Baptist Healthcare System, Inc. and Affiliates

Consolidated Financial Statements as of and for the Years Ended August 31, 2016 and 2015, and Independent Auditors' Report

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors, Audit Committee and Management
Baptist Healthcare System, Inc. and Affiliates
Louisville, Kentucky

We have audited the accompanying consolidated financial statements of Baptist Healthcare System, Inc. and Affiliates ("Baptist") which comprise the consolidated balance sheets as of August 31, 2016 and 2015, 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Baptist's preparation and fair presentation of the 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 Baptist'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 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 Baptist as of August 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

December 12, 2016

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF AUGUST 31, 2016 AND 2015
(In thousands)

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 110,645	$ 168,589
Investments	60,985	111,929
Assets limited as to use or restricted—required for current obligations	19,866	16,778
Patient accounts receivable—net of allowance for uncollectible accounts of $54,703 and $57,136 in 2016 and 2015, respectively.	349,127	271,049
Inventories	38,057	34,934
Prepaids and other	63,603	70,863
Total current assets	642,283	674,142
ASSETS LIMITED AS TO USE OR RESTRICTED:		
Designated by board for capital improvements	855,140	892,532
Designated by board for endowment	2,661	2,486
Held by trustee:		
Asset purchase agreement	30,475	-
Donor restricted	4,941	-
Under medical malpractice self-insurance	72,685	77,590
Under workers' compensation self-insurance	21,660	19,500
In perpetual trust	20,052	19,647
Total assets limited as to use or restricted	1,007,614	1,011,755
Less amount required to meet current obligations	19,866	16,778
Assets limited as to use or restricted—noncurrent portion	987,748	994,977
PROPERTY AND EQUIPMENT—Net	1,170,389	1,038,983
OTHER ASSETS	63,405	58,440
TOTAL ASSETS	$ 2,863,825	$ 2,766,542
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 117,985	$ 98,079
Accrued expenses	153,232	127,571
Accrued interest payable	941	919
Estimated third-party settlement payable	19,646	31,640
Current installments of long-term debt	63,983	13,124
Current portion for medical malpractice and workers' compensation	19,866	16,778
Other	56,658	68,771
Total current liabilities	432,311	356,882
LONG-TERM DEBT	573,143	585,497
OTHER LIABILITIES	166,113	133,058
Total liabilities	1,171,567	1,075,437
NET ASSETS:		
Unrestricted net assets attributable to Baptist	1,661,150	1,661,773
Unrestricted net assets attributable to noncontrolling interest	696	714
Total unrestricted net assets	1,661,846	1,662,487
Temporarily restricted	10,793	8,971
Permanently restricted	19,619	19,647
Total net assets	1,692,258	1,691,105
TOTAL LIABILITIES AND NET ASSETS	$ 2,863,825	$ 2,766,542

See notes to consolidated financial statements.

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015
(In thousands)

	2016	2015
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:		
Patient service revenue—net of contractual discounts and allowances	$ 2,170,060	$ 1,972,233
Less provision for uncollectible accounts	59,827	49,756
Net patient service revenue	2,110,233	1,922,477
Premium revenue	146,442	136,279
Other	73,015	76,091
Net assets released from restrictions used for operations	1,820	1,517
Total revenues, gains and other support	2,331,510	2,136,364
EXPENSES:		
Salaries and benefits	1,304,468	1,115,798
Supplies	446,936	415,593
Purchased services	192,969	159,568
Utilities	29,005	27,414
Administration and other	241,849	234,326
Depreciation and amortization	121,093	113,942
Provider tax	24,864	24,829
Interest	11,119	14,018
Total expenses	2,372,303	2,105,488
OPERATING INCOME (LOSS)	(40,793)	30,876
OTHER INCOME (LOSS):		
Net investment income (loss)	55,585	(5,861)
Other income	(2,685)	(2,789)
Total other income (loss)	52,900	(8,650)
EXCESS OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES BEFORE PROVISION (BENEFIT) FROM INCOME TAX	12,107	22,226
PROVISION (BENEFIT) FROM INCOME TAX	2,150	(1,371)
EXCESS OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES	9,957	23,597
EXCESS (DEFICIENCY) OF REVENUES AND EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(900)	679
EXCESS OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES ATTRIBUTABLE TO BAPTIST, NET OF NONCONTROLLING INTEREST	$ 9,057	$ 24,276

See notes to consolidated financial statements.

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015
(In thousands)

	2016	2015
UNRESTRICTED NET ASSETS ATTRIBUTABLE TO BAPTIST:		
Excess of revenues, gains and other support over expenses attributable to Baptist, net of noncontrolling interest	$ 9,057	$ 24,276
Net change in defined benefit pension related items	(2,228)	(520)
Net change in post-retirement benefit plan related items	(7,452)	(4,389)
(Decrease) increase in unrestricted net assets attributable to Baptist	(623)	19,367
UNRESTRICTED NET ASSETS ATTRIBUTABLE TO NONCONTROLLING INTEREST:		
Excess (deficiency) of revenues over expenses	900	(679)
Contributions from noncontrolling interest	119	984
Distributions to noncontrolling interest	(1,037)	(1,080)
Decrease in unrestricted net assets attributable to noncontrolling interest	(18)	(775)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(641)	18,592
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions, interest income and other	3,642	1,285
Net assets released from restrictions used for operations	(1,820)	(1,517)
Increase (decrease) in temporarily restricted net assets	1,822	(232)
PERMANENTLY RESTRICTED NET ASSETS—		
Change in beneficial interest in perpetual trust	(28)	(1,062)
Decrease in permanently restricted net assets	(28)	(1,062)
CHANGE IN NET ASSETS	1,153	17,298
NET ASSETS—Beginning of year	1,691,105	1,673,807
NET ASSETS—End of year	$1,692,258	$1,691,105

See notes to consolidated financial statements.

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015
(In thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,153	$ 17,298
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for uncollectible accounts	59,827	49,756
Depreciation and amortization	121,093	113,942
Net realized and unrealized gains on investments and assets limited as to use or restricted	(53,686)	12,508
Restricted contributions	(3,642)	-
Distributions from joint ventures	7,264	3,207
Undistributed equity in the net earnings of joint ventures	(4,451)	(2,966)
Loss on sale or disposition of property and equipment	1,504	1,607
Change in noncontrolling interest	918	96
Net change in defined benefit pension related items	2,228	520
Net change in post-retirement benefit plan related items	7,452	4,389
Change in net deferred tax asset	1,493	(4,128)
Change in beneficial interest in perpetual trust	405	1,062
Changes in:		
Patient accounts receivable—net	(137,905)	(22,625)
Inventories and prepaids and other	(9,902)	(8,785)
Other assets	(318)	3,321
Accounts payable, accrued expenses and accrued interest payable	20,394	13,454
Estimated third-party payer settlements	(11,994)	21,524
Other current liabilities	11,006	(2,239)
Other liabilities	10,609	5,526
Net cash provided by operating activities	23,448	207,467
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(3,185,823)	(3,507,344)
Proceeds from disposition of investments	3,278,543	3,570,885
Purchases of property and equipment	(208,719)	(230,200)
Proceeds from sale of property and equipment	90	411
Investment in other entities	(6,019)	(2,472)
Net cash used in investing activities	(121,928)	(168,720)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt and line of credit	68,683	-
Net costs of debt issuance	(130)	(1,363)
Principal payments on long-term debt	(30,312)	(12,551)
Capital lease and notes payable payments	(429)	-
Restricted contributions	3,642	-
Contributions from noncontrolling interest	119	984
Distributions to noncontrolling interest	(1,037)	(1,080)
Net cash provided by (used in) financing activities	40,536	(14,010)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(57,944)	24,737
CASH AND CASH EQUIVALENTS—Beginning of year	168,589	143,852
CASH AND CASH EQUIVALENTS—End of year	$ 110,645	$ 168,589
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid—net of capitalized amount of $7,930 in 2016 and $5,379 in 2015	$ 11,097	$ 13,891
Income taxes paid	$ 699	$ 276
Property and equipment acquired through capital lease and note payable	$ 18,375	$ -
Purchases of property and equipment in accounts payable	$ 38,478	$ 13,772

See notes to consolidated financial statements.

1. DESCRIPTION OF ORGANIZATION SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Baptist Healthcare System, Inc. and Affiliates (Baptist) is a nonprofit, tax-exempt organization that owns and operates seven hospitals in the Commonwealth of Kentucky, along with the entities described below.

Baptist Health Richmond, Inc. is a nonprofit, tax-exempt organization that was formed when Baptist acquired the net assets of Pattie A. Clay Infirmary Association and Pattie A. Clay Foundation (collectively, Pattie A. Clay renamed to Baptist Health Richmond).

Baptist Health Madisonville, Inc. is a nonprofit, tax-exempt organization that was formed when Baptist acquired the net assets of The Trover Foundation (d/b/a Trover Health System and its affiliates).

Baptist Community Health Services, Inc. (BCHS) is a nonprofit, tax-exempt affiliate that owns and operates rehabilitation centers, urgent care centers and occupational and physical therapy clinics within the regions surrounding the hospitals. BCHS also owns 55% of Baptist Physicians' Surgery Center, a for-profit limited liability corporation, and 81% of Baptist Eastpoint Surgery Center, LLC. Effective December 1, 2013, BCHS transferred its membership interest in Corbin Long Term Acute Care, LLC d/b/a Oak Tree Hospital at Baptist Regional Medical Center (Oak Tree) to CHC Community Care, LLC (CCC), a Delaware limited liability company and a subsidiary of Community Hospital Corporation, Inc. (CHC). Through the Membership Exchange Agreement, BCHS exchanged its sole membership interest in Oak Tree for a stated membership interest in CCC that entitles BCHS to a portion of the income derived from the long-term acute care hospital (Oak Tree). Additionally, Oak Tree entered into a lease agreement with Baptist Health Corbin for a term of five years to utilize 32 beds under Baptist Health Corbin's hospital license for the term of the lease.

Bluegrass Family Health, Inc. d/b/a Baptist Health Plan (BHP) is a nonprofit, taxable affiliate health maintenance organization.

Baptist Health Medical Group, Inc., Baptist Physicians Lexington, Inc., Baptist Physicians Southeast and Western Baptist Medical Ventures, Inc. are nonprofit, tax-exempt affiliates that own and operate physician practices. Effective January 1, 2015, the operations of Baptist Physicians Lexington, Inc., Baptist Physicians Southeast, and Western Baptist Medical Ventures, Inc. were merged into Baptist Health Medical Group, Inc.

Baptist Healthcare Foundation, Inc., Baptist Health Foundation of Greater Louisville, Inc., Baptist Health Foundation Corbin, Baptist Health Foundation Lexington, Inc., Baptist Health Foundation Madisonville, Inc. and Baptist Health Foundation, Richmond, Inc., Baptist Health Foundation Paducah, Inc. and Baptist Health Cardiac Research Foundation, Inc. are nonprofit, tax-exempt affiliate corporations.

Baptist Ventures, Inc. is a Kentucky for-profit corporation that manages, operates, maintains, leases or enters into joint ventures with hospitals, medical facilities or other entities that provide health care services.

PET/CT Management, LLC is a Kentucky limited liability company that leases positron emission tomography equipment and provides supplies and management services to Louisville to operate a freestanding PET/CT service. Baptist owns 85% of PET/CT Management, LLC. Subsequent to June 30, 2015, PET/CT Management, LLC was dissolved and the PET services moved to the Louisville hospital facility.

Baptist Health Employer Solutions, Inc. is a Kentucky nonprofit corporation that organizes, promotes and develops care delivery systems such as accountable care organizations which utilize evidence-based clinical care guidelines, integrate clinical care to improve community health, collaborate among health providers to improve service and care delivery, develop chronic disease management programs, participate in pay for performance programs and to perform such activities in a manner consistent with the overall charitable purpose of Baptist.

Purchase Health Quality Collaborative, LLC is a Kentucky limited liability company that supports hospital/physician clinical integration in the western region of Kentucky.

Baptist Healthcare Partners, LLC is a Kentucky limited liability company formed in 2015 whose sole member is Baptist Healthcare System, Inc. BHCP was formed to participate in the Centers for Medicare and Medicaid ("CMS") Medicare Shared Savings Program ("MSSP") as an Accountable Care Organization, and was approved by CMS for a three-year initial participation cycle in the MSSP beginning January 1, 2016.

All entities are located in the Commonwealth of Kentucky.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying consolidated financial statements represent the consolidated operations of Baptist, the affiliates in which it has sole ownership or membership, and the entities in which it has greater than 50% equity interest with commensurate control. All significant intercompany accounts and transactions are eliminated in consolidation.

Mission and Vision Statement—Baptist's mission is to demonstrate the love of Christ by providing and coordinating care and improving health in our communities. Baptist will lead the transformation to healthier communities. Baptist's faith-based values include: Integrity, Respect, Excellence, Collaboration, Compassion and Joy.

Reclassifications—Line items were reclassified into natural account classification on our consolidated statement of operations for the year ended August 31, 2015 to conform to the current year presentation.

Cash Equivalents—Baptist considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At August 31, 2016 and 2015, cash equivalents consisted primarily of money market accounts. Cash and cash equivalent balances may exceed limits insured by the FDIC from time to time.

Noncontrolling Interest—Noncontrolling interest represents the portion of the following entities: Baptist Physicians' Surgery Center, Baptist Eastpoint Surgery Center, LLC, and PET/CT Management, LLC, that Baptist does not own. Losses attributable to the noncontrolling interest are allocated to the noncontrolling interest even if the carrying amount of the noncontrolling interest is reduced below zero.

Investments and Investment Return—Investments in equity securities with readily determinable fair values and all debt securities are carried at fair value in the consolidated balance sheets. Investments in an equity investee are reported on the equity method of accounting.

Investment income or loss (including realized gains and losses on investments, dividends, interest and unrealized gains and losses on investments carried at fair value) is included in the excess of revenues, gains and other support over expenses unless donor or law restricts the income or loss.

Patient Accounts Receivable—Baptist reports patient accounts receivable for services rendered at net realizable amounts from third-party payers and patients. In evaluating the ability to collect accounts receivable, Baptist analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate provisions and allowances. Management regularly reviews data regarding these major payer sources of revenue in evaluating the sufficiency of the allowances.

Inventories—Inventories are stated at the lower of cost or market on a first-in, first-out basis. The cost of inventories is determined principally by the weighted average cost method.

Assets Limited as to Use or Restricted—Assets limited as to use or restricted are recorded at fair value and include: (1) assets set aside by the board for capital improvements over which the board retains control and may, at its discretion, subsequently use for other purposes, (2) assets set aside by the board for endowment over which the board retains control and may, at its discretion, subsequently use for other purposes, (3) assets held by trustee related to asset purchase agreement, (4) assets held by trustee for donor restricted funds, (5) assets held by trustee for the medical malpractice and workers' compensation self-insurance funding arrangements and (6) assets held by trustee in perpetual trust. Amounts required to meet current liabilities are reported as current assets in the consolidated balance sheets.

Baptist invests in various securities including money market funds, U.S. Government securities, corporate debt instruments, corporate stocks, mutual funds, commingled funds and derivative instruments. The unrealized gains and losses of these securities are recognized as a component of net investment loss in the consolidated statement of operations. 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 could occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets and consolidated statements of operations.

Property and Equipment—Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each class of depreciable asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Land improvements are depreciated over a range of 5 to 25 years. Buildings are depreciated over a range of 15 to 40 years. Equipment is depreciated over a range of 3 to 20 years. Useful lives are determined through consultation of the American Hospital Association's *Life of Depreciable Hospital Assets* and consideration of how Baptist intends to use the asset or has used similar assets in the past. Buildings and equipment under capital lease are amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Such amortization is included with depreciation and amortization in the consolidated financial statements.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets, unless the donor restricts use of the assets. Monetary gifts that must be used to acquire property and equipment are reported as donor-restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Baptist capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing for the project, net of interest earned on investments acquired with the proceeds of the borrowing or based on the weighted-average rates paid for long-term borrowing. Total interest capitalized and incurred was:

	2016	2015
Interest capitalized on borrowings for projects	$ 7,930	$ 5,379
Interest charged to expense	11,119	14,018
Total interest incurred	$ 19,049	$ 19,397

Long-Lived Asset Impairment—Baptist evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate of future cash flows is expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended August 31, 2016 and 2015.

Deferred Financing Costs—Deferred financing costs represent costs incurred in connection with the issuance of long-term debt and are amortized over the term of the respective debt using the effective-interest method. Unamortized deferred financing costs of $4,650 and $5,097 as of August 31, 2016 and 2015, respectively, are reported in the consolidated balance sheets in other assets.

Goodwill—Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized. At August 31, 2016 and 2015, goodwill of $20,772 and $16,195, respectively, is included in other assets in the consolidated balance sheets.

Goodwill is tested for impairment on an annual basis or when an event or change in circumstance indicates the value of a reporting unit may have changed. Testing is conducted at the reporting unit level. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Estimates of fair value are based on estimates of discounted future cash flows.

Temporarily Restricted Net Assets—Temporarily restricted net assets are those whose use by Baptist has been limited by donors to a specific time period or purpose. Investment income from restricted funds, which has been restricted by the donor, is included in temporarily restricted net assets when earned.

Permanently Restricted Net Assets—Permanently restricted net assets are those that have been restricted by donors to be maintained in perpetuity. Permanently restricted net assets represent Baptist's beneficial interest in perpetual trusts. The change in value of the beneficial interest in perpetual trust is included in permanently restricted net assets as change in beneficial interest in perpetual trust.

Charity Care—Baptist provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Baptist also provides discounts from established rates to all uninsured patients. Because Baptist does not pursue collection of charity or uninsured discounts, such amounts are not reported as revenue. The cost of charity care is estimated by applying the ratio of cost to gross charges to the uncompensated charges. Total unreimbursed costs of charity and discounts to the uninsured were approximately $32,939 and $28,543 for the years ended August 31, 2016 and 2015, respectively.

Net Patient Service Revenue—Baptist has agreements with third-party payers that may provide for payments at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers for services rendered and includes estimated retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods, as final settlements are determined.

Premium Revenue—Baptist, through BHP, enters into membership contracts with employer groups. The contracts contain varying terms subject to cancellation by the employer group or BHP upon 60 days' written notice. Premiums are due at the beginning of each month and are recognized as revenue during the period in which BHP is obligated to provide services to members.

Premiums billed and collected in advance are recorded as unearned premiums and are included in the consolidated balance sheets in other current liabilities.

Estimated medical claims incurred but not reported are included in the consolidated balance sheets in accrued expenses and claims expense of $144,305 and $124,611 for the years ended August 31, 2016 and 2015, respectively, is reported in administrative and other expense in the consolidated statements of operations.

Provider Tax—Since July 1993, Kentucky has imposed various taxes on health care providers to help fund the state of Kentucky's portion of the Medicaid program. The law imposes a tax of 2.5% on the gross receipts of hospitals and 2% on nursing facility services, intermediate care facility services, services for the mentally handicapped, home health care services and health maintenance organization. Hospital provider taxes were capped in 2008 by Kentucky statute at the level paid in state fiscal year 2005-2006. Baptist recognized an expense for such provider taxes of approximately $24,864 and $24,829 in 2016 and 2015, respectively. No assurance can be given that the Kentucky General Assembly will not remove the cap on hospital provider taxes.

Contributions—Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined by using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Donor-restricted stipulations that limit the use of contributions are initially reported as temporarily or permanently restricted net 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 and reported in the consolidated statements of changes in net assets as net assets released from restriction.

Estimated Malpractice Costs—An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and is reported in the consolidated statements of operations as an administration and other expense. The liability for self-insured malpractice claims includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported and are reported in the consolidated balance sheets in other liabilities and current portion for malpractice and workers' compensation.

Income Taxes—Baptist nonprofit, tax exempt entities are recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). However, these entities are subject to federal income tax on income earned through unrelated business activities. In addition, the Baptist taxable and for-profit entities are subject to federal and state income taxes. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial and income tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either deductible or taxable when the assets and liabilities are recovered or settled.

Total deferred tax assets and liabilities as of August 31, 2016 and 2015, are as follows:

	2016	2015
Deferred tax assets	$ 8,506	$ 5,466
Deferred tax liabilities	(1,186)	(3,973)
	7,320	1,493
Valuation allowance	(7,320)	-
Net deferred tax asset	$ -	$ 1,493

Baptist's federal net operating losses carry forward was $5,807 and $4,218 at August 31, 2016 and 2015, respectively. A valuation allowance was recorded during 2016 related to certain assets that were not considered realizable in future periods. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment.

Baptist evaluates its uncertain tax positions on an annual basis. A tax benefit from an uncertain position may be recognized when it is more likely than not that the position will be sustained upon examination, include resolution of any related appeals or litigation processes, based on the technical merit of the position. Baptist has determined that it has no uncertain tax positions that are required to be recorded as of August 31, 2016. Tax years that are open include the years from 2012 to 2015.

Use of Estimates—Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include net patient service revenue, malpractice, workers' compensation, litigation matters, post-retirement benefits and medical service claims incurred but not yet reported.

The preparation of 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 and 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. Actual results could differ from those estimates.

Self-Insurance—Baptist is self-insured for certain costs related to employee health, medical malpractice and workers' compensation programs. Costs resulting from noninsured losses are charged to income when incurred. Baptist purchases insurance that limits its exposure for individual claims. See Note 11 for additional information related to medical malpractice and workers' compensation programs. At August 31, 2016 and 2015, Baptist had $11,681 and $8,550 in self-insured employee health reserves recorded in the consolidated balance sheets in accrued expenses.

Excess of Revenues, Gains and Other Support Over Expenses – The consolidated statements of operations includes excess of revenues, gains and other support over expenses before provision (benefit) from income tax. Changes in unrestricted net assets, which are excluded from excess of revenues, gains and other support over expenses, consistent with industry practice, include contributions of long-lived assets received or gifted (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), and net change in retirement plan-related items.

Adopted Accounting Pronouncements— In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740)—Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred income taxes by requiring deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. Baptist early adopted ASU 2015-17 in fiscal 2016, which resulted in a reclassification of $801 from other current assets to other noncurrent assets within the consolidated balance sheet as of August 31, 2015. There was no impact to the consolidated statements of operations, consolidated statements of changes in net assets, or consolidated statements of cash flows.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820)—Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share, which removes the requirement to categorize within the fair value hierarchy all investments which fair value is measured using the net asset value practical expedient. ASU 2015-07 is intended to eliminate diversity in practice resulting from the way in which investments measured at net asset value per share with future redemption dates are classified and ensures all investments categorized in the fair value hierarchy are classified using a consistent approach. Baptist adopted ASU 2015-07 during fiscal 2016, which resulted in a change in the presentation of certain investments in Notes 7 and 15. There was no impact to the consolidated balance sheets, consolidated statements of operations, consolidated statements of changes in net assets, or consolidated statements of cash flows

Forthcoming Accounting Pronouncements—In August 2016, FASB issued ASU No. 2016-15, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments," which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are intended to reduce diversity in practice. Baptist will adopt ASU No. 2016-15 in the reporting period beginning on September 1, 2019. Baptist is currently evaluating the impact this guidance may have on its consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12, "Revenue From Contracts with Customers: Narrow-Scope Improvements and Practical Expedients," which amends certain aspects of the FASB's revenue standard ASU 2014-09, "Revenue From Contracts with Customers". In March 2016, the FASB issued ASU No. 2016-08, "Revenue From Contracts With Customers: Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)." This guidance amends the principal versus agent implementation guidance and illustrations in the FASB's revenue standard, ASU No. 2014-09. In July 2015, the FASB issued ASU No. 2015-14, "Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date," which defers the effective date of the FASB's revenue standard, ASU 2014-09, by one year for all entities and permits early adoption on a limited basis. In May 2014, the FASB issued ASU No. 2014-09. This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. After the deferral of the effective date, this guidance is effective for Baptist beginning September 1, 2018. Baptist is currently evaluating the impact this guidance may have on its consolidated financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheets and disclosing key information about leasing arrangements. Baptist will adopt ASU 2016-02 in the reporting period beginning September 1, 2019. Baptist is currently evaluating the impact on the consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805)—Simplifying the Accounting for Measurement-Period Adjustments, which removes the requirement to retrospectively account for measurement-period adjustments. An acquirer will 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 also requires either separate presentation on the face of the income statement or disclosure in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. Baptist will adopt ASU 2015-16 in the reporting period beginning September 1, 2017. Baptist is currently evaluating the potential impact on the consolidated financial statements.

In May 2015, the FASB issued ASU 2015-09, Financial Services—Insurance (Topic 944)—Disclosures about Short-Duration Contracts, which requires additional disclosures for annual reporting periods related to the liability for unpaid claims and claim adjustment expenses in order to increase transparency of significant estimates made in measuring these liabilities. Baptist will adopt ASU 2015-09 in the reporting period beginning September 1, 2017. Baptist is currently evaluating the potential impact on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *"Simplifying the Presentation of Debt Issuance Costs."* This guidance requires debt issuance costs to be presented as a direct deduction from the related debt rather than as an asset. This guidance is effective for Baptist beginning September 1, 2016. Baptist expects that the adoption of this guidance will result in a reduction to total assets and total liabilities in the consolidated balance sheets of approximately $4,650 as of August 31, 2016.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for Baptist beginning September 1, 2019. Baptist is still evaluating the impact this guidance may have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14 "Presentation of Financial Statements for Not-for-Profit Entities." The amendments focus on improving reporting in areas unique to not-for-profit financial statements. Temporarily restricted and permanently restricted net assets are combined into a single category called "net assets with donor restrictions." Donor-restricted endowment funds that are underwater are reported in net assets with donor restrictions and require enhanced disclosures. Additional disclosures are required around liquidity of financial assets, internal transfers included in the operating subtotal, the nature of expenses, and cost allocation between program and support functions. Lastly, investment expenses netted with investment return are limited to external investment expenses and direct internal investment expenses. ASU 2016-14 will be effective for fiscal years beginning after December 15, 2017, with application applied retrospectively; early adoption is permitted. Management has not yet evaluated the impact of ASU 2016-14 on the consolidated financial statements.

3. PATIENT SERVICE REVENUE

Patient service revenues are derived from services provided to patients who are directly responsible for payment or are covered by various insurance programs including the Medicare and Medicaid programs. Baptist has agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to Baptist under these agreements includes prospectively determined rates per discharge and/or per day, discounts from established charges, fee schedules and other methods.

Baptist recognizes patient service revenue associated with services provided to patients who have third-party payer coverage based on contractual rates for the services rendered. These payment arrangements include:

Medicare—Substantially all inpatient and outpatient services are paid at prospectively determined rates. These rates vary according to the patient classification system that is based on clinical, diagnostic, acuity and other factors. Certain defined medical education costs are paid based on a cost reimbursement methodology. Baptist is also reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by Baptist and audits thereof by the Medicare administrative contractor.

Medicaid—Medicaid members are enrolled through a Managed Care Organization (MCO) or are covered by "traditional" Medicaid. Inpatient services are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for other services.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Other Third-Party Payers—Baptist has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to Baptist under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient Liability—Baptist recognizes patient deductible and co-payment revenue for patients who have third-party insurance. A provision for uncollectible accounts is recorded in the period of service based on its past experience, which indicates that some patients are unwilling or unable to pay the portion of their bill for which they are financially responsible.

Baptist recognizes patient service revenue associated with services provided to patients who do not have third-party payer coverage as follows:

Uninsured Patients—Baptist provides a significant discount from standard charges to all uninsured patients who receive medically necessary care. An uninsured discount provision is recorded in the period of service. The amount for which the patient is responsible is recognized as patient service revenue. A provision for uncollectible accounts is recorded in the period of service based on past experience for patients who are unwilling to pay the portion of their bill for which they are financially responsible.

Charity Care —Baptist offers financial assistance programs to patients who are unable to pay the portion of their bill for which they are financially responsible and records a provision for charity in the period of service based on a patient's ability to pay. Baptist provides services to all patients regardless of ability to pay. In accordance with Baptist's policy, a patient is classified as a charity patient based on income eligibility criteria as established by the Federal Poverty Guidelines. Charges for services to patients who meet the Baptist's guidelines for charity care are not reflected in the accompanying consolidated financial statements.

The following table indicates patient service revenue by payer, net of contractual allowances, uninsured discounts and charity (but before the provision from uncollectible accounts) for the year ended August 31:

	2016	2015
Patient service revenue:		
Medicare	$ 738,529	$ 696,149
Medicaid	332,594	290,573
Other third-party payers	1,003,007	920,427
Total third-party payers	2,074,130	1,907,149
Patient liability [a]	95,930	65,084
Patient service revenue	$ 2,170,060	$ 1,972,233

[a] Patient liability represents revenue due from both insured patients for co-payments, patient deductibles and other services for which the patient's insurance has deemed the responsibility of the patient and from uninsured patients after the uninsured discount and applicable financial assistance. Patient liability is reported in this table prior to the provision for uncollectible accounts.

The provision for uninsured discounts, charity care and uncollectible accounts were as follows for the years ended August 31, 2016 and 2015:

	2016	2015
Provision for:		
Uninsured discounts	$ 62,804	$ 48,590
Charity	8,036	13,298
Uncollectible accounts	59,827	49,756
Total	$ 130,667	$ 111,644

4. ELECTRONIC HEALTH RECORDS INCENTIVE PROGRAM

The Electronic Health Records Incentive Program (EHRIP), enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payments under both programs are contingent upon hospitals and physicians continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

Baptist recognizes EHRIP revenue under the grant method and the contingency method, depending on the specific circumstances at each entity regarding the likelihood of meeting the requirements necessary to demonstrate meaningful use. Under the grant method, Baptist recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. Under the contingency method, Baptist recognizes revenue when the hospital has received confirmation of meeting the meaningful use requirements.

Baptist met the requirements for both Medicare and Medicaid EHRIP payments and recorded revenue in 2016 and 2015 of approximately $2,113 and $7,082, respectively. EHRIP revenue is included in other revenue in the consolidated statements of operations.

5. FUNCTIONAL EXPENSES

Baptist provides general health care services to residents within its geographic locations. Approximately 84% of Baptist's expenses relate to health care services for the years ended August 31, 2016 and 2015, and 16% of Baptist's expenses relate to general and administrative expenses for the years ended August 31, 2016 and 2015. Functional expenses consist of the following for the years ended August 31, 2016 and 2015:

	2016	2015
Health care services	$ 1,981,152	$ 1,774,532
General and administrative	391,151	330,956
Total expenses	$ 2,372,303	$ 2,105,488

Amounts totaling approximately $380 million were reclassified to health care services from general and administrative expense in the table above for the year ended August 31, 2015, to conform to the current year presentation.

6. CONCENTRATION OF CREDIT RISK

Accounts Receivable—The portion of accounts receivable due from patients (patient liability portion) is reduced by various allowances.

For receivables associated with uninsured patients who are receiving medically necessary care, Baptist provides a significant discount from standard charges and records a provision and allowance for uninsured discounts.

For receivables associated with patients who qualify for a government or Baptist sponsored financial assistance charity program, which includes both the portion of accounts due from uninsured patients after the Baptist uninsured discount and the portion due from insured patients which the patients third-party insurance did not cover (deductible and co-payment balances), Baptist records a provision and allowance for charity care.

For receivables associated with patients who do not qualify for a government or Baptist sponsored financial assistance charity program, Baptist records a provision and allowance for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unwilling to pay the portion of their bill for which they are financially responsible. The difference between the total amount due from the patient and the amount actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Baptist’s total allowances for uninsured discounts, charity and uncollectible accounts was 55% and 68% of the total patient liability portion of accounts receivable at August 31, 2016 and 2015, respectively. The decrease in these allowances is primarily due to enhancements in our ability to track various services due to the implementation of new systems, which resulted in classification of a reduced portion of the receivable as patient liability.

The percentages of receivables from patients and third-party payers at August 31 were as follows:

	2016	**2015**
Net patient accounts receivable:		
Medicare	26.8 %	30.8 %
Medicaid	14.7	12.0
Other third-party payers	43.1	39.1
Total third-party payers	84.6	81.9
Patient liability [a]	15.4	18.1
Patient accounts receivable—net of allowance for uncollectible accounts	100.0 %	100.0 %

[a] Patient liability represents the portion due from both insured patients for co-payments, patient deductibles and other services for which the patient’s insurance has deemed the responsibility of the patient and from uninsured patients after the uninsured discount and applicable financial assistance.

7. INVESTMENTS, ASSETS LIMITED AS TO USE OR RESTRICTED AND INVESTMENT INCOME

Investments and assets limited as to use or restricted consists of the following as of August 31, 2016 and 2015:

Investments

	2016	2015
Mutual funds	24,482	32,630
U.S. Treasury and agency obligations	501	2,234
U.S. and foreign common and preferred stocks	4,660	1,684
U.S. and foreign corporate bonds	31,342	75,381
Total investments	$ 60,985	$ 111,929

Assets Limited as to Use or Restricted

	2016	2015
Designated by board for capital improvements	$ 855,140	$ 892,532
Designated by board for endowment [a]	2,661	2,486
Held by trustee:		
Asset purchase agreement	30,475	-
Donor restricted	4,941	-
Under medical malpractice self-insurance funding arrangement—mutual funds	72,685	77,590
Under workers' compensation self-insurance funding arrangement [b]	21,660	19,500
In perpetual trust	20,052	19,647
Total held by trustee	149,813	116,737
Total assets limited as to use or restricted	$ 1,007,614	$ 1,011,755

[a] Assets designated by board for endowment are invested in securities in the same proportion as assets designated by board for capital improvements.

[b] Assets under workers' compensation self-insurance funding arrangement are invested in securities in the same proportion as assets designated by board for capital improvements.

Investment Income

Total investment income (loss) for assets whose use is limited and investments are reflected in the consolidated statements of operations and are comprised of the following for the years ended August 31, 2016 and 2015:

	2016	2015
Excess of revenues, gains and other support over expenses:		
Other operating revenue:		
Interest and dividend income of BHP	$ 1,173	$ 2,105
Realized gains on sale of securities of BHP	9,560	5,138
Net investment income reported in other revenue	10,733	7,243
Income		
Interest and dividend income	16,422	17,827
Realized gains on sale of securities	12,322	17,195
Change in net unrealized gains (losses)	26,841	(40,883)
Net investment income (loss) reported in other income (losses)	55,585	(5,861)
Total investment income	$ 66,318	$ 1,382

Interest, dividend income and realized gains on sale of securities related to BHP operations are reported as other operating revenue based on the nature of their business as a health maintenance organization. Interest, dividend income and realized gains for the remainder of Baptist along with all unrealized gains are reported in other gains (losses) in the accompanying consolidated statements of operations.

Certain investments in debt and marketable equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at August 31, 2016 and 2015, was $185,453 and $318,713, respectively, which is approximately 17% and 32%, of the investment portfolio.

In the normal course of operations and within Baptist investment guidelines, Baptist's investment managers may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options, forward contracts and swaps. Gains or losses, and changes in the fair value of these investments, which were immaterial for the years ended August 31, 2016 and 2015, respectively, are included in total investment income (loss) within the consolidated statements of operations.

These instruments are used primarily to adjust the portfolio duration, restructure term structure exposure, change sector exposure, and arbitrage market inefficiencies. See the Fair Value of Assets and Liabilities note for a discussion of how fair value for derivatives is determined.

Collateral posted for derivative investments consists of cash and cash equivalents. Collateral as of August 31, 2016 and 2015 was $1,059 and $1,141, respectively, and is reported in assets whose use is limited.

Baptist offsets the fair value of certain derivative investment instruments when executed with the same counterparty under a master netting arrangement. Baptist invests in a variety of derivative investment instruments through an investment manager that has executed a master netting arrangement with the counterparties of each of its contracts whereby the financial instruments held by the same counterparty are legally offset as the instruments are settled.

At August 31, 2016 and 2015, the gross notional amount of derivative investments in an asset position was 191,481,000 and 1,312,254,373 and the gross notional amount of derivative investments in a liability position was 328,809,157 and 1,862,450,720, primarily composed of offsetting foreign currency forwards related to the Japanese YEN and Euros. The net notional and related fair value of positions offset within the consolidated balance sheets at August 31, 2016 and 2015 include the following:

2016	Notional	Asset	Liability
Foreign currency forwards	(14,928,157)	$ 28,507	$ 28,454
Credit swaps	(3,900,000)		56
Futures	(101,000,000)		
Other	(17,500,000)	8,701	8,691
Total	(137,328,157)	$ 37,208	$ 37,201

2015	Notional	Asset	Liability
Foreign currency forwards		$ 20,948	$ 21,127
Credit swaps	4,803,653		114
Futures	(194,400,000)		
Other	(360,600,000)	7,107	7,101
Total	(550,196,347)	$ 28,055	$ 28,342

Baptist also has certain futures contracts that are not subject to a master netting agreement and therefore are not presented net within the consolidated balance sheets. At August 31, 2016 and 2015, the gross notional amount of these futures in an asset position was 80,070,188 and 25,718,875 and the gross notional amount of these futures in a liability position was 64,382,285 and 101,520,831. The fair value of these positions was $0 as of August 31, 2016 and 2015 as these positions cash-settle on a daily basis.

At August 31, 2016 and 2015, Baptist had pending trade receivables of $9,755 and $23,649 reported in other current assets and pending trade payables of $28,152 and $52,728, respectively, reported in other current liabilities.

8. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Baptist is an income beneficiary of several perpetual trusts controlled by unrelated third-party trustees. The beneficial interests in the assets of these trusts are included in Baptist's consolidated financial statements as permanently restricted net assets. Trust income is distributed in accordance with the individual trust documents and is included in investment income. The fair value of asset of $20,052 and $19,647 is based on the fair value of the underlying perpetual trust assets at August 31, 2016 and 2015, respectively. Trust income distributed to Baptist for the year ended August 31, 2016 and 2015, was $1,167 and $652, respectively.

9. FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs.

There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Recurring Measurements—The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2016 and 2015.

Investments

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Mutual funds—equity	$ 24,482	$ -	$ -	$ 24,482
U.S. Treasury and agency obligations	-	501	-	501
U.S. and foreign common and preferred stock	4,660	-	-	4,660
U.S. and foreign corporate bonds	-	31,342	-	31,342
Investments	$ 29,142	$ 31,843	$ -	$ 60,985

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Mutual funds—equity	$ 32,630	$ -	$ -	$ 32,630
U.S. Treasury and agency obligations	-	2,234	-	2,234
U.S. and foreign common and preferred stock	1,684	-	-	1,684
U.S. and foreign corporate bonds	-	75,381	-	75,381
Investments	$ 34,314	$ 77,615	$ -	$ 111,929

Assets Limited as to Use or Restricted

2016	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 27,954	$ -	$ -	$ 27,954
Mutual funds:				
Balanced	48,850	-	-	48,850
Equity	93,242	-	-	93,242
Fixed income	38,728	-	-	38,728
U.S. Treasury and agency obligations	-	129,241	-	129,241
U.S. common and preferred stocks	185,593	-	-	185,593
Foreign common and preferred stock	12,160	-	-	12,160
U.S. corporate bonds	-	219,108	-	219,108
Foreign corporate bonds	-	78,211	-	78,211
Derivative investments—net	-	7	-	7
Perpetual trust	-	20,052	-	20,052
Assets limited as to use or restricted at fair value	406,527	446,619	-	853,146
Commingled fund at net asset value				154,468
Assets limited as to use or restricted				$ 1,007,614

2015	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 31,633	$ 1,240	$ -	$ 32,873
Mutual funds:				
Balanced	45,355	-	-	45,355
Equity	101,622	-	-	101,622
Fixed income	49,790	-	-	49,790
U.S. Treasury and agency obligations	-	102,481	-	102,481
U.S. common and preferred stocks	181,090	-	-	181,090
Foreign common and preferred stock	10,302	-	-	10,302
U.S. corporate bonds	-	223,286	-	223,286
Foreign corporate bonds	-	81,548	-	81,548
Derivative investments—net	-	(287)	-	(287)
Perpetual trust	-	19,647	-	19,647
Assets limited as to use or restricted at fair value	419,792	427,915	-	847,707
Commingled fund at net asset value				164,048
Assets limited as to use or restricted				$ 1,011,755

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended August 31, 2016 and 2015.

Cash Equivalents—The carrying amount approximates fair value.

Commingled Fund—The commingled fund is developed for investment by institutional investors only and therefore does not require registration with the Securities and Exchange Commission. The commingled fund is valued at net asset value of the underlying investments. The net asset value, as provided by the trustee, is used as a practical expedient to estimate fair value.

Exchange Traded/Mutual Funds—Exchange traded funds are valued at the closing price reported on the applicable exchange on which the fund is traded, or estimated using quoted market prices for similar securities. Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned.

Equity Securities—Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded.

Debt Securities—Debt securities are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. As these models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures, management has classified debt securities as Level 2 investments.

Derivative Investments—Derivative investments include derivative assets and derivative liabilities, whose fair value is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

Perpetual Trust—For beneficial interest in perpetual trust, fair value is based on the fair value of the underlying assets of the trust. Due to the nature of the valuation inputs the interest is classified within Level 2 of the hierarchy.

Where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the valuation hierarchy. Baptist does not hold Level 3 securities.

Fair Value of Other Financial Instruments—The following table presents estimated fair values of Baptist's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2016 and 2015:

		Fair Value Measurements Using		
2016	**Carrying Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial liabilities:				
Revenue bonds, Series 2009A	$ 148,250	$ -	$ 159,282	$ -
Revenue bonds, Series 2009B	284,435	-	284,435	-
Revenue bonds, Series 2011	140,000	-	154,738	-
Revenue bonds, Series 2015A	18,683	-	18,683	-
Revolving line of credit	50,000	-	50,000	-

		Fair Value Measurements Using		
2015	**Carrying Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial liabilities:				
Revenue bonds, Series 2009A	$ 159,365	$ -	$ 174,008	$ -
Revenue bonds, Series 2009B	284,435	-	284,435	-
Revenue bonds, Series 2010	19,197	-	19,197	-
Revenue bonds, Series 2011	140,000	-	150,456	-

Long-Term Debt—Fair value is estimated based on the borrowing rates currently available to Baptist for bank loans with similar terms and maturities

Carrying value approximates fair value for accounts receivable and accounts payable and all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

10. PROPERTY AND EQUIPMENT—NET

(In thousands)	**2016**	**2015**
Land and land improvements	$ 155,227	$ 148,528
Buildings and leasehold improvements	1,202,281	979,587
Equipment	1,189,033	1,195,874
Construction in progress	95,873	285,280
Total	2,642,414	2,609,269
Less accumulated depreciation	1,472,025	1,570,286
Property and equipment—net	$ 1,170,389	$ 1,038,983

The amounts in the table above were reclassified between categories of property and equipment as of August 31, 2015 to conform to the current year presentation.

Internal use software is included in equipment in the table above. Original cost and accumulated depreciation were $229,618 and $133,657 as of August 31, 2016 and $142,661 and $114,065 as of August 31, 2015.

As of August 31, 2016, Baptist has entered into non-cancellable contractual agreements for the purchase of equipment and the construction of hospital facilities for approximately $41,335.

11. COMMITMENTS AND CONTINGENCIES

Baptist is party to various legal matters arising in the ordinary course of business including patient-care related claims and litigation. Some of these allegations are in areas not covered by Baptist's self-insurance program or by commercial insurance. Based on the advice and assistance from professional and legal counsel, Baptist assesses the probable outcome of unresolved litigation and records an estimate of the ultimate expected loss. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term. Baptist believes that the resolution of such matters will not result in liability materially in excess of accounting accruals established with respect to such matters.

Baptist is self-insured with respect to medical malpractice risks and has established an irrevocable trust fund for the payment of medical malpractice claim settlements. Professional insurance consultants have been retained to assist Baptist in determining liability amounts to be recognized, as well as amounts to be deposited into the trust fund.

From September 1, 2014 through May 31, 2015, Baptist was self-insured for the first $6,000 per occurrence and not to exceed $24,000 for all Baptist hospitals. Effective, June 1, 2015, Baptist revised its self-insured limits to the first $4,000 per occurrence and not to exceed $16,000 in the aggregate for all Baptist hospitals. Baptist is self-insured for the first $1,000 up to $3,000 in the aggregate for the majority of its physician practices. Baptist participates in the American Excess Insurance Exchange (AEIX), Risk Retention Group, a Vermont-chartered "captive" insurance company organized as a reciprocal for coverage above the self-insurance limits. Baptist currently has an 8.22% ownership in AEIX, the value of which is reported using the equity method of accounting and which is not material to the accompanying consolidated financial statements.

As of June 1, 2014, Baptist Health Madisonville and Baptist Health Richmond were merged into the trust. Prior to June 1, 2014, Baptist Health Madisonville was self-insured for the first $1,500 per occurrence through January 1, 2008, and $2,000 per occurrence thereafter and not to exceed $14,000 in aggregate. Baptist Health Madisonville purchased commercial insurance coverage on a claims-made basis over the self-insurance limits and had established an irrevocable trust fund for the payment of medical malpractice claim settlements. Losses from asserted and unasserted claims were accrued based on estimates that incorporate past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Professional insurance consultants were retained to assist Baptist in determining liability amounts to be recognized, as well as amounts to be deposited into the trust fund.

Prior to June 1, 2014, Baptist Health Richmond was insured for medical malpractice claims through claims-made policies. This provided protection from liability in amounts not to exceed $1,000 per claim and $3,000 in the aggregate. In addition, Baptist Health Richmond had purchased a $10,000 umbrella policy. Liabilities for incurred but not reported losses at August 31, 2013, if any, will not have a material effect on the Baptist Health Richmond's financial position and its malpractice and general liability insurance was adequate to cover losses, if any.

The total current liability for medical malpractice claims reported and claims incurred but not reported was approximately \$14,900 and \$12,900 at August 31, 2016 and 2015 respectively. The total long-term liability for medical malpractice claims reported and claims incurred but not reported was approximately \$99,470 and \$85,090 at August 31, 2016 and 2015, respectively, and is included in other long-term liabilities in the consolidated balance sheets. Net malpractice expense recognized was approximately \$27,534 and \$22,333 for the years ended August 31, 2016 and 2015, respectively. Earnings on investments of the malpractice self-insurance trust funds amounted to approximately \$4,193 and \$1,982 for the years ended August 31, 2016 and 2015, respectively.

Baptist is self-insured with respect to workers' compensation risks and has established an irrevocable trust fund for the payment of workers' compensation claim settlements. Professional insurance consultants have been retained to assist Baptist in determining liability amounts to be recognized, as well as amounts to be deposited into the trust fund.

The total current liability for incurred and incurred but not reported workers' compensation claims and related costs of settlement was approximately \$4,700 and \$3,878 at August 31, 2016 and 2015, respectively. The total long-term liability for incurred and incurred but not reported workers' compensation claims and related costs of settlement was approximately \$15,320 and \$14,542 at August 31, 2016 and 2015, respectively, and is included in other long-term liabilities in the consolidated financial statements. Net workers' compensation expense recognized was approximately \$5,088 and \$5,048 for the years ended August 31, 2016 and 2015, respectively.

12. LONG-TERM DEBT

The bonds are collateralized by a pledge of revenues of the obligated group. The obligated group consists of Baptist Healthcare System, Inc., which encompasses five hospitals (Baptist Health Corbin, Baptist Health LaGrange, Baptist Health Lexington, Baptist Health Louisville, and Baptist Health Paducah) and corporate system services. The agreements also contain several covenants, the most significant of which places limitations on additional indebtedness.

(In thousands)	**2016**	**2015**
Revenue Bonds, Series 2009A [A]	$ 148,250	$ 159,365
Revenue Bonds, Series 2009B [B]	284,435	284,435
Revenue Bonds, Series 2010 [D]	-	19,197
Revenue Bonds, Series 2011 [C]	140,000	140,000
Revenue Bonds, Series 2015A [D]	18,683	-
Revolving line of credit [E]	50,000	-
Total debt	641,368	602,997
Less current installments of long-term debt	63,983	13,124
Less unamortized discount	4,242	4,376
Total long-term debt	$ 573,143	$ 585,497

[A] The Series 2009A Revenue Bonds were issued on February 19, 2009, to redeem the Series 1999A Bonds and to deposit $99,287 into the project fund used to reimburse Baptist for the costs of acquiring and constructing hospital facilities and equipment. Interest on the bonds is fixed and is payable semi-annually on each February 15 and August 15, commencing August 15, 2009. Interest rates range from 3.00% to 5.625%. Principal payments began August 2011 with a maturity date of August 2027.

[B] The Series 2009B Variable Rate Demand Hospital Revenue Bonds were issued on February 19, 2009. Principal payments begin August 2027 through August 2038.

Effective July 1, 2015, Baptist entered into bond purchase agreements with U.S. Bank (Series 2009 B-1 Bonds for $65,065), Bank of America Merrill Lynch (BAML) (2009 Series B-2 Bonds for $65,660) and BB&T (2009 Series B-3 and Series B-4 for $76,550 and $76,155, respectively) in order to replace its existing bank facilities with longer tenor facilities to reduce refinancing risk, lower spreads and remove daily/weekly put risk. The Series 2009 Bonds were converted from variable rate demand bonds to a variable rate Bank Mode (direct bank purchase). The initial term for each bank is 10 years and matures effective June 30, 2025. Interest cost for the Series 2009 B Bonds is based on a percentage of the London Interbank Offered Rate (LIBOR) and a fee expressed in basis points payable to each bank. Interest rates for the 2009B Bonds ranged from 0.90% to 1.03% at August 31, 2016 and from 0.70% to 1.03% during 2016.

[C] The Series 2011 Fixed Rate Hospital Revenue Bonds were issued on December 15, 2011, in the amount of $140,000 to pay or reimburse Baptist for the costs of certain hospital projects, including a portion of the costs of constructing and equipping a new seven-story, approximately 400,000 square foot medical structure connected to the existing hospital building at Baptist Health Lexington. Principal payments for the 2042 term bond in the amount of $63,060 will begin August 15, 2039, with a maturity date of August 15, 2042. The 2042 term bonds will bear an interest rate of 5.00%. Principal payments for 2046 term bond in the amount of $76,940 will begin August 15, 2043, with a maturity date of August 15, 2046. The 2046 bonds will bear an interest rate of 5.25%. Interest on the bonds is fixed and is payable semi-annually on each February 15 and August 15.

(D) The Series 2015A Bonds were directly purchased by U.S. Bank on December 15, 2015, in the amount of $18,683 to refinance the Series 2010 Variable Rate Demand Hospital Revenue Bonds issued by Baptist Health Madisonville, with a maturity date of August 15, 2024. Interest cost for the Series 2015A Bonds is based on a percentage of the London Interbank Offered Rate (LIBOR) and a fee expressed in basis points payable to U.S. Bank. The interest rate for the 2015A Bonds was 1.03% on August 31, 2016 and from 0.92% to 1.03% during 2016.

(E) In June 2016, the Baptist entered into a revolving credit agreement (RLOC) with US Bank. The revolving credit agreement consists of a $50,000 credit line with a termination date of June 7, 2017. Borrowings under the credit facility are at LIBOR plus a margin of 0.55%. Borrowings are subject to various covenants consistent with other master obligations. At August 31, 2016, $50,000 was outstanding under the revolving credit agreement.

The aggregate amount at August 31, 2016, of required funding for principal payments of long-term debt is as follows:

	Series 2009A	**Series 2009B**	**Series 2011**	**Series 2015A**	**RLOC**	**Total**
2017	$ 11,680	$ -	$ -	$ 2,303	$ 50,000	$ 63,983
2018	12,250	-	-	2,330	-	14,580
2019	12,815	-	-	2,345	-	15,160
2020	13,460	-	-	2,360	-	15,820
2021	14,210	-	-	2,380	-	16,590
Thereafter	83,835	284,435	140,000	6,965	-	515,235
Total	$ 148,250	$ 284,435	$ 140,000	$ 18,683	$ 50,000	$ 641,368

13. LEASES AND NOTE PAYABLE

Baptist has certain equipment that is leased under non-cancellable operating leases with terms greater than one year. Rental expense under operating leases was $18,451 and $14,555 for the year ended August 31, 2016 and 2015 respectively.

As of August 31, 2016, future minimum rental payments under non-cancellable leases are as follows:

Years Ending August 31,	**Amount**
2017	$ 10,897
2018	7,806
2019	4,936
2020	2,113
2021	776
Thereafter	828
Total	$ 27,356

Baptist leases certain facilities and equipment under capital leases. Minimum payments under capital leases for the next five years are as follows: $791 in 2017, $791 in 2018, $791 in 2019, $791 in 2020, $791 in 2021 and $3,428 thereafter. The capital lease obligation is included in other long-term liabilities (less current portion) in the consolidated balance sheets.

Baptist purchased its electronic health record system through an installment note payable. Minimum payments under the installment note payable are as follows: $3,900 in 2017, $3,900 in 2018, and $3,900 in 2019. The installment note payable is included in other long-term liabilities (less current portion) in the consolidated balance sheets.

14. EMPLOYEE BENEFIT PLANS

Baptist employees who meet eligibility requirements are covered by a Retirement Accumulation Plan (RAP), which includes a defined contribution plan funded entirely by Baptist and a 401(k) plan to which the employees of BHP are the only participants permitted to make 401(k) deferrals. The finance committee of the board of directors of Baptist controls and manages the operation of the RAP. Participants are immediately fully vested in participant contributions and related earnings and are fully vested in Baptist contributions after five years of service, or after reaching age 65, whichever occurs first. Contributions by Baptist to the RAP were approximately $17,266 and $14,596 for the years ended August 31, 2016 and 2015, respectively.

Baptist offers a Thrift 403(b) Plan to which employees may defer up to 10% of their earnings on a pre-tax basis. Baptist matches fifty cents on each dollar for the first 6% of the employees' contributions. Employees are immediately vested in their contributions and related earnings. Employee vesting in employer contributions is graduated with full vesting after five years.

On September 5, 2014, the defined contribution plan assets from Baptist Health Madisonville and Baptist Health Richmond were merged into the Baptist Thrift 403(b) Plan.

Prior to September 5, 2014, Baptist Health Madisonville provided a defined contribution plan covering substantially all employees. Under terms of the plan, Baptist Health Madisonville contributed 4.6% of eligible compensation up to $150 for eligible employees with two years of service. Prior to September 5, 2014, Baptist Health Richmond employees hired January 1, 2005, or later were eligible to participate in a defined contribution plan. Baptist Health Richmond matched a portion of the employees' basic voluntary contributions, as determined by the provisions of the plan.

Baptist provides an Executive Severance and Deferred Compensation Plan; a nonqualified plan designed to provide severance benefits for select management or highly compensated employees of Baptist and to provide deferred compensation for those adversely affected by the required compensation limits of qualified retirement plans or Section 403(b) plans. The total accrued liability was $846 and $709 at August 31, 2016 and 2015, respectively.

15. DEFINED BENEFIT PENSION PLAN

Baptist Health Richmond has a noncontributory defined benefit pension plan covering substantially all of its employees employed prior to 2005 (the "Plan"). Baptist Health Richmond's funding policy is to make the minimum annual contribution that is required by applicable regulations. Effective December 31, 2004, the defined benefit pension plan was frozen and does not allow any new participants. Effective December 31, 2007, Baptist Health Richmond resolved to freeze the accrued benefits of the defined benefit plan as part of its plan to restructure employee benefits of its employees. Baptist expects to contribute approximately $424 to the Plan in 2016.

Baptist Health Richmond uses an August 31 measurement date for the Plan. Information about the Plan's funded status follows:

Change in Accumulated Benefit Obligation

	2016	2015
Accumulated benefit obligation—beginning of year	$ 20,268	$ 20,054
Interest cost	876	814
Benefits paid	(799)	(738)
Actuarial loss	2,494	138
Accumulated benefit obligation—end of year	$ 22,839	$ 20,268

Changes in Plan Assets

	2016	2015
Fair value—beginning of year	$ 13,857	$ 13,508
Actual return on plan assets	979	399
Employer contributions	424	688
Benefits paid	(799)	(738)
Fair value—end of year	$ 14,461	$ 13,857

Pension Plan Obligations and Funded Status

	2016	2015
Benefit obligation	$ (22,839)	$ (20,268)
Fair value of plan assets	14,461	13,857
Funded status	$ (8,378)	$ (6,411)

Assets and Liabilities Recognized in the Consolidated Balance Sheets

	2016	2015
Other liabilities-noncurrent	$ 8,378	$ 6,411

Amounts Recognized as Components of Net Periodic Benefit Cost Consist of

	2016	2016
Interest cost	$ 876	$ 814
Expected return on plan assets	(713)	(780)
Net periodic benefit cost	$ 163	$ 34

There are no estimated net losses, prior service cost and transition obligation for the defined benefit pension plan to be amortized to net periodic benefit cost over the next fiscal year.

Significant Assumptions Include

	2016	2015
Weighted-average assumptions to determine benefit obligation:		
Discount rate	3.55 %	4.43 %
Assumptions to determine net cost:		
Discount rate	4.43 %	4.15 %
Expected return on plan assets	5.25	5.75

Pension Plan Assets—Valuation technologies maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy. There have been no changes in the methodologies used at August 31, 2016 and 2015.

Mutual Funds—Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the pension plan are deemed to be actively traded.

Insurance Immediate Participation Contract—The immediate participation guarantee contract is stated at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administrative expenses. New York Life matches similar groups of its contractual liabilities with assets to support those liabilities through segmentation of its general account, which is comprised of a variety of investments. Investment income earned by those segmented assets is then allocated directly to that segment. The immediate participation guarantee contract is comprised of two funds, the fixed dollar fund and the pension fund. The pension fund is subject to a minimum balance provision based upon the aggregate estimated present values of all pension benefits to which pensioners are entitled under the contract. Any amounts needed to maintain the minimum balance are transferred from the mutual fund portion of Plan assets. Interest is credited at the rate used to calculate the minimum balance as of the preceding December 31. Such rate is determined based on the rate of investment income earned by New York Life since the preceding December 31.

Transfers Between Levels—The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, transfers are reported at the beginning of the reporting period.

We evaluate the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. There were no transfers between levels for the years ended August 31, 2016 and 2015.

The following tables set forth by level, within the fair value hierarchy, the pension plan's assets at fair value as of August 31, 2016 and 2015:

2016 Asset Class	Total Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds (A)	$ 3,422	$ 3,422	$ -	$
Immediate participation guarantee contract at contract value	11,039			
Total assets	$ 14,461			

(A) 84% invested in common stock and 16% invested in fixed income.

2015 Asset Class	Total Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds (B)	$ 3,805	$ 3,805	$ -	$
Immediate participation guarantee contract at contract value	10,052			
Total assets	$ 13,857			

(B) 74% invested in common stock and 26% invested in fixed income.

The primary investment objective of the Plan is to maximize long-term investment returns recognizing the need to preserve capital, and provide retirement income to plan participants and beneficiaries. Assets are allocated within asset classes and across investment categories to enhance investment return and reduce risk. A long-term time horizon is used for evaluating investment performance.

The following benefit payments are expected to be paid as of August 31:

	Amount
2017	$ 1,019
2018	1,079
2019	1,127
2020	1,164
2021	1,188
2022–2026	6,420

16. POST-RETIREMENT BENEFIT PLAN

Baptist has a post-retirement benefit plan covering all employees who meet the eligibility requirements. The plan provides for a continuation of medical benefits until the retiree reaches the age of 65 and for death benefits that vary with retirement date and position.

The post-retirement medical benefits plan is contributory, with retiree contributions adjusted annually. Funding by Baptist is on a cash basis as benefits are paid. Baptist contributed approximately $2,433 and $1,853 for the years ended August 31, 2016 and 2015, respectively. Baptist expects to contribute approximately $2,360 to the plan in 2017.

Baptist uses an August 31 measurement date for the plan. Information about the Plan's funded status follows:

Change in Accumulated Benefit Obligation

	2016	2015
Accumulated benefit obligation—beginning of year	$ 26,058	$ 23,820
Changes recognized in operating income:		
Service cost	549	605
Interest cost	1,207	1,088
Amortization of prior service credit	(3,082)	(3,082)
Amortization of loss	1,125	1,091
Net periodic benefit cost	(201)	(298)
Employer contributions	(2,433)	(1,853)
Net plan expense	(2,634)	(2,151)
Changes recognized in unrestricted net assets:		
Amortization of prior service credit	3,082	3,082
Amortization of loss	(1,125)	(1,091)
Net loss arising during the period	5,495	2,398
Change in unrestricted net assets	7,452	4,389
Accumulated benefit obligation—end of year	$ 30,876	$ 26,058

Fair Value of Plan Assets and Funded Status

	2016	2015
Fair value—beginning of year	$ -	$ -
Employer contributions	2,433	1,853
Benefits paid—net	(2,433)	(1,853)
Fair value—end of year	$ -	$ -
Funded status at year-end	$ (30,876)	$ (26,058)

Liabilities Recognized in the Consolidated Balance Sheets

	2016	2015
Accrued expenses—current	$ 2,360	$ 1,871
Other liabilities—noncurrent	28,516	24,187
Total liabilities	$ 30,876	$ 26,058

Amounts Recognized in Unrestricted Net Assets

	2016	2015
Prior service credit	$ -	$ 3,082
Accumulated loss	(17,055)	(12,685)
Total	$ (17,055)	$ (9,603)

There is no estimated transition obligation or prior service credit to be amortized over the next fiscal year. The estimated accumulated loss that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $1,272.

Significant Assumptions Include

	2016	2015
Weighted-average discount rate to determine benefit obligation	3.63 %	4.41 %
Weighted-average assumptions used to determine benefit costs	4.41	4.16

For measurement purposes, a 6.6% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended August 31, 2016. The rate was assumed to decrease gradually to 4.5% by the year 2037 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement plan costs and benefit obligation. A one-percentage-point increase in assumed health care cost trend rates would have the following effects:

	2016	2015
Effect on total of service cost and interest cost	$ 47	$ 49
Effect on post-retirement benefit obligation	913	843

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement plan costs and benefit obligation. A one-percentage-point decrease in assumed health care cost trend rates would have the following effects:

	2016	2015
Effect on total of service cost and interest cost	$ (44)	$ (45)
Effect on post-retirement benefit obligation	(847)	(791)

As of August 31, 2016, the following future benefit payments are expected to be paid:

Years Ending August 31	Amount
2017	$ 2,360
2018	2,423
2019	2,102
2020	2,209
2021	2,188
2022–2026	8,006
Total	$ 19,288

17. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily Restricted

	2016	2015
Health care services:		
Capital purchases	$ 4,754	3,871
Indigent care	841	804
Health research and education	1,009	1,486
Other	4,189	2,810
Total	$ 10,793	$ 8,971

Permanently restricted net assets represent Baptist's interest in perpetual trusts.

18. SUBSEQUENT EVENTS

Effective, October 1, 2016, Baptist acquired the assets and liabilities of Floyd Memorial Hospital and Health Services for an aggregate purchase price of $162,300. After closing, the hospital was known as Baptist Health Floyd, in keeping with Baptist's tradition of linking the hospital name with its geographic location. The acquisition agreement includes capital investment commitments by Baptist in Baptist Health Floyd of $140,000 over the next seven years to expand services, invest in improved technologies and transition to Epic. The acquisition was funded through cash on the consolidated balance sheets and interim debt financing consisting of up to $150,000 through Bank of America. Interest cost for the interim debt financing is based on a percentage of the London Interbank Offered Rate (LIBOR) and a fee expressed in basis points. The estimated fair value of assets acquired and liabilities assumed were approximately $289 million and $126 million, respectively. No further information was available as of the date the consolidated financial statements were available to be issued

Subsequent events have been evaluated through December 12, 2016, the date the consolidated financial statements were available to be issued.

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