BHSF. 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 to acquire, construct, renovate, rehabilitate and equip certain healthcare facilities of the BHSF Obligated Group.

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, payable annually on August 15, and mature on August 15, 2021. Proceeds of the 2011 Taxable Notes may be used for any corporate purposes; however, BHSF has designated and used the proceeds to construct and equip the new MCI 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 September 30, 2017, a note of $50,000,000 has been issued and is outstanding; this note bears an interest rate of 1.19% per annum, with a maturity date of October 18, 2017; this commercial paper note was subsequently reissued in fiscal year 2018 (see Note 17).

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, payable annually on November 15, and will mature on November 15, 2041. Proceeds of the 2017 Taxable Notes may be used for any corporate purposes.

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

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

	2017	2016
2007 Bonds (net of unaccreted bond premium - 2017: $10,025,614; 2016: $10,875,610, and deferred issue costs - 2017: $2,694,867; 2016: $2,873,860)	$695,275,747	$709,766,750
2011 Taxable Notes (net of deferred issue costs - 2017: $698,859; 2016: $874,995)	249,301,141	249,125,005
2017 Taxable Notes (net of deferred issue costs - 2017: $2,073,790)	247,926,210	
Commercial paper notes (including unamortized discount: 2017 - $29,750; 2016 - $5,000)	50,000,000	25,000,000
Capital lease obligation	303,997	393,898
Total	1,242,807,095	984,285,653
Amount representing current maturities	(64,603,996)	(38,909,846)
Long-term debt	$1,178,203,099	$945,375,807

At September 30, 2017, the scheduled principal payments on long-term debt for the next five years and thereafter are as follows:

Year ending September 30	Revenue Bonds	Taxable Notes	Capital Lease Obligation	Commercial Paper	Total
2018	$14,510,000		$93,996	$50,000,000	$64,603,996
2019	15,235,000		98,337		15,333,337
2020	16,000,000		102,880		16,102,880
2021	16,800,000	$250,000,000	8,784		266,808,784
2022	17,640,000				17,640,000
Thereafter	607,760,000	250,000,000			857,760,000
Total	$687,945,000	$500,000,000	$303,997	$50,000,000	$1,238,248,997

7. NET ASSETS

A summary of the changes in consolidated unrestricted net assets attributable to BHSF and the noncontrolling interests for the year ended September 30, 2017, is as follows:

	Total	BHSF	Noncontrolling Interests
Balance, beginning of year	$3,079,645,654	$3,064,162,101	$15,483,553
Excess of revenues over expenses	263,225,070	244,323,987	18,901,083
Net assets released from restrictions used for property and equipment acquisitions	11,625,480	11,625,480	
Change in value of split-interest agreements	(124,379)	(124,379)	
Transfers from temporarily restricted net assets	7,461	7,461	
Noncontrolling interest related to surgery centers	17,459,016		17,459,016
Sale of limited partnership interests	1,154,707		1,154,707
Purchase of limited partnership interests	(697,363)		(697,363)
Partnership distributions	(19,149,661)		(19,149,661)
Increase in unrestricted net assets	273,500,331	255,832,549	17,667,782
Balance, end of year	$3,353,145,985	$3,319,994,650	$33,151,335

A summary of the changes in consolidated unrestricted net assets attributable to BHSF and the noncontrolling interests for the year ended September 30, 2016, is as follows:

	Total	BHSF	Noncontrolling Interests
Balance, beginning of year	$2,901,724,063	$2,892,690,987	$9,033,076
Excess of revenues over expenses	175,628,809	162,640,710	12,988,099
Net assets released from restrictions used for property and equipment acquisitions	9,162,687	9,162,687	
Change in value of split-interest agreements	(342,818)	(342,818)	
Transfers from temporarily restricted net assets	10,535	10,535	
Noncontrolling interest related to surgery centers	5,359,838		5,359,838
Sale of limited partnership interests	326,703		326,703
Purchase of limited partnership interests	(552,897)		(552,897)
Partnership distributions	(11,671,266)		(11,671,266)
Increase in unrestricted net assets	177,921,591	171,471,114	6,450,477
Balance, end of year	$3,079,645,654	$3,064,162,101	$15,483,553

Temporarily and permanently restricted net assets are designated for the following purposes at September 30, 2017 and 2016:

	Temporarily Restricted		Permanently Restricted	
	2017	2016	2017	2016
Equipment and building fund	$38,523,351	$39,210,143		
Indigent care	6,580,713	6,615,918	$5,921,185	$5,864,185
Health education	39,272,610	26,449,222	7,734,621	7,296,789
Total	$84,376,674	$72,275,283	$13,655,806	$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, BOS, BHMG, and MCIBH, absent explicit donor stipulations to the contrary.

A summary of the changes in permanently restricted net assets as of September 30, 2017 and 2016, is as follows:

	2017	2016
Change in permanently restricted net assets:		
Permanently restricted net assets, beginning of year	$13,160,974	$12,864,114
Contributions	522,200	301,981
Investment Income	200,431	211,768
Amounts used for expenditures	(200,431)	(211,768)
Present value allowance adjustments	(27,368)	(5,121)
Permanently restricted net assets, end of year	$13,655,806	$13,160,974

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 PIC, which reinsures 100% of its 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 annually 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 September 30, 2017 and 2016, BHSF has accrued undiscounted estimates of approximately $180,924,000 and $184,588,000, respectively, which represents the cost to settle malpractice and general liability claims reported and claims incurred but not reported. Approximately $43,245,000 and $51,452,000 is included in accrued expenses and other current liabilities, and approximately $137,678,000 and $133,136,000 is included in other liabilities, in the accompanying consolidated balance sheets at September 30, 2017 and 2016, respectively.

The fiscal year 2017 and 2016 consolidated statements of operations reflect a change in estimate in the accrued undiscounted cost to settle malpractice and general liability claims of approximately $11,660,000 and $16,215,000, respectively, primarily due to favorable development and settlement of historical outstanding claims.

9. EMPLOYEE BENEFITS PROGRAMS AND VOLUNTARY SEPARATION OPPORTUNITY

BHSF subsidizes the cost of health insurance for its employees through a self-insured employee health plan. Under the self-insurance plan, all claims from employees and their covered dependents, less deductibles and coinsurance, as provided in the plan, are paid directly by BHSF to the plan administrators. BHSF has commercial insurance coverage for per-occurrence claims in excess of the self-insured limits. At September 30, 2017 and 2016, BHSF has recorded liabilities for outstanding and estimated unreported claims of its employees and their covered dependents under this plan of approximately $22,179,000 and $17,313,000, respectively, which are included in accrued wages, salaries and benefits in the accompanying consolidated balance sheets.

BHSF is self-insured for workers' compensation claims. BHSF purchases commercial insurance coverage for per-occurrence workers' compensation claims in excess of the self-insured limit. As of September 30, 2017 and 2016, BHSF has recorded liabilities for outstanding and estimated unreported claims covered under this plan of approximately $6,475,000 and $6,571,000, respectively, which are included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

In the fourth quarter of fiscal year 2016, certain BHSF employees were eligible for a Voluntary Separation Opportunity (VSO), which gave those employees the opportunity to receive enhanced employment termination benefits. As of September 30, 2016, BHSF accrued approximately $12,704,000 in VSO benefit payments, which is included in accrued wages, salaries and benefits in the accompanying balance sheets.

10. RETIREMENT PLAN

BHSF sponsors a defined contribution retirement plan (the "Plan") in which participation is available to substantially all full-time employees. Under the terms of the Plan, BHSF provides a basic contribution of 3% of the employee's gross salary. In addition, BHSF matches 50% of the amount the participating employee has contributed through a voluntary salary reduction agreement with BHSF. The maximum matching contribution is limited to 2% of the employee's gross salary. Provisions of the Plan include 100% vesting of BHSF contributions after three years of continuous service. Upon a participant's retirement, death or disability, or as required by law, the participant's vested interest in his or her account can be distributed in either a lump-sum amount equal to the value of the participant's vested interest in his or her account or annual installments over the life expectancy of the participant. The funding levels for the Plan are subject to periodic determination by the Board of Trustees of BHSF. Costs incurred in connection with the Plan, for the years ended September 30, 2017 and 2016, were approximately $44,547,000 and $44,234,000, respectively, and are included in wages, salaries and benefits expense in the accompanying consolidated statements of operations.

11. INCOME TAXES

The components of the income tax provision for the years ended September 30, 2017 and 2016, are as follows:

	2017	2016
Current income tax provision:		
Federal	$742,965	$163,619
State	(61,953)	(95,620)
Total current income tax provision	681,012	67,999
Deferred income taxes:		
Federal	(100,432)	1,449,549
State	(58,676)	83,850
Total deferred income taxes	(159,108)	1,533,399
Income tax provision	$521,904	$1,601,398

Deferred income taxes, at September 30, 2017 and 2016, are provided for the temporary differences between the tax bases of the assets and liabilities of BHE and Insurance Companies and their bases for financial reporting purposes.

The tax effects of temporary differences are as follows:

	2017	2016
Current deferred tax (liabilities) assets:		
Unrealized gains	($1,122,310)	($586,089)
Realized losses	723	
Other current assets	1,439,256	1,221,664
Accrued liabilities and other	32,008	2,852
Total net current deferred tax assets	349,677	638,427
Non-current deferred tax assets (liabilities):		
Depreciation	1,296,973	835,841
Net unearned premiums	451,912	418,877
Loss and loss adjustment	175,667	157,309
Investment in unconsolidated subsidiaries	(4,386,136)	(4,009,205)
Net operating loss carryforward	312,264	
Installment gain	(325,163)	(325,163)
Total net non-current deferred tax liabilities	(2,474,483)	(2,922,341)
Total net deferred tax liabilities	($2,124,806)	($2,283,914)

The current accounting standards require that deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their bases for financial reporting purposes. Accounting for Uncertainty in Income Taxes, Accounting Standards Codification 740-10 (formerly FIN48), prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. Future tax benefits, such as minimum tax credit carry forwards, are required to be recognized to the extent that realization of such benefits is more likely than not. As of September 30, 2017 and 2016, BHSF had no material unrecognized tax positions which are expected to remain unchanged through September 30, 2018.

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 2014 through 2016 remain open and subject to examination by the Internal Revenue Service.

12. LEASE AGREEMENTS

BHSF and its affiliates have lease agreements that provide for terms of five to twenty years and for renewals at rents to be negotiated. Rents are adjusted annually for changes in the Consumer Price Index ("CPI").

The following is a schedule of the approximate minimum future rental revenue for the next five years and thereafter on non-cancelable leases in effect at September 30, 2017:

Year ending September 30	
2018	$8,356,626
2019	6,501,136
2020	4,352,640
2021	3,067,396
2022	1,909,442
Thereafter	5,925,645
Total	$30,112,885

13. COMMITMENTS AND CONTINGENCIES

Construction - BHSF has made certain commitments associated with its continuous construction programs. BHSF's future construction expenditures related to these commitments in years subsequent to 2017 are estimated at $158,871,000, including construction related to continued build-out of the new MCI building, a multi-purpose 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 ten years subsequent to 2017 and are estimated at $266,680,000. Actual expenditures may vary from these estimates.

Operating Leases - BHSF's operating leases are primarily related to its copy machines, miscellaneous medical equipment, and parking and office space. Copy machine and miscellaneous medical equipment leases are subject to automatic renewal at the end of their respective lease terms for successive one-year periods under renegotiated terms and conditions. BHSF leases parking and office space under agreements that provide for terms of three to thirty years and renewals at rates to be negotiated. Office space rents are adjusted annually for changes in the CPI. Total lease expenses charged to operations for the years ended September 30, 2017 and 2016, amounted to approximately $18,567,000 and $20,843,000, respectively.

The following is a schedule of the approximate minimum future rental payments for the next five years and thereafter on non-cancelable leases in effect at September 30, 2017:

Year ending September 30	
2018	$14,972,000
2019	13,817,000
2020	11,704,000
2021	9,062,000
2022	7,681,000
Thereafter	24,238,000
Total	$81,474,000

Physician Income Guarantees - Baptist Hospital, Homestead Hospital, Mariners Hospital, South Miami Hospital and West Kendall Baptist Hospital provide income and revenue guarantee agreements to certain non-employed 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, the 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 September 30, 2017, expire at various times through March 31, 2019.

At September 30, 2017, the maximum potential amount of future payments under the income and revenue collection guarantees was $24,916,000. At September 30, 2017, a liability for future payments under the income and revenue collection guarantees in the amount of $19,848,000 is included in accrued expenses and other current liabilities and other liabilities in the accompanying consolidated balance sheet.

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 consolidated operations or its cash flows.

Other Matters - Since 2013, the United States Department of Justice ("USDOJ") has been investigating a non-employed physician who had 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, BHSF 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.

BHSF identified a matter that resulted in certain of its hospitals being out of compliance with the 340B drug pricing program ("340B program") for the period from August 2013 through January 2017 for Baptist Hospital, and from August 2013 through March 2017 for Doctors Hospital, South Miami Hospital, and Homestead Hospital. In May, 2017, BHSF self-disclosed this issue to the US Health Resources & Services Administration ("HRSA"). At this time BHSF 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.

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 a government review, 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.

14. FUNCTIONAL EXPENSES

BHSF provides general healthcare services to residents within its geographic location. Expenses related to providing these services during the years ended September 30, 2017 and 2016, are as follows:

	2017	2016
Healthcare services	$1,628,447,488	$1,535,772,642
Other operating expenses	882,652,517	873,778,582
Total	$2,511,100,005	$2,409,551,224

15. FAIR VALUE MEASUREMENTS

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 September 30, 2017 and 2016, BHSF has recorded the valuations, without adjustment, which were provided by the pricing service.

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 September 30, 2017 and 2016, BHSF did not have Level 3 inputs as a result of the adoption of ASU 2015-07.

Transfers between levels occur when there are changes in the determination of whether inputs are observable or not, and changes in market activity. As a result of adopting ASU 2015-07, the global properties securities fund, infrastructure fund, private debt fund, and private real estate funds are now categorized as alternative investments measured at NAV. This adoption required a restatement of the September 30, 2016 fair value measurements disclosure.

There were no other changes to level classifications for securities held at September 30, 2016.

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Investments Measured at Fair Value	Alternative Investments Measured at Net Asset Value	Total
Financial assets:					
Cash and short-term investments	$92,719,416		$92,719,416		$92,719,416
U.S. Treasury obligations	151,918,264		151,918,264		151,918,264
U.S. Agency obligations		$91,096,302	91,096,302		91,096,302
Municipal bonds		7,011,539	7,011,539		7,011,539
Corporate equity instruments	1,409,506,399		1,409,506,399		1,409,506,399
Corporate bonds		542,791,908	542,791,908		542,791,908
Foreign government bonds		189,238,053	189,238,053		189,238,053
Foreign corporate bonds		93,758,565	93,758,565		93,758,565
Foreign exchange contracts	1,968,554		1,968,554		1,968,554
Global properties securities fund				$57,458,451	57,458,451
Infrastructure fund				45,367,957	45,367,957
Private debt fund				67,334,769	67,334,769
Private real estate funds				123,451,237	123,451,237
Total	$1,656,112,633	$923,896,367	$2,580,009,000	$293,612,414	$2,873,621,414
Financial liabilities:					
Derivative liabilities	$5,065,000		$5,065,000		$5,065,000

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)	Total Investments Measured at Fair Value	Alternative Investments Measured at Net Asset Value	Total
Financial assets:					
Cash and short-term investments	$153,550,575		$153,550,575		$153,550,575
U.S. Treasury obligations	109,282,427		109,282,427		109,282,427
U.S. Agency obligations		$77,778,803	77,778,803		77,778,803
Municipal bonds		6,638,418	6,638,418		6,638,418
Corporate equity instruments	1,150,353,504	244,643	1,150,598,147		1,150,598,147
Corporate bonds		514,225,409	514,225,409		514,225,409
Foreign government bonds		140,789,151	140,789,151		140,789,151
Foreign corporate bonds		91,739,817	91,739,817		91,739,817
Foreign exchange contracts	1,463,643		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	$1,414,650,149	$831,416,241	$2,246,066,390	$264,299,648	$2,510,366,038
Financial liabilities:					
Derivative liabilities	$8,768,000		$8,768,000		$8,768,000

Alternative investments measured at fair value using net asset value per share, or its equivalent, as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented for such investments are intended to permit reconciliation of the fair value hierarchy to the investments presented in the consolidated balance sheet.

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 private debt, infrastructure, private real estate funds, and now global securities 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 that are valued using NAV as the practical expedient to fair value as of the years ended September 30, 2017 and 2016:

	September 30, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global property securities	$57,458,451		Monthly	15 days
Infrastructure fund	$45,367,957		Bi-Annually	90 days
Private debt	$67,334,769		Not currently eligible	
Private real estate funds	$123,451,237	$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

Other Assets and Liabilities - The carrying amounts reported in the 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.

16. ACQUISITIONS

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 $13,095,000, the amount needed to repay the outstanding liabilities of Fishermen's Hospital, Inc., which included approximately $8,027,000 in real and personal property, $1,151,000 in current assets, and $3,917,000 in goodwill. As of December 11, 2017, the date the consolidated financial statements were issued, the initial accounting for the asset purchase was not finalized; therefore, in accordance with GAAP, beginning balances may change as a result of the valuation.

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. The acquisitions are immaterial based on the BHSF's consolidated financial position and results of operations. The investments in these acquisitions are considered VIEs in which BHSF controls the most significant economic activities. As a result, BHSF consolidated the results of operations of the VIEs in the accompanying consolidated balance sheets, statements of operations and statements of cash flows as of and for the year ended September 30, 2017.

17. SUBSEQUENT EVENTS

On October 1, 2017, full affiliation occurred with Bethesda Health. The results of Bethesda Health are not included in the accompanying consolidated balance sheets, statements of operations and statements of cash flows as of and for the years ended September 30, 2017. As of September 30, 2017, Bethesda Health's balance sheet consists of current assets totaling $85,481,000 and long-term assets totaling $511,197,906 for combined total assets of $596,678,906; current liabilities of $123,495,707 and long-term liabilities of $199,866,133 for combined total liabilities of $323,361,840; net assets total $273,317,066, of which $253,028,061 are unrestricted net assets. As of December 11, 2017, the date the consolidated financial statements were issued, the valuation of the balance sheet was not finalized, therefore, in accordance with GAAP, beginning balances may change as a result of the valuation.

As a result of the affiliation certain entities of Bethesda Health became part of the BHSF Obligated Group and the existing Bethesda Master Trust Indenture was terminated (see Note 1). At the same time, all of Bethesda Health's then outstanding debt under the Bethesda Master Trust Indenture was transferred to and secured under the BHSF Obligated Group Master Indenture. Beginning October 1, 2017, all of the covenants under the Bethesda Health Master Trust Indenture no longer apply to Bethesda Health. Under the BHSF Master Trust Indenture, the BHSF Obligated Group, which now includes certain members of Bethesda Health, must comply with restrictions on incurrence of additional debt and certain other covenants.

On November 28, 2017, the BHSF Obligated Group sent a conditional notice of redemption to BB&T.

In October, 2017, subsidiaries of BHE entered into two joint ventures, one related to the acquisition of a majority interest in a multi-specialty ambulatory surgical center located in Boca Raton and the other is an investment in a physical therapy company.

In the first quarter of fiscal year 2018, BHSF repaid its outstanding $50,000,000 commercial paper note and reissued notes for $50,000,000. The current outstanding average rate is 1.30% per annum, with a maturity date of January 17, 2018.

BHSF evaluated events and transactions for potential recognition or disclosure through December 11, 2017, the date the consolidated financial statements were issued.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET INFORMATION
SEPTEMBER 30, 2017

	BHSF Obligated Group					
	Baptist Health South Florida, Inc.	BHSF Hospitals	Baptist Outpatient Services, Inc.	Combined Non-Obligated Group Affiliates	Consolidating Entries	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$106,379,259	$81,620	$564	$25,397,844		$131,859,287
Assets whose use is limited	50,000,000	335,043				50,335,043
Accounts receivable - net	55,338	246,242,340	5,845,672	24,580,412		276,723,762
Due from affiliates	97,908,660				($97,908,660) (2)	0
Other current assets	49,556,650	61,685,401	1,915,089	10,580,438		123,737,578
Total current assets	303,899,907	308,344,404	7,761,325	60,558,694	(97,908,660)	582,655,670
ASSETS WHOSE USE IS LIMITED	2,715,660,153			29,792,696		2,745,452,849
OTHER INVESTMENTS				77,833,522		77,833,522
PROPERTY AND EQUIPMENT - NET	415,308,253	1,346,150,991	36,721,604	81,221,799		1,879,402,647
BENEFICIAL INTEREST IN NET ASSETS OF BAPTIST HEALTH SOUTH FLORIDA FOUNDATION, INC.	31,384,626	85,272,882	1,342,372		(117,999,880) (3)	0
GOODWILL		26,464,332		46,043,118		72,507,450
OTHER ASSETS	24,037,558	2,057,537		45,345,657		71,440,752
DUE FROM AFFILIATES	891,129,776			231,404	(891,361,180) (2)	0
NOTE RECEIVABLE - AFFILIATE	3,200,000			1,554,691	(4,754,691) (2)	0
INVESTMENT IN AFFILIATES	447,303,369				(447,303,369) (5)	0
TOTAL ASSETS	$4,831,923,642	$1,768,290,146	$45,825,301	$342,581,581	($1,559,327,780)	$5,429,292,890
LIABILITIES AND NET ASSETS (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$17,426,746					$17,426,746
Estimated third-party payor settlements		$6,607,710				6,607,710
Commercial paper notes	50,000,000					50,000,000
Current maturities of long-term debt		14,385,185 (1)	$124,815 (1)	$93,996		14,603,996
Accrued wages, salaries and benefits	85,821,863	119,196,809	5,118,193	33,842,543		243,979,408
Accrued expenses and other liabilities	51,787,218	219,307,723	7,818,048	46,384,238		325,297,227
Due to affiliates		84,974,924	1,418,822	11,514,914	($97,908,660) (2)	0
Total current liabilities	205,035,827	444,472,351	14,479,878	91,835,691	(97,908,660)	657,915,087
LONG-TERM DEBT	247,926,210 (1)	924,210,660 (1)	5,856,228 (1)	210,001		1,178,203,099
OTHER LIABILITIES	5,281,219	125,079,490	2,385,183	9,250,347		141,996,239
NOTE PAYABLE - AFFILIATE		1,554,691		3,200,000	(4,754,691) (2)	0
DUE TO AFFILIATES	926,398,788	426,746,226		464,614,954	(1,817,759,968) (2)	0
Total liabilities	1,384,642,044	1,922,063,418	22,721,289	569,110,993	(1,920,423,319)	1,978,114,425
NET ASSETS (DEFICIT):						
Unrestricted:						
Baptist Health South Florida, Inc. and Affiliates	3,370,578,895	(239,381,197)	21,761,640	(447,362,378)	614,397,690 (5)	3,319,994,650
Noncontrolling interests					33,151,335 (4)	33,151,335
Total unrestricted net assets (deficit)	3,370,578,895	(239,381,197)	21,761,640	(447,362,378)	647,549,025	3,353,145,985
Temporarily restricted	63,046,897	73,221,230	1,342,372	79,041,631	(132,275,456) (3,5)	84,376,674
Permanently restricted	13,655,806	12,386,695		13,655,806	(26,042,501) (3,5)	13,655,806
Total net assets (deficit)	3,447,281,598	(153,773,272)	23,104,012	(354,664,941)	489,231,068	3,451,178,465
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				74,906,828	(74,906,828) (5)	0
Total stockholder's equity				94,984,194	(94,984,194)	0
Noncontrolling interests				33,151,335	(33,151,335) (4)	0
Total equity				128,135,529	(128,135,529)	0
Total net assets (deficit) and stockholder's equity	3,447,281,598	(153,773,272)	23,104,012	(226,529,412)	361,095,539	3,451,178,465
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$4,831,923,642	$1,768,290,146	$45,825,301	$342,581,581	($1,559,327,780)	$5,429,292,890

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
YEAR ENDED SEPTEMBER 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		$2,530,133,368	$92,806,884	$191,134,120	$679,121		$2,814,753,493
Provision for doubtful accounts		394,080,465	2,319,141	13,655,220			410,054,826
Net patient service revenue		2,136,052,903	90,487,743	177,478,900	679,121		2,404,698,667
Rental revenue	$3,904,095			12,793,932	(6,455,194)	(6,7)	10,242,833
Other operating revenue	604,370,400	23,633,444	5,107,442	82,199,724	(650,490,219)	(6)	64,820,791
Total unrestricted revenues, gains and other support	608,274,495	2,159,686,347	95,595,185	272,472,556	(656,266,292)		2,479,762,291
EXPENSES:							
Wages, salaries and benefits	276,588,677	858,597,718	31,833,763	206,247,311	179,389	(7)	1,373,446,858
Supplies	(2,676,461)	316,647,610	1,827,147	50,589,246	9,687,616	(6,7)	376,075,158
Malpractice and other insurance	56,474,804	50,214,616	513,817	9,914,401	(56,418,888)	(6)	60,698,750
Administrative and general	202,201,735	720,894,260	50,342,158	101,260,313	(583,022,130)	(6,7)	491,676,336
Depreciation and amortization	36,015,484	104,223,753	6,517,218	9,887,311	4,130,816	(7)	160,774,582
Interest	39,670,256	40,828,668	292,780	1,176,473	(33,539,856)	(6)	48,428,321
Total expenses	608,274,495	2,091,406,625	91,326,883	379,075,055	(658,983,053)		2,511,100,005
EQUITY IN AFFILIATES	(43,209,711)				43,209,711	(5)	0
(LOSS) INCOME FROM OPERATIONS	(43,209,711)	68,279,722	4,268,302	(106,602,499)	45,926,472		(31,337,714)
OTHER INCOME (EXPENSE):							
Investment income:							
Interest on affiliate advances	1,074,481			181,626	(1,256,107)	(6)	0
Other investment income	285,640,585			9,404,369			295,044,954
Other income (loss)	818,632	667,486	51	14,219	(1,460,654)	(6,7)	39,734
Total other income (expense)	287,533,698	667,486	51	9,600,214	(2,716,761)		295,084,688
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) BEFORE INCOME TAX PROVISION AND NONCONTROLLING INTERESTS	244,323,987	68,947,208	4,268,353	(97,002,285)	43,209,711		263,746,974
INCOME TAX PROVISION				521,904			521,904
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) FROM CONSOLIDATED OPERATIONS	244,323,987	68,947,208	4,268,353	(97,524,189)	43,209,711		263,225,070
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS				(18,901,083)			(18,901,083)
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) ATTRIBUTABLE TO BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES	$244,323,987	$68,947,208	$4,268,353	($116,425,272)	$43,209,711		$244,323,987

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
SEPTEMBER 30, 2017

	Baptist Hospital of Miami, Inc.	Doctors Hospital, Inc.	Homestead Hospital, Inc.	Mariners Hospital, Inc.	Fishermen's Health, Inc.	South Miami Hospital, Inc.	West Kendall Baptist Hospital, Inc.	Combined
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	$48,600	$7,815	$4,310	$2,250	$1,350	$12,495	$4,800	$81,620
Assets whose use is limited						335,043		335,043
Accounts receivable - net	128,476,134	16,281,804	18,697,946	3,922,975	2,649,271	52,909,974	23,304,236	246,242,340
Other current assets	20,038,535	3,548,596	12,924,209	3,284,328	1,197,324	13,984,631	6,707,778	61,685,401
Total current assets	148,563,269	19,838,215	31,626,465	7,209,553	3,847,945	67,242,143	30,016,814	308,344,404
PROPERTY AND EQUIPMENT - NET	758,995,838	119,039,324	31,623,800	24,888,647	5,290,131	229,265,254	177,047,997	1,346,150,991
BENEFICIAL INTEREST IN NET ASSETS OF BAPTIST HEALTH SOUTH FLORIDA FOUNDATION, INC.	47,608,884	4,634,800	6,020,776	9,105,247	297,009	16,280,756	1,325,410	85,272,882
GOODWILL		22,547,681			3,916,651			26,464,332
OTHER ASSETS	112,978		1,944,559					2,057,537
TOTAL ASSETS	$955,280,969	$166,060,020	$71,215,600	$41,203,447	$13,351,736	$312,788,153	$208,390,221	$1,768,290,146
LIABILITIES AND NET ASSETS (DEFICIT)								
CURRENT LIABILITIES:								
Estimated third-party payor settlements	$1,646,832	$1,367,616	$594,426	$2,308,525		$516,201	$174,110	$6,607,710
Current maturities of long-term debt	4,158,028 (1)	2,357,105 (1)	2,433,435 (1)	228,513 (1)	(1)	2,976,686 (1)	2,231,418 (1)	14,385,185
Accrued wages, salaries and benefits	52,848,416	10,942,759	12,718,721	3,102,733	$612,402	27,409,023	11,562,755	119,196,809
Accrued expenses and other liabilities	97,495,672	19,872,445	32,569,553	6,559,498	1,744,134	45,248,729	15,817,692	219,307,723
Due to affiliates	57,582,433	2,307,763		441,383	16,546,481	8,096,864		84,974,924
Total current liabilities	213,731,381	36,847,688	48,316,135	12,640,652	18,903,017	84,247,503	29,785,975	444,472,351
LONG-TERM DEBT	444,382,859 (1)	110,596,568 (1)	114,158,989 (1)	10,720,110 (1)	(1)	139,655,474 (1)	104,696,660 (1)	924,210,660
OTHER LIABILITIES	54,240,584	12,755,606	22,885,481	2,587,860		21,925,046	10,684,913	125,079,490
NOTE PAYABLE - AFFILIATE	1,554,691							1,554,691
DUE TO AFFILIATES	231,404		309,649,345				116,865,477	426,746,226
Total liabilities	714,140,919	160,199,862	495,009,950	25,948,622	18,903,017	245,828,023	262,033,025	1,922,063,418
NET ASSETS (DEFICIT):								
Unrestricted	193,531,166	1,225,358	(429,815,126)	6,149,578	(5,848,290)	50,344,331	(54,968,214)	(239,381,197)
Temporarily restricted	45,289,943	4,634,800	6,020,776	7,378,666	297,009	8,274,626	1,325,410	73,221,230
Permanently restricted	2,318,941			1,726,581		8,341,173		12,386,695
Total net assets (deficit)	241,140,050	5,860,158	(423,794,350)	15,254,825	(5,551,281)	66,960,130	(53,642,804)	(153,773,272)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$955,280,969	$166,060,020	$71,215,600	$41,203,447	$13,351,736	$312,788,153	$208,390,221	$1,768,290,146

Note:

(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
YEAR ENDED SEPTEMBER 30, 2017

	Baptist Hospital of Miami, Inc.	Doctors Hospital, Inc.	Homestead Hospital, Inc.	Mariners Hospital, Inc.	Fishermen's Health, 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	$1,147,964,364	$195,790,965	$290,733,611	$74,522,686	$5,989,781	$547,905,613	$267,226,348		$2,530,133,368
Provision for doubtful accounts	143,620,816	20,744,221	93,445,134	12,936,137	3,211,114	63,209,296	56,913,747		394,080,465
Net patient service revenue	1,004,343,548	175,046,744	197,288,477	61,586,549	2,778,667	484,696,317	210,312,601		2,136,052,903
Other operating revenue	12,519,191	1,266,049	1,672,691	707,373	9,033	4,468,407	3,734,417	($743,717)	23,633,444
Total unrestricted revenues, gains and other support	1,016,862,739	176,312,793	198,961,168	62,293,922	2,787,700	489,164,724	214,047,018	(743,717)	2,159,686,347
EXPENSES:									
Wages, salaries and benefits	384,867,534	73,270,524	96,399,255	19,265,309	2,285,151	194,271,760	88,238,185		858,597,718
Supplies	169,146,620	27,282,356	20,138,438	5,232,891	801,634	71,450,718	22,594,953		316,647,610
Malpractice and other insurance	6,203,715	3,551,169	14,326,652	1,952,253	196,010	19,770,722	4,214,095		50,214,616
Administrative and general	313,180,222	60,338,143	82,753,130	20,031,546	5,266,700	168,452,258	71,615,978	(743,717)	720,894,260
Depreciation and amortization	51,612,381	10,946,201	4,078,673	2,529,404	92,116	24,161,192	10,803,786		104,223,753
Interest	18,828,864	5,324,482	5,707,022	536,028		5,280,644	5,151,628		40,828,668
Total expenses	943,839,336	180,712,875	223,403,170	49,547,431	8,641,611	483,387,294	202,618,625	(743,717)	2,091,406,625
INCOME (LOSS) FROM OPERATIONS	73,023,403	(4,400,082)	(24,442,002)	12,746,491	(5,853,911)	5,777,430	11,428,393	0	68,279,722
OTHER INCOME (EXPENSE)	155,207	(100,601)	399,989	246,932	5,621	917,323	(956,985)		667,486
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	$73,178,610	($4,500,683)	($24,042,013)	$12,993,423	($5,848,290)	$6,694,753	$10,471,408	$0	$68,947,208