Baptist Healthcare System, Inc. and Affiliates

Consolidated Financial Statements as of and for the Years Ended August 31, 2017 and 2016, and Independent Auditors' Report

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

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Deloitte.

Deloitte & Touche LLP
220 West Main Street
Suite 2100
Louisville, KY 40202-2284
USA

Tel: +1 502 562 2000
Fax: +1 502 562 2073
www.deloitte.com

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, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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, 2017 and 2016, 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, 2017

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF AUGUST 31, 2017 AND 2016
(Amounts in thousands)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 207,876	$ 110,645
Investments	207,175	60,985
Assets limited as to use or restricted—required for current obligations	20,775	19,866
Patient accounts receivable—net of allowance for uncollectible accounts of $78,095 and $54,703 in 2017 and 2016, respectively.	380,643	349,127
Inventories	43,681	38,057
Estimated third-party settlement receivable`	10,572	-
Prepaids and other	69,215	63,603
Total current assets	939,937	642,283
ASSETS LIMITED AS TO USE OR RESTRICTED:		
Designated by board for capital improvements	819,340	855,140
Designated by board for endowment	2,897	2,661
Held by trustee:		
Asset purchase agreement	-	30,475
Bond indenture	16,482	-
Donor restricted	4,600	4,941
Under medical malpractice self-insurance	67,053	72,685
Under workers' compensation self-insurance	20,560	21,660
In perpetual trust	21,737	20,052
Total assets limited as to use or restricted	952,669	1,007,614
Less amount required to meet current obligations	20,775	19,866
Assets limited as to use or restricted—noncurrent portion	931,894	987,748
PROPERTY AND EQUIPMENT—Net	1,273,432	1,170,389
OTHER ASSETS	57,504	58,755
TOTAL ASSETS	$ 3,202,767	$ 2,859,175
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 101,387	$ 117,985
Accrued expenses	162,917	153,232
Accrued interest payable	2,748	941
Estimated third-party settlement payable	14,359	19,646
Current installments of long-term debt	21,795	63,983
Current portion for medical malpractice and workers' compensation	20,775	19,866
Other	50,019	56,658
Total current liabilities	374,000	432,311
LONG-TERM DEBT	965,943	568,493
OTHER LIABILITIES	164,727	166,113
Total liabilities	1,504,670	1,166,917
NET ASSETS:		
Unrestricted net assets attributable to Baptist	1,660,710	1,661,150
Unrestricted net assets attributable to noncontrolling interest	875	696
Total unrestricted net assets	1,661,585	1,661,846
Temporarily restricted	15,215	10,793
Permanently restricted	21,297	19,619
Total net assets	1,698,097	1,692,258
TOTAL LIABILITIES AND NET ASSETS	$ 3,202,767	$ 2,859,175

See notes to consolidated financial statements.

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016
(In thousands)

	2017	2016
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:		
Patient service revenue—net of contractual discounts and allowances	$ 2,551,753	$ 2,170,060
Less provision for uncollectible accounts	93,948	59,827
Net patient service revenue	2,457,805	2,110,233
Premium revenue	147,254	146,442
Other	80,053	73,015
Net assets released from restrictions used for operations	2,894	1,820
Total revenues, gains, and other support	2,688,006	2,331,510
EXPENSES:		
Salaries and benefits	1,502,587	1,304,468
Supplies	534,093	446,936
Purchased services	217,796	192,969
Utilities	34,155	29,005
Administration and other	248,600	241,849
Depreciation and amortization	154,343	121,093
Provider tax and assessment fees	39,346	24,864
Interest	26,299	11,119
Total expenses	2,757,219	2,372,303
OPERATING LOSS	(69,213)	(40,793)
OTHER INCOME (LOSS):		
Net investment income	70,919	55,585
Other loss	(4,805)	(2,685)
Total other income	66,114	52,900
EXCESS (DEFICIENCY) OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES BEFORE PROVISION FROM INCOME TAX	(3,099)	12,107
PROVISION FOR INCOME TAX	635	2,150
EXCESS (DEFICIENCY) OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	(3,734)	9,957
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(663)	(900)
EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES ATTRIBUTABLE TO BAPTIST—NET OF NONCONTROLLING INTEREST	$ (4,397)	$ 9,057

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, 2017 AND 2016
(In thousands)

	2017	2016
UNRESTRICTED NET ASSETS ATTRIBUTABLE TO BAPTIST:		
Excess (deficiency) of revenues, gains, and other support over expenses attributable to Baptist—net of noncontrolling interest	$ (4,397)	$ 9,057
Net change in defined benefit pension related items	566	(2,228)
Net change in post-retirement benefit plan related items	1,408	(7,452)
Net assets released from restrictions used for capital	1,983	-
Decrease in unrestricted net assets attributable to Baptist	(440)	(623)
UNRESTRICTED NET ASSETS ATTRIBUTABLE TO NONCONTROLLING INTEREST:		
Excess of revenues over expenses	663	900
Contributions from noncontrolling interest	635	119
Distributions to noncontrolling interest	(1,119)	(1,037)
Increase (decrease) in unrestricted net assets attributable to noncontrolling interest	179	(18)
DECREASE IN UNRESTRICTED NET ASSETS	(261)	(641)
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions, interest income, and other	9,299	3,642
Net assets released from restrictions used for capital	(1,983)	-
Net assets released from restrictions used for operations	(2,894)	(1,820)
Increase in temporarily restricted net assets	4,422	1,822
PERMANENTLY RESTRICTED NET ASSETS—Change in beneficial interest in perpetual trust	1,678	(28)
Increase (decrease) in permanently restricted net assets	1,678	(28)
CHANGE IN NET ASSETS	5,839	1,153
NET ASSETS—Beginning of year	1,692,258	1,691,105
NET ASSETS—End of year	$ 1,698,097	$ 1,692,258

See notes to consolidated financial statements.

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016
(In thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 5,839	$ 1,153
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for uncollectible accounts	93,948	59,827
Depreciation and amortization	154,343	121,093
Net realized and unrealized gains on investments and assets limited as to use or restricted	(62,439)	(53,686)
Restricted contributions	(9,299)	(3,642)
Distributions from joint ventures	6,943	7,264
Undistributed equity in the net earnings of joint ventures	(6,893)	(4,451)
Loss on sale or disposition of property and equipment	2,607	1,504
Impairment of goodwill	1,974	-
Change in noncontrolling interest	484	918
Net change in defined benefit pension related items	(566)	2,228
Net change in post-retirement benefit plan related items	(1,408)	7,452
Change in net deferred tax asset	-	1,493
Change in beneficial interest in perpetual trust	(1,678)	405
Changes in:		
Patient accounts receivable—net	(87,621)	(137,905)
Inventories and prepaids and other	(11,071)	(9,902)
Other assets	(63)	(318)
Accounts payable, accrued expenses, and accrued interest payable	(3,683)	20,394
Estimated third-party payer settlements	(11,249)	(11,994)
Other current liabilities	(6,158)	11,006
Other liabilities	5,479	10,609
Net cash provided by operating activities	69,489	23,448
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(5,380,615)	(3,185,823)
Proceeds from disposition of investments	5,395,665	3,278,543
Purchases of property and equipment	(127,853)	(208,719)
Proceeds from sale of property and equipment	296	90
Acquisition of Floyd Memorial Hospital & Health Services and other investments, net of cash acquired	(129,000)	(6,019)
Net cash used in investing activities	(241,507)	(121,928)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt and line of credit	532,345	68,683
Net costs of debt issuance	(3,230)	(130)
Principal payments on long-term debt	(264,203)	(30,312)
Capital lease and notes payable payments	(4,478)	(429)
Restricted contributions	9,299	3,642
Contributions from noncontrolling interest	635	119
Distributions to noncontrolling interest	(1,119)	(1,037)
Net cash provided by financing activities	269,249	40,536
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	97,231	(57,944)
CASH AND CASH EQUIVALENTS—Beginning of year	110,645	168,589
CASH AND CASH EQUIVALENTS—End of year	$ 207,876	$ 110,645
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid—net of capitalized amount of $423 in 2017 and $7,930 in 2016	$ 24,492	$ 11,097
Income taxes paid	$ 365	$ 699
Property and equipment acquired through capital lease and note payable	$ -	$ 18,375
Purchases of property and equipment in accounts payable	$ 7,415	$ 38,478

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 and one in the state of Indiana, along with the entities described below. Effective October 1, 2016, Baptist acquired Floyd Memorial Hospital and Health Services, now called Baptist Health Floyd. Further disclosure is provided in Note 3 to the consolidated financial statements related to the acquisition.

Baptist Community Health Services, Inc. (BCHS) is a nonprofit, tax-exempt affiliate. BCHS owns 55% of Baptist Physicians' Surgery Center, a for-profit limited liability corporation, and 84% of Baptist Eastpoint Surgery Center, LLC. BCHS has an ownership interest in CHC Community Care LLC, a Delaware for-profit limited liability company that is the sole member of two non-profit corporations and one limited liability company, each of which operates an accredited long-term acute care hospital located within a Baptist Health hospital: ContinueCare Hospital at Baptist Health Corbin; ContinueCare Hospital at Baptist Health Paducah; and ContinueCare Hospital at Baptist Health Madisonville.

Bluegrass Family Health, Inc. d/b/a Baptist Health Plan (BHP) is a nonprofit, taxable affiliate health maintenance organization. Effective July 1, 2017, the Board of Directors approved the wind down of BHP's operations. As a result, BHP has ceased the writing of any new policies for plan years after June 30, 2017, and has begun providing termination notices to groups in accordance with policy requirements.

Baptist Health Medical Group, Inc. (BHMG), was formed in 2006 to employ physicians and own and operate healthcare facilities such as physician offices, primary care centers, special health clinics, express care clinics, physical therapy, occupational medicine and urgent care centers in all Baptist Health markets and surrounding communities. BHS is the sole member of BHMG.

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.

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.

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.

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, 2017 and 2016, 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 Baptist Health Performance Training, 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 related to bond indenture, (5) assets held by trustee for donor restricted funds, (6) assets held by trustee for the medical malpractice and workers' compensation self-insurance funding arrangements and (7) 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:

	2017	2016
Interest capitalized on borrowings for projects	$ 423	$ 7,930
Interest charged to expense	26,299	11,119
Total interest incurred	$ 26,722	$ 19,049

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, 2017 and 2016.

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. Debt issue costs are presented as a direct reduction from the related debt in accordance with ASU 2015-03.

Goodwill—The following represents the amount of goodwill, including changes in carrying value for the years ending August 31, 2017 and 2016 included in other assets in the consolidated balance sheets:

	2017	2016
Balance—Beginning of year	$ 20,772	$ 16,195
Acquisitions of businesses	5,381	4,577
Impairment	(1,974)	-
Balance—End of year	$ 24,179	$ 20,772

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.

In connection with the decision to wind down the operations of BHP, Baptist evaluated the goodwill at the BHP reporting unit for impairment, which resulted in a fair value that was significantly below the carrying value. As a result, the Company recorded an impairment of $1,974, which represented a full impairment of the goodwill balance within that reporting unit. The impairment charge was recorded in other loss in the 2017 consolidated statement of operations.

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 $36,519 and $32,939 for the years ended August 31, 2017 and 2016, 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 $153,196 and $144,305 for the years ended August 31, 2017 and 2016, respectively, is reported in administrative and other expense in the consolidated statements of operations.

Provider Tax and Assessment Fees—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 $24,951 and $24,864 in 2017 and 2016, respectively. No assurance can be given that the Kentucky General Assembly will not remove the cap on hospital provider taxes.

During 2012, the state of Indiana enacted the Hospital Assessment Fee (HAF) program, which is designed to increase Medicaid payments to hospitals. The program was approved by the federal Centers for Medicare & Medicaid Services (CMS) through June 30, 2017 and subsequently extended through June 30, 2019. Under HAF, Indiana hospitals receive additional federal Medicaid funds for the state's health care system, administered by the Indiana Family and Social Services Administration. HAF includes both a payment to the hospitals from the state and an assessment against the hospitals, which is paid to the state in the same year. Baptist Health Floyd recognized payments totaling $11,496 and assessments of $14,395 during 2017. HAF payments to Baptist Health Floyd are included in net patient service revenue in the consolidated statement of operations and HAF assessments from Baptist Health Floyd are included in provider taxes and assessment fees in the consolidated statement of operations.

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, 2017 and 2016, are as follows:

	2017	2016
Deferred tax assets	$ 25,079	$ 8,506
Deferred tax liabilities	(965)	(1,186)
	24,114	7,320
Valuation allowance	(24,114)	(7,320)
Net deferred tax asset	$ -	$ -

Baptist's federal net operating losses carry forward was $18,434 and $5,807 at August 31, 2017 and 2016, respectively. A valuation allowance was recorded 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, 2017. Tax years that are open include the years from 2013 to 2016.

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 accounts receivable, 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, 2017 and 2016, Baptist had $13,528 and $11,681 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—On September 1, 2016, Baptist adopted Accounting Standards Update ("ASU") 2017-04, "Simplifying the Test for Goodwill Impairment," which simplifies the accounting for goodwill impairment by eliminating Step 2 from the goodwill impairment test. Although the adoption of this guidance resulted in a policy change for Baptist, it did not have a material impact on its consolidated financial statements.

Forthcoming Accounting Pronouncements—In August 2016, FASB issued ASU 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 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 2014-09. In July 2015, the FASB issued ASU 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 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. While the adoption of ASU 2014-09 will have a material effect on the amounts presented in certain categories in the consolidated statement of operations, Baptist is still evaluating the impact this guidance may have on its consolidated financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued 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 November 2016, the FASB issued ASU 2016-18, Restricted Cash, which adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows requiring restricted cash to be included with cash and cash equivalents in the statement of cash flows. This guidance is effective for Baptist beginning September 1, 2019. Baptist is still evaluating the impact this guidance may have on the consolidated statements of cash flows.

In January 2016, the FASB issued ASU 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 of this guidance on the 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 Baptist beginning September 1, 2018, with application applied retrospectively; early adoption is permitted. Baptist is currently evaluating the impact of this guidance on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "Premium Amortization on Purchased Callable Debt Securities," which shortens the amortization period for certain callable debt securities held at a premium to be amortized to the earliest call date. Under current GAAP, the premium is generally amortized to the maturity date. This guidance is effective for Baptist beginning September 1, 2020. Baptist is currently evaluating the impact of this guidance on the consolidated financial statements.

3. BAPTIST HEALTH FLOYD ACQUISITION

Effective October 1, 2016, Baptist Health acquired Floyd Memorial Hospital and Health Services, now called Baptist Health Floyd. The acquisition agreement includes capital investment commitments by Baptist in Baptist Health Floyd of $140,000,000 over approximately eight years to expand services, invest in improved technologies and transition to Epic.

This business combination was accounted for using the purchase method of accounting in accordance with ASC 958-805, Acquisition by a Not-for-Profit Entity. The following table shows the purchase price for Baptist Health Floyd:

Cash paid	$ 91,387
Loan from Floyd County	61,000
Total purchase price	$ 152,387

The following table shows the allocation of the purchase price for Baptist Health Floyd to the acquired identifiable assets and liabilities:

Cash and cash equivalents	$ 23,387
Current assets	51,316
Investments	20,977
Property and equipment	163,030
Other assets	7,697
Goodwill	5,381
Assets acquired	271,788
Current liabilities	(29,356)
Long-term debt	(90,045)
Total purchase price	$ 152,387

On an unaudited pro forma basis, if Baptist had owned Baptist Health Floyd at the beginning of the year ended August 31, 2017 (September 1, 2016), Baptist Health Floyd would have contributed approximately $347,943 of operating revenue and approximately $4,142 of excess of revenue over expenses to fiscal 2017. Certain adjustments to the pro forma amounts of the excess of revenues over expenses for fiscal 2017 were recorded for the effect of removing the loss on extinguishment of debt and pension curtailment for $11,990 and $15,883, respectively, associated with the completion of the transaction. On an unaudited pro forma basis, if Baptist had owned Baptist Health Floyd for all of the year ending August 31, 2016, Baptist Health Floyd would have contributed approximately $322,870 of operating revenue and approximately $5,962 of excess of revenue over expenses to fiscal year 2016. However, unaudited pro forma information is not necessarily indicative of the historical results that would have been obtained had the transaction actually occurred on those dates, or of future results.

The financial position of Baptist Health Floyd is included in the consolidated financial statements as of August 31, 2017, and the results of operations and cash flows are included for the period from October 1, 2016 to August 31, 2017. For the period October 1, 2016 through August 31, 2017, the operations of Baptist Health Floyd contributed $270,405 in operating revenue and $18,973 of excess of revenue over expenses to the consolidated results of operations.

No transaction expenses were recognized by Baptist in the accompanying consolidated financial statements.

4. 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. 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 medically necessary 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. Revenue 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:

	2017	2016
Patient service revenue:		
Medicare	$ 946,700	$ 738,529
Medicaid	336,831	332,594
Other third-party payers	1,135,531	1,003,007
Total third-party payers	2,419,062	2,074,130
Patient liability [(a)]	132,691	95,930
Patient service revenue	$ 2,551,753	$ 2,170,060

(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. Revenue from patient liability is reported in this table prior to the provision for uncollectible accounts.

5. FUNCTIONAL EXPENSES

Baptist provides general health care services to residents within its geographic locations. Approximately 85% and 84% of Baptist's expenses relate to health care services for the years ended August 31, 2017 and 2016, respectively, and 15% and 16% of Baptist's expenses relate to general and administrative expenses for the years ended August 31, 2017 and 2016, respectively. Functional expenses consist of the following for the years ended August 31, 2017 and 2016:

	2017	2016
Health care services	$ 2,343,934	$ 1,981,152
General and administrative	413,285	391,151
Total expenses	$ 2,757,219	$ 2,372,303

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% of the total patient liability portion of accounts receivable at both August 31, 2017 and 2016.

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

	2017	2016
Net patient accounts receivable:		
Medicare	26.6 %	26.8 %
Medicaid	12.0	14.7
Other third-party payers	45.1	43.1
Total third-party payers	83.7	84.6
Patient liability [a]	16.3	15.4
Patient accounts receivable—net of allowance for uncollectible accounts	100.0 %	100.0 %

[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, less an allowance for uncollectible amounts, 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, 2017 and 2016:

Investments

	2017	2016
Mutual funds	$ 17,129	$ 24,482
US Treasury and agency obligations	11,080	501
US and foreign common and preferred stocks	3,647	4,660
US and foreign corporate bonds	175,319	31,342
Total investments	$ 207,175	$ 60,985

Assets Limited as to Use or Restricted

	2017	2016
Designated by board for capital improvements	$ 819,340	$ 855,140
Designated by board for endowment [(a)]	2,897	2,661
Held by trustee or restricted:		
Under bond indenture agreements—certificate of deposit and other cash equivalents	16,482	-
Asset purchase agreement	-	30,475
Donor restricted	4,600	4,941
Under medical malpractice self-insurance funding arrangement—mutual funds	67,053	72,685
Under workers' compensation self-insurance funding arrangement [(b)]	20,560	21,660
In perpetual trust	21,737	20,052
Total held by trustee	130,432	149,813
Total assets limited as to use or restricted	$ 952,669	$ 1,007,614

[(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, 2017 and 2016:

	2017	2016
Other operating revenue:		
Interest and dividend income of BHP	$ 1,186	$ 1,173
Realized gains on sale of securities of BHP	1,577	9,560
Net investment income reported in other revenue	2,763	10,733
Other income:		
Interest and dividend income	15,518	16,422
Realized gains on sale of securities	43,717	12,322
Change in net unrealized gains	11,684	26,841
Net investment income reported in other income	70,919	55,585
Total investment income	$ 73,682	$ 66,318

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 income (loss) 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, 2017 and 2016, was $239,923 and $185,453, respectively, which is approximately 17%, of the investment portfolio for both years.

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, 2017 and 2016, 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, 2017 and 2016 was $1,849 and $1,059, 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, 2017 and 2016, the gross notional amount of derivative investments in an asset position was 598,386,132 and 191,481,000, respectively and the gross notional amount of derivative investments in a liability position was 369,029,830 and 328,809,157, respectively primarily composed of offsetting foreign currency forwards related to the Mexican PESO, Canadian dollar, Australian dollar, Japanese YEN and Euros. Futures and interest rate swaps are cash settled on a daily basis and, accordingly, have a $0 value for asset and liability positions for the periods presented. The net notional and related fair value of positions offset within the consolidated balance sheets at August 31, 2017 and 2016 include the following:

2017	**Notional**	**Asset**	**Liability**
Foreign currency forwards	$ (27,843,698)	$ 23,399	$ (23,162)
Credit swaps	2,100,000	-	(2)
Interest rate swaps	95,900,000	-	-
Futures	151,000,000	-	-
Mortgage forwards	8,200,000	16,924	(16,892)
Total	$ 229,356,302	$ 40,323	$ (40,056)

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)

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, 2017 and 2016, the gross notional amount of these futures in an asset position was 111,062,561 and 80,070,188 and the gross notional amount of these futures in a liability position was 78,600,000 and 64,382,285. The fair value of these positions was $1,750 and $0 as of August 31, 2017 and 2016, respectively. The majority of the positions cash-settle on a daily basis.

At August 31, 2017 and 2016, Baptist had pending trade receivables of $912 and $9,755 reported in other current assets and pending trade payables of $28,225 and $28,152, 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 $21,737 and $20,052 is based on the fair value of the underlying perpetual trust assets at August 31, 2017 and 2016, respectively. Trust income distributed to Baptist for the year ended August 31, 2017 and 2016, was $781 and $1,167, 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.

There were no significant transfers between Levels 1 and 2 during the years ended August 31, 2017 and 2016.

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, 2017 and 2016.

Investments

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Mutual funds—equity	$ 17,129	$ -	$ -	$ 17,129
U.S. Treasury and agency obligations	-	11,080	-	11,080
U.S. and foreign common and preferred stock	3,647	-	-	3,647
U.S. and foreign corporate bonds	-	175,319	-	175,319
Investments	$ 20,776	$ 186,399	$ -	$ 207,175

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

Assets Limited as to Use or Restricted

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 43,598	$ -	$ -	$ 43,598
Exchange Traded/Mutual funds:				
Balanced	34,394	-	-	34,394
Equity	70,407	-	-	70,407
Fixed income	12,636	-	-	12,636
U.S. Treasury and agency obligations	-	157,901	-	157,901
U.S. common and preferred stocks	151,917	-	-	151,917
Foreign common and preferred stock	8,178	-	-	8,178
U.S. corporate bonds	-	238,759	-	238,759
Foreign corporate bonds	-	68,804	-	68,804
Derivative investments—net	-	2,017	-	2,017
Perpetual trust	-	21,737	-	21,737
Assets limited as to use or restricted at fair value	$ 321,130	$ 489,218	$ -	810,348
Commingled fund at net asset value				142,321
Assets limited as to use or restricted				$ 952,669

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$ 27,954	$ -	$ -	$ 27,954
Exchange Traded/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

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, 2017 and 2016.

Cash Equivalents—The carrying amount is 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. Accordingly, exchange traded funds and mutual funds are classified as Level 1 investments.

Equity Securities—Equity securities are valued at the closing price reported on the applicable exchange on which the security is traded. Accordingly, equity securities are classified as Level 1 investments.

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. Accordingly, debt securities are classified 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. Accordingly, derivative investments are classified as Level 2 investments.

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, 2017 and 2016:

		Fair Value Measurements Using		
	Carrying Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2017				
Financial liabilities	$ 977,045	$ -	$ 1,025,730	$ -
2016				
Financial liabilities	641,368	$ -	667,138	$ -

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.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis—Assets and liabilities recognized or disclosed at fair value on a nonrecurring basis include items such as property, plant and equipment and goodwill. These assets are measured at fair value if determined to be impaired. Impairment of goodwill is included at Note 2, Summary of Significant Accounting Policies. Goodwill has been determined to be a Level 3 fair value measurement.

10. PROPERTY AND EQUIPMENT—NET

	2017	2016
Land and land improvements	$ 161,718	$ 155,227
Buildings and leasehold improvements	1,363,548	1,202,281
Equipment	1,204,416	1,189,033
Construction in progress	50,104	95,873
Total	2,779,786	2,642,414
Less accumulated depreciation	1,506,354	1,472,025
Property and equipment—net	$ 1,273,432	$ 1,170,389

Internal use software is included in equipment in the table above. Original cost and accumulated depreciation were $226,337 and $107,683 as of August 31, 2017 and $229,618 and $133,657 as of August 31, 2016.

As of August 31, 2017, Baptist entered into non-cancellable contractual agreements for the purchase of equipment and the construction of hospital facilities for approximately $24,174.

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.

Baptist's self-insured limits are $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 October 1, 2016, Baptist Health Floyd merged into the trust and became insured for tail occurrence based claims and all new claims-made based claims. Prior to October 1, 2016, Baptist Health Floyd was self-insured for the first $250 per occurrence and $750 in the aggregate through the Risk Retention Group under a claims-made policy. The Risk Retention Group policy was cancelled effective September 30, 2016.

Related to the Baptist Health Floyd operations, the Indiana Malpractice Act (Act) limits professional liability for claims prior to July 1, 1999, to a maximum recovery of $750 per occurrence ($3,000 annual aggregate), $100 of which would be paid through malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund (Fund). For claims on or after July 1, 1999 through June 30, 2017, the maximum recovery is $1,250 per occurrence ($7,500 annual aggregate), $250 of which would be paid through self-insurance coverage and the remainder by the Fund. From June 1, 2017 forward, the maximum recovery $1,650 per occurrence ($7,500 annual aggregate), $400 of which would be paid through self-insurance coverage and the remainder by the Fund.

The total current liability for medical malpractice claims reported and claims incurred but not reported was approximately $14,900 at August 31, 2017 and 2016. The total long-term liability for medical malpractice claims reported and claims incurred but not reported was approximately $106,922 and $99,470 at August 31, 2017 and 2016, respectively, and is included in other long-term liabilities in the consolidated balance sheets. Net malpractice expense recognized was approximately $19,290 and $27,534 for the years ended August 31, 2017 and 2016, respectively. Earnings on investments of the malpractice self-insurance trust funds amounted to approximately $1,795 and $4,193 for the years ended August 31, 2017 and 2016, 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 $5,875 and $4,700 at August 31, 2017 and 2016, respectively. The total long-term liability for incurred and incurred but not reported workers' compensation claims and related costs of settlement was approximately $13,060 and $15,320 at August 31, 2017 and 2016, respectively, and is included in other long-term liabilities in the consolidated financial statements. Net workers' compensation expense recognized was approximately $4,909 and $5,088 for the years ended August 31, 2017 and 2016, respectively.

12. LONG-TERM DEBT

The bonds are collateralized by a pledge of revenues of the obligated group. Prior to September 1, 2016, 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. On September 1, 2016 the obligated group was expanded to include the addition of BHMG, Baptist Health Richmond, Inc. and Baptist Health Madisonville, Inc. On October 1, 2016, the obligated group was expanded to include Baptist Health Floyd. The agreements also contain several covenants, the most significant of which places limitations on additional indebtedness.

	2017	2016
Revenue Bonds, Series 2009A (A)	$ 136,570	$ 148,250
Revenue Bonds Series 2009B (B)	284,435	284,435
Revenue Bonds, Series 2011 (C)	140,000	140,000
Revenue Bonds, Series 2015A (D)	16,380	18,683
Revenue Bonds, Series 2016A (E)	42,445	-
Floyd County Note, 2016 (F)	54,900	-
Revenue Bonds, Series 2017A (G)	84,410	-
Revenue Bonds, Series 2017B (H)	217,905	-
Revolving line of credit (I)	-	50,000
Total debt	977,045	641,368
Less current installments of long-term debt	(21,795)	(63,983)
Plus unamortized premium (less discount)	18,115	(4,242)
Less unamortized debt issuance costs	(7,422)	(4,650)
Total long-term debt	$ 965,943	$ 568,493

(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 $66,065), 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 $76,555 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 1.40% to 1.73% at August 31, 2017 and from .92% to 1.73% during 2017.

(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 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 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 1.73% on August 31, 2017 and from 1.05% to 1.73% during 2017.

(E) The Series 2016A Bonds were issued on September 30, 2016 in the amount of $43,365 primarily used for the reissuance and redesignation of the 2012 bonds (originally issued by Floyd Memorial). The 2016A bonds are subject to retirement in varying principal amounts through 2036. Interest cost for the Series 2016A Bonds is based on a percentage of LIBOR plus 1.39%. The interest rates for the 2016A Bonds ranged from 0.92% to 1.27% at August 31, 2017.

(F) The Floyd County Note was issued September 30, 2016 with a maturity date of January 1, 2026. Principal of $6,100 is due annually on January 1. Interest is set annually based on the 10 year US Treasury rate plus 50 basis points. Interest is paid annually each January. Interest rates for the Floyd County Note was 2.95% at August 31, 2017 and ranged from 2.10% to 2.95% during 2017. On or after January 1, 2019, Floyd County has the right to put the Floyd County Note at a price equal to the unpaid principal amount together with all accrued and unpaid interest and all other sums due under the Floyd County Note at any time after at least one year prior written notice to Baptist. The entire amount of the unpaid principal amount together with all accrued and unpaid interest and all other sums due under the Floyd County Note that remain unpaid shall be due on the later of the date specified in the notice or the date that is one year following the date the notice is received by Baptist.

(G) The Series 2017A Bonds were issued on May 31, 2017 in the amount of $84,410 primarily for the purpose of refinancing a portion of the original bridge loan of $146,600 used as part of the financing of the Baptist Health Floyd acquisition and to pay all or a portion of the costs of issuance. The bonds were issued with an original issue premium of $5,408 which is being amortized over the term of the related obligations. Interest on the bonds is fixed and is payable semi-annually on each February 15 and August 15, commencing August 15, 2017. Interest is fixed at 5%. Principal payments begin August 2047 with a maturity date of August 2051.

(H) The Series 2017B Bonds were issued on May 31, 2017 in the amount of $217,905 primarily for the purpose of paying and reimbursing the costs of construction, acquisition, installation, renovation and equipping health care and health related properties and facilities and to pay all or a portion of the costs of issuance. The bonds were issued with a net original issue premium of $17,022 which is being amortized over the term of the related obligations. Interest on the bonds is fixed and is payable semi annually on each February 15 and August 15, commencing August 15, 2017. Interest rates range from 3.75% to 5.00%. Principal payments begin August 2027 with a maturity date of August 2046.

(I) In June 2016, Baptist entered into a revolving credit agreement (RLOC) with US Bank. The revolving credit agreement consisted of a $50,000 credit line which was paid off on May 31, 2017. Borrowings under the credit facility were at LIBOR plus a margin of 0.55%. Borrowings were subject to various covenants consistent with other master obligations. The revolving line of credit terminated June 7, 2017.

The aggregate amount at August 31, 2017, of required funding for principal payments of long-term debt is as follows:

	Amount
2018	$ 21,795
2019	22,440
2020	23,135
2021	23,995
2022	24,840
Thereafter	860,840
Total	$ 977,045

13. LEASES AND INSTALLMENT 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 $26,369 and $18,451 for the year ended August 31, 2017 and 2016 respectively.

As of August 31, 2017, future minimum rental payments under non-cancellable operating leases are as follows:

	Amount
2018	$ 14,411
2019	9,457
2020	5,379
2021	3,135
2022	2,118
Thereafter	5,408
Total	$ 39,908

Baptist leases certain facilities and equipment under capital leases. Minimum payments under capital leases for the next five years are as follows: $791 in each of the years from 2018-2022 and $2,637 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 payable. Minimum payments under the installment payable are $3,900 in 2018 and 2019. The installment 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 $270 and $17,266 for the years ended August 31, 2017 and 2016, 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.

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 $491,430 to the Plan in 2017.

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

	2017	2016
Accumulated benefit obligation—beginning of year	$ 22,839	$ 20,268
Interest cost	791	876
Benefits paid	(823)	(799)
Actuarial (gain) loss	(358)	2,494
Accumulated benefit obligation—end of year	$ 22,449	$ 22,839

Changes in Plan Assets

	2017	2016
Fair value—beginning of year	$ 14,461	$ 13,857
Actual return on plan assets	880	979
Employer contributions	491	424
Benefits paid	(823)	(799)
Fair value—end of year	$ 15,009	$ 14,461

Pension Plan Obligations and Funded Status

	2017	2016
Benefit obligation	$ (22,449)	$ (22,839)
Fair value of plan assets	15,009	14,461
Funded status	$ (7,440)	$ (8,378)

Liabilities Recognized in the Consolidated Balance Sheets

	2017	2016
Other liabilities—noncurrent	$ 7,440	$ 8,378

Reconciliation of Amounts Recognized in Unrestricted Net Assets

	2017	2016
Net loss	$ (574)	$ (1,139)
Accumulated contributions in excess of net periodic benefit cost	(6,866)	(7,239)
Net amount recognized in unrestricted net assets	$ (7,440)	$ (8,378)

Amounts Recognized as Components of Net Periodic Benefit Cost Consist of

	2017	2016
Interest cost	$ 791	$ 876
Expected return on plan assets	(673)	(713)
Net periodic benefit cost	$ 118	$ 163

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

	2017	2016
Weighted-average assumptions to determine benefit obligation—Discount rate	3.73 %	3.55 %
Assumptions to determine net cost:		
Discount rate	3.55 %	4.43 %
Expected return on plan assets	4.75	5.25

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, 2017 and 2016.

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, 2017 and 2016.

The following tables set forth by level, within the fair value hierarchy, the pension plan's assets at fair value as of August 31, 2017 and 2016:

2017 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)	$ 2,834	$ 2,834	$ -	$ -
Immediate participation guarantee contract at contract value	12,175			
Total assets	$ 15,009			

87% invested in common stock and 13% invested in fixed income.

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			

84% invested in common stock and 16% 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 expected contribution for fiscal 2018 is $621.

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

	Amount
2018	$ 1,089
2019	1,146
2020	1,190
2021	1,216
2022	1,243
2023–2027	6,674

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 $2,627 and $2,433 for the years ended August 31, 2017 and 2016, respectively. Baptist expects to contribute approximately $2,564 to the plan in 2018.

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

Change in Accumulated Benefit Obligation

	2017	2016
Accumulated benefit obligation—beginning of year	$ 30,876	$ 26,058
Changes recognized in operating income:		
Service cost	660	549
Interest cost	1,138	1,207
Amortization of prior service credit	-	(3,082)
Amortization of loss	1,421	1,125
Net periodic benefit cost	3,219	(201)
Employer contributions	(2,627)	(2,433)
Net plan expense	592	(2,634)
Changes recognized in unrestricted net assets:		
Amortization of prior service credit	-	3,082
Amortization of loss	(1,421)	(1,125)
Net loss arising during the period	13	5,495
Change in unrestricted net assets	(1,408)	7,452
Accumulated benefit obligation—end of year	$ 30,060	$ 30,876

Fair Value of Plan Assets and Funded Status

	2017	2016
Fair value—beginning of year	$ -	$ -
Employer contributions	2,627	2,433
Benefits paid—net	(2,627)	(2,433)
Fair value—end of year	$ -	$ -
Funded status at year-end	$ (30,060)	$ (30,876)

Liabilities Recognized in the Consolidated Balance Sheets

	2017	2016
Accrued expenses—current	$ 2,564	$ 2,360
Other liabilities—noncurrent	27,496	28,516
Total liabilities	$ 30,060	$ 30,876

Amounts Recognized in Unrestricted Net Assets

	2017	2016
Accumulated loss	$ (15,647)	$ (17,055)

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 $1,151.

Significant Assumptions Include

	2017	2016
Weighted-average discount rate to determine benefit obligation	3.82 %	3.63 %
Weighted-average assumptions used to determine benefit costs	3.63	4.41

For measurement purposes, a 6.30% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended August 31, 2017. The rate was assumed to decrease gradually to 4.50% 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:

	2017	2016
Effect on total of service cost and interest cost	$ 35	$ 47
Effect on post-retirement benefit obligation	776	913

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:

	2017	2016
Effect on total of service cost and interest cost	$ (33)	$ (44)
Effect on post-retirement benefit obligation	(736)	(847)

As of August 31, 2017, the following future benefit payments are expected to be paid:

	Amount
2018	$ 2,564
2019	2,231
2020	2,368
2021	2,413
2022	2,121
2023–2027	7,718
Total	$ 19,415

17. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily Restricted

	2017	2016
Health care services:		
Capital purchases	$ 4,220	$ 4,754
Indigent care	840	841
Health research and education	1,073	1,009
Other	9,082	4,189
Total	$ 15,215	$ 10,793

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

18. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 12, 2017, the date the consolidated financial statements were available to be issued.

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