

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Baptist Health Care Corporation and Subsidiaries
Years Ended September 30, 2019 and 2018
With Report of Independent Auditors

Ernst & Young LLP



Baptist Health Care Corporation and Subsidiaries

Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2019 and 2018

Contents

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Supplementary Information	
Consolidating Balance Sheet Information – Baptist Health Care Corporation and Subsidiaries	58
Consolidating Statement of Operations and Changes in Net Assets Information – Baptist Health Care Corporation and Subsidiaries	60
Combining Balance Sheet Information – Combined Group Under Master Trust Indenture (Baptist Hospital, Inc. and Lakeview Center, Inc.)	63
Combining Statement of Operations and Changes in Net Assets Information – Combined Group Under Master Trust Indenture (Baptist Hospital, Inc. and Lakeview Center, Inc.).....	64



Ernst & Young LLP
Suite 2800
200 South Orange Avenue
Orlando, Florida 32801

Tel: +1 407 872 6600
ey.com

Report of Independent Auditors

The Board of Directors
Baptist Health Care Corporation

We have audited the accompanying consolidated financial statements of Baptist Health Care Corporation and Subsidiaries (the Company), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the entity’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 the entity’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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Baptist Health Care Corporation and Subsidiaries at September 30, 2019 and 2018, and the consolidated changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2014-09, “Revenue from Contracts with Customers”

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for recognizing revenue as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers,” effective October 1, 2018. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating and combining details on pages 58 through 65 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst + Young LLP

December 19, 2019

Baptist Health Care Corporation and Subsidiaries

Consolidated Balance Sheets (In Thousands)

	September 30	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 73,006	\$ 134,365
Short-term investments	203,653	166,948
Accounts receivable, less allowance for uncollectible accounts of \$75,256 in 2018	93,116	82,569
Contracts receivable	26,434	24,116
Current portion of investments limited as to use	8,386	1,337
Inventories	15,682	14,294
Prepaid expenses and other current assets	28,929	17,401
Assets held for sale	13,336	3,895
Total current assets	462,542	444,925
Investments limited as to use, less current portion	89,666	97,739
Net property, plant, and equipment	278,207	242,641
Other assets	16,035	19,555
Assets held for sale	-	1,065
Total assets	\$ 846,450	\$ 805,925
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 53,587	\$ 49,932
Accrued compensation and benefits	32,005	28,581
Accrued interest	1,510	1,487
Estimated third-party settlements	7,636	10,026
Current portion of long-term debt	11,310	10,871
Other current liabilities	74,203	72,034
Liabilities held for sale	11,472	1,946
Total current liabilities	191,723	174,877
Long-term debt, less current portion	203,330	213,700
Asset retirement obligations	2,400	2,579
Other long-term liabilities	80,609	61,528
Total liabilities	478,062	452,684
Net assets:		
Without donor restrictions:		
Controlling interest	355,275	339,395
Noncontrolling interests in subsidiaries	6,697	6,767
	361,972	346,162
With donor restrictions – controlling interest	6,416	7,079
Total net assets	368,388	353,241
Total liabilities and net assets	\$ 846,450	\$ 805,925

See accompanying notes.

Baptist Health Care Corporation and Subsidiaries

Consolidated Statements of Operations
and Changes in Net Assets
(In Thousands)

	Year Ended September 30	
	2019	2018
Revenues and other support without donor restrictions:		
Patient service revenue		\$ 638,948
Provision for bad debts		(92,212)
Net patient service revenue	\$ 584,753	546,736
Federal, state, and other awards	79,202	70,186
Vocational service contracts	198,453	181,989
Contract revenue	29,111	30,316
Other revenue	41,945	31,568
Net assets released from restrictions used for operations	7,017	1,275
Total revenues and other support without donor restrictions	940,481	862,070
Expenses:		
Salaries and benefits	462,024	434,979
Supplies	160,176	144,602
General, administrative, and other	127,121	108,799
Professional fees and purchased services	111,393	115,501
Contract medical costs	16,388	16,132
Depreciation and amortization	28,642	26,707
Interest	12,686	11,423
Total expenses	918,430	858,143
Income from operations before gain from weather related events	22,051	3,927
Gain from weather related events	–	2,644
Income from operations	22,051	6,571
Nonoperating gains (losses):		
Change in fair value of interest rate swap agreements	(143)	764
Net unrealized (losses) gains on trading securities	(2,166)	3,376
Investment income	12,317	7,215
Other, net	1,382	(3,535)
	11,390	7,820

Continued on next page

Baptist Health Care Corporation and Subsidiaries

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

	Year Ended September 30	
	2019	2018
Excess of revenues, other support, and gains over expenses and losses	\$ 33,441	\$ 14,391
Less excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	944	1,618
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interest	32,497	12,773
Net assets without donor restrictions:		
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interest	32,497	12,773
Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	944	1,618
Net unrealized gains on other-than-trading securities	36	164
Net assets released from restrictions for purchase of property, plant, and equipment	499	1,087
Pension adjustment	(13,673)	7,089
Other	(708)	(319)
Increase in net assets without donor restrictions before discontinued operations	19,595	22,412
Loss from discontinued operations	(3,785)	(3,551)
Increase in net assets without donor restrictions	15,810	18,861
Net assets with donor restrictions:		
Contributions	6,767	2,069
Net unrealized gains (losses) on other-than-trading securities	102	(128)
Net assets released from restrictions	(7,516)	(2,362)
Other	(16)	50
Decrease in net assets with donor restrictions	(663)	(371)
Increase in net assets	15,147	18,490
Net assets at beginning of year	353,241	334,751
Net assets at end of year	\$ 368,388	\$ 353,241

See accompanying notes.

Baptist Health Care Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended September 30	
	2019	2018
Operating activities		
Increase in net assets	\$ 15,147	\$ 18,490
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Restricted contributions received	(6,767)	(2,069)
Inherent contribution	(5,070)	-
Depreciation and amortization	28,642	26,707
Change in fair value of interest rate swap agreements	143	(764)
Net unrealized gains on other-than-trading securities	(138)	(36)
Net unrealized losses (gains) on trading securities	2,166	(3,376)
Pension adjustment	13,673	(7,089)
Provision for bad debts	-	92,212
Distributions to noncontrolling interests	2,067	2,908
Increase in other long-term liabilities	5,265	1,878
Net increase in components of working capital	(15,582)	(121,477)
Net cash provided by operating activities	<u>39,546</u>	<u>7,384</u>
Investing activities		
Purchase of investments	(89,700)	(69,383)
Proceeds from sale of investments	49,420	37,655
Decrease (increase) in other assets	3,520	(542)
Net cash acquired in acquisition	1,700	-
Capital expenditures	(60,753)	(24,678)
Net cash used in investing activities	<u>(95,813)</u>	<u>(56,948)</u>
Financing activities		
Proceeds from lines of credit	70,000	62,000
Payments on lines of credit	(70,000)	(36,833)
Repayments of long-term debt	(10,792)	(11,102)
Issuance of long-term debt	1,000	7,742
Distributions to noncontrolling interests	(2,067)	(2,908)
Restricted contributions received	6,767	2,069
Net cash provided by financing activities	<u>(5,092)</u>	<u>20,968</u>
Net decrease in cash and cash equivalents	(61,359)	(28,596)
Cash and cash equivalents, beginning of year	134,365	162,961
Cash and cash equivalents, end of year	<u>\$ 73,006</u>	<u>\$ 134,365</u>

See accompanying notes.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

September 30, 2019

1. Organization and Mission

Organization

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

- Baptist Hospital, Inc. (Baptist) – a tax-exempt organization that operates two acute care hospitals on campuses in downtown Pensacola and Gulf Breeze, Florida. Baptist provides inpatient, outpatient, and emergency care services for residents of northwest Florida and southeast Alabama. Wholly owned subsidiaries include Baptist Physician Associates, LLC; Baptist Medical Group, LLC; and Langhorne Cardiology Consultants, M.D.'s, P.A. (Cardiology Consultants), which provide hospitalist services on the Pensacola and Gulf Breeze campuses, and neonatal services on the Pensacola campus, primary care and subspecialty physician services, and cardiology services, respectively. Baptist owns 52.6% of the Andrews Institute Ambulatory Surgery Center (AIASC) and 60% of Lighthouse Health Plan, LLC (LHP) and consolidates AIASC and LHP in the accompanying consolidated financial statements.
- Baptist Health Ventures, Inc. (Ventures) – a taxable corporation that oversees the operations of various for-profit subsidiaries.
- Lakeview Center, Inc. (LCI) – a tax-exempt organization whose mission is to help people overcome life's challenges by providing behavioral health services, vocational services, and child protection services.
- Jay Hospital, Inc. (Jay) – a tax-exempt organization that operates an acute care hospital.
- Baptist Health Care Foundation (HCF) – a foundation with the primary purpose of raising funds to support the activities of the tax-exempt subsidiaries of BHCC.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Mission (continued)

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

Operating and Nonoperating Activities

BHCC's primary mission is to meet the health care needs in the region through an integrated network of affiliated organizations. BHCC's affiliated organizations are committed to providing a broad range of general and specialized health care services, including inpatient primary care, outpatient services, and other health care-related ventures. Activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in gains or losses unrelated to BHCC's primary mission are considered to be nonoperating. Nonoperating gains and losses include rents from medical office buildings, changes in the value of interest rate swap agreements, unrealized gains and losses on trading securities, income, and losses from investments in joint ventures, and earnings on investments.

Charity Care

Quality medical care is provided to all persons requiring immediate treatment regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of BHCC. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, BHCC utilizes the most recently published federal poverty income guidelines, but also includes certain cases in which incurred charges are significant when compared to income. These charges are not included in net patient service revenue.

BHCC estimates the direct and indirect costs of providing charity care by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients. The cost of providing charity care was \$21,346 and \$19,883 for the years ended September 30, 2019 and 2018, respectively.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. Cash deposits are federally insured in limited amounts.

Investments

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

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

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Accordingly, BHCC's share of the alternative investments' income or loss, both realized and unrealized, is recognized as investment income or loss, which is a component of excess of revenues, other support, and gains over expenses and losses.

Inventories

Inventories (primarily pharmaceutical and medical supplies) are stated at the lower of cost (average cost method) or net realizable value using the first-in, first-out method.

Investments Limited as to Use

Investments limited as to use include certain investments limited as to use under the terms of bond indenture agreements and designated assets set aside by the Board of Directors (the Board) or management for future capital improvements and to pay malpractice claims over which the Board or management retains control, and may at its discretion subsequently use for other purposes.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at historical cost or at fair market value at the date of donation. Major asset classifications and useful lives generally are in accordance with those recommended by the American Hospital Association. The straight-line method of computing depreciation is used for all depreciable assets. The straight-line method is also used for computing amortization expense for capital leased assets. Amortization expense of capital leased assets is included in depreciation and amortization expense and in accumulated depreciation and amortization.

Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by BHCC has been limited by donors to a specific time period or purpose. At September 30, 2019 and 2018, net assets with donor restrictions are available for indigent care and capital purchases. During 2019 and 2018, \$7,516 and \$2,362, respectively, in net assets were released from donor restriction by incurring expenditures or acquiring property, plant, and equipment satisfying the restricted purposes.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Excess of Revenues, Other Support, and Gains Over Expenses and Losses

The accompanying consolidated statements of operations and changes in net assets include excess of revenues, other support, and gains over expenses and losses. Changes in unrestricted net assets that are excluded from excess of revenues, other support, and gains over expenses and losses, consistent with industry practice, include unrealized gains and losses on other-than-trading securities, pension adjustments, and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue and Accounts Receivable

BHCC has agreements with third-party payors that provide for payments to BHCC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Provision for Bad Debts and Allowance for Uncollectible Accounts

The provision for bad debts is based upon management's assessment of historical and expected net collections, considering business and economic conditions, trends in health care coverage, and other collection indicators. Accounts receivable are written off after collection effort has been followed in accordance with BHCC's policies. Accounts written off as uncollectible are deducted from the allowance for uncollectible accounts and subsequent recoveries are added. Periodically, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible receivables.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Medicaid Managed Medical Assistance Contract Revenue

LCI is licensed as a prepaid limited health services organization pursuant to Chapter 636, *Florida Statutes*. Effective August 1, 2014, LCI was awarded contracts with the Medicaid Managed Medical Assistance Plan (the MMA Plan). LCI receives a per-member per-month rate to provide mental health and substance abuse services to approximately 108,500 and 105,700 Medicaid beneficiaries at September 30, 2019 and 2018, respectively. Amounts received are recognized as contract revenue during the period in which LCI is obligated to provide services to beneficiaries. Approximately \$29,111 and \$30,316 was recognized as revenue under the MMA Plan during the years ended September 30, 2019 and 2018, respectively.

Medicaid Prepaid Mental Health Plan Costs

LCI is directly responsible for providing mental health and substances abuse services to beneficiaries residing in Escambia and Santa Rosa counties, representing approximately 60% of the covered lives under the MMA Plan. LCI has entered into subcontracts with three comprehensive community mental health centers to provide mental health services to the MMA Plan beneficiaries residing in the service area. These subcontracts are on a full risk capitated basis. The mental health services covered under the MMA Plan are generally the same as those covered under the Medicaid fee-for-service program. Covered services include inpatient psychiatric care, outpatient care, substance abuse, and physician services. The majority of services for which LCI is directly responsible are provided within its own service delivery system; however, some services are contracted for on a fee-for-service basis with local area hospitals and providers. A provision has been made for services rendered but not reported to LCI as of September 30, 2019, and 2018.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to BHCC are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions. BHCC had no permanently restricted net assets at September 30, 2019 and 2018.

Income Taxes

The Parent, Baptist, Jay, HCF, and LCI are exempt from federal income taxes under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and are also exempt from state income taxes. For the years ended September 30, 2019 and 2018, unrelated business income activities conducted by BHCC and its tax-exempt affiliates did not generate a material amount of combined federal and state income tax.

Ventures and Cardiology Consultants are taxable corporations and file federal and state income tax returns. Ventures and Cardiology Consultants did not generate taxable income for the years ended September 30, 2019 and 2018. Accordingly, there is no provision for current federal or state income taxes for the years ended September 30, 2019 and 2018, in the accompanying consolidated statements of operations and changes in net assets.

At September 30, 2019 and 2018, Ventures and Cardiology Consultants had combined net deferred tax assets of approximately \$49,800 and \$41,600, respectively, tax effected at a rate of 25.3% for 2019 and 2018. Deferred tax assets are primarily composed of federal and state net operating loss carryforwards. At September 30, 2019 and 2018, Ventures and Cardiology Consultants had combined approximately \$177,900 and \$159,200, respectively, of federal net operating loss carryforwards and \$176,900 and \$158,200, respectively, of state net operating loss carryforwards. These net operating losses will expire between 2018 and 2039. A valuation allowance has been provided to offset the full amount of the deferred tax asset as of

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

September 30, 2019 and 2018, since management determined that it is more likely than not that the benefit of the deferred tax assets will not be realized in future years.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, prescribes the accounting for uncertainty in income tax positions recognized in the financial statements. ASC Topic 740 provides guidance for recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. There were no material uncertain tax positions as of September 30, 2019 and 2018.

As a result of the recent federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions will impact tax-exempt organizations, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions. The regulations necessary to implement the law have not yet been promulgated, and the ultimate outcome of these regulations and the impact to BHCC cannot be determined presently. BHCC will continue to review and assess the impact of the legislation to the financial statements, but do not expect that the impact will be material.

Debt Issue Costs

The costs incurred in connection with the issuance of long-term debt (Note 7) are being amortized over the term of the related indebtedness and are included in long-term debt.

Recent Accounting Pronouncements

In May 2019, the FASB issued Accounting Standards Update (ASU) No. 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958)* (ASU 2019-06). The amendments in ASU 2019-06 simplify the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets in a business combination. A not-for-profit that elects the guidance should amortize goodwill on a straight-line basis over ten years, or less than ten years if a shorter useful life is appropriate. Management adopted ASU No. 2019-06 in 2019, and subsequently recorded goodwill amortization of \$946 for the year ended September 30, 2019.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

In August 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans* (ASU 2018-14). The amendments in ASU 2018-14 modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020. Management is currently evaluating the impact of ASU 2018-14 on BHCC's consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities* (ASU 2018-08). The amendments in ASU 2018-08 clarify accounting guidance for contributions received and contributions made. The amendments will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal) transactions, and (2) determining whether a contribution is conditional. For contributions received, ASU 2018-08 is effective for annual periods beginning after June 15, 2018, and interim periods within those annual periods. Management adopted the guidance for contributions received on October 1, 2018. This adoption resulted in no material impact to BHCC's consolidated financial statements. For contributions made, ASU 2018-08 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Management is currently evaluating the impact of ASU 2018-08 on BHCC's consolidated financial statements.

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

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The amendments in ASU 2016-14 change the presentation of not-for-profit financial statements by requiring two classes of net assets on the statement of financial position rather than for the previously required three classes, and presenting the amount of the change in each of these two classes on the statement of activities. A not-for-profit that uses the direct method of cash flow reporting will no longer be required to

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

present or disclose the indirect method reconciliation, and not-for-profits will continue to have the option to utilize either the direct or indirect method for the statement of cash flows. Not-for-profits will no longer be required to disclose netted expenses when reporting investment returns, and will be required to provide certain enhanced disclosures. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. On October 1, 2018, this standard was adopted by BHCC on a retrospective basis. The prior period consolidated financial statements presented were adjusted to reflect these changes. The adoption of ASU 2016-14 resulted in no material impact to BHCC's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, which changes how entities will account for credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The new standard replaces today's 'incurred loss' model with an 'expected credit loss' model that requires consideration of a broader range of information to estimate expected credit losses over the lifetime of the asset. While the FASB has indicated their intent to delay the effective date of the standard by one year, currently the standard is effective for fiscal years beginning after December 15, 2020. In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments (ASU 2019-04)*, which updates, clarifies, and improves various aspects of ASU 2016-13. Management is currently evaluating the impact that adoption may have on BHCC's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (ASU 2016-02)*. The amendments in ASU 2016-02 require lessees to recognize the assets and liabilities arising from leases on their balance sheets, but recognize expenses on their income statements similar to current accounting requirements. The amendments also eliminate real estate-specific provisions for all entities. For lessors, the amendments modify classification criteria and the accounting for sales-type and direct financing leases. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, which affects narrow aspects of the guidance issued in ASU 2016-02. ASU 2018-11, *Targeted Improvements*, was issued and provides entities with an additional transition method to adopt the leases standard, and provides lessors with a practical expedient to not separate nonlease components from the associated lease. The FASB also issued ASU 2018-20, *Narrow-Scope Improvements for Lessors*, to address sales taxes and other similar

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

taxes collected from lessees, certain lessor costs, and recognition of variable payments for contracts with lease and nonlease components, and ASU 2019-01, *Codification Improvements*, to address fair value of assets of lessors, presentation of cash flows, and accounting changes. ASU 2016-02, 2018-10, 2018-11, 2018-20 and 2019-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Management is currently evaluating the impact of ASU 2016-02, 2018-10, 2018-11, and 2018-20 on BHCC's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The FASB codified ASU 2014-09 in the FASB Accounting Standards Codification (ASC) as topic 606 (ASC 606). The standard outlines a single comprehensive revenue recognition principles-based model that replaces most of the existing revenue recognition guidance, including industry-specific guidance. On October 1, 2018, BHCC adopted the new revenue recognition standard using a modified retrospective method of application to all contracts existing on October 1, 2018. The adoption of ASC 606 resulted in changes to the presentation for revenue related to uninsured or underinsured patients. Prior to the adoption of ASC 606, a significant portion of BHCC's provision for bad debts related to self-pay patients as well as co-pay and deductibles owed by patients with insurance. Under ASC 606, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to patient service revenue rather than as a provision for bad debts. For the year ended September 30, 2019, BHCC recorded \$93,501 of implicit price concessions as a direct reduction of patient service revenue that would have been recorded as provision for bad debts prior to adoption of ASC 606. At September 30, 2019, BHCC recorded \$90,884 as a direct reduction of patient accounts receivable that would have been reflected as allowance for uncollectible accounts prior to the adoption of ASC 606. The information in comparative periods has not been restated and continues to be reported under the accounting standards in effect for those periods. Other than changes in presentation, the adoption of ASC 606 did not have a material impact on the consolidated balance sheets or statement of operations and changes in net assets as of and for the year ended September 30, 2019. See Note 3 for expanded disclosures required by ASC 606.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Patient Service Revenue

BHCC's patient service revenues generally relate to contracts with patients in which the performance obligation is to provide health care services to the patient. Revenues are recorded during the period the obligation to provide health care services is satisfied. Performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. Performance obligations for outpatient services are generally satisfied over a period of less than one day. As all of BHCC's performance obligations relate to contracts with a duration of less than one year, BHCC elected to apply the optional exemption provided in ASC 606 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period, which are primarily related to inpatient acute care services at the end of the reporting period. The contractual relationships with patients, in most cases, also involve a third-party payor and the transaction prices for the services provided are dependent upon the terms provided by or negotiated with the third-party payors. The payment arrangements with third-party payers for services provided to patients typically specify payments at amounts less than BHCC standard charges. Management continually reviews the explicit price concessions estimation process to consider and incorporate updates to laws and regulations and the frequent changes in contractual terms resulting from contract negotiations and renewals.

BHCC patient service revenues are based upon the estimated amounts expected to be received from patients and third-party payors. Estimates of explicit price concessions are based upon the payment terms specified in the related third-party contracts. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have uninsured and contractual discounts applied. Estimated implicit price concessions on uninsured accounts are recorded based primarily on historical collection experience at the estimated collection amount.

BHCC elected to use the portfolio approach to assess collectability. This approach is used as BHCC has a large volume of similar contracts with similar classes of customers. The effect of applying the portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all contracts (which are at the patient level) by the particular payor or group of payors will result in the recognition of the same amount of patient service revenue as applying the analysis at the individual patient level. Patient service revenues from third-party payors are as follows:

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Patient Service Revenue (continued)

	Year Ended September 30	
	2019	2018
Medicare	\$ 180,926	\$ 172,147
Medicare managed care	69,615	54,243
Medicaid	31,263	28,620
Managed care and insurers	258,656	255,534
Other	44,293	36,192
	\$ 584,753	\$ 546,736

Laws and regulations governing government programs, including Medicare and Medicaid, are complex and subject to interpretation. BHCC is subject to retroactive revenue adjustments due to future audits, reviews and investigations. In addition, contracts BHCC has with commercial payors also provide for retroactive audit and review of claims. As a result, there is at least a reasonable possibility recorded estimates will change by a material amount. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined. Estimated settlements are adjusted in future periods as new information becomes available, or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments resulting from a change in the transaction price for estimated cost report settlements were not significant for the years ended September 30, 2019 or 2018.

Collection of outstanding receivables for Medicare, Medicaid, managed care payors, other third-party payors and patients is the primary source of cash for BHCC. Collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility deductibles and copayments remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients, and are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Patient Service Revenue (continued)

Estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections as a primary source of information in estimating the collectability of accounts receivable.

4. Other Factors Affecting Income From Operations

Weather Events

In August 2016, Baptist sustained property and equipment damage from heavy flooding affecting northwest Florida. BHCC carries both property damage (with a \$100 deductible per event) and business interruption insurance. Estimated losses related to this event recorded during the year ended September 30, 2016, totaled \$3,484, and through September 30, 2018, Baptist has received \$3,799 from insurers used for recovery of costs and business interruption. The business interruption claim was settled for \$1,933. Included in the accompanying consolidated statements of operations and changes in net assets is an estimated gain related to this event totaling \$2,644 for the year ended September 30, 2018.

Lighthouse Health Plan

In 2018, Lighthouse Health Plan, LLC (LHP) contracted with the Florida Agency for Health Care Administration to provide Medicaid Managed Care Program services for northwest Florida. Baptist is a 60% member of LHP, and consolidates LHP in the accompanying consolidated financial statements. LHP began servicing members in February 2019.

LHP is required by Florida Statutes to maintain at all times a minimum surplus in an amount that is the greater of \$1,500, 10% of its total liabilities, or 2% of total annualized premium revenue. The Florida Statutes require that LHP maintain an amount equal to its required minimum surplus in coin or currency of the United States on hand or on deposit in any solvent national or state bank, savings and loan association, or trust company or in eligible securities or obligations. LHP was in compliance with such surplus requirements at September 30, 2019.

LHP recognizes revenue monthly based upon a contract rate per member and the estimated assigned membership for that month. LHP adjusts its revenue for retroactive member additions, terminations and other changes when such adjustments are identified.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

4. Other Factors Affecting Income From Operations (continued)

Claims payable represents the amount of payments to be made on individual claims, which have been reported to LHP, as well as estimates of claims incurred that have not yet been reported and estimates for claim adjustment expenses as of September 30, 2019. Claims payable are estimated using various statistical methods that use historical, financial and operating data. Although considerable variability is inherent in such estimates, management believes that the liabilities for unpaid claims are reasonable. Adjustments to claims payable to reflect actual experience, if any, are reflected in the accompanying statement of operations and changes in net assets in the period in which such adjustments become known to management. Due to uncertainties inherent in the claims estimation process, it is at least reasonably possible that the claims paid in the near term could differ materially from the accrued amounts.

Medical benefits payable at September 30, 2019, consists of estimated incurred but not reported claims totaling \$4,197.

A reconciliation of the beginning and ending balances of medical benefits payable as of September 30, 2019, is as follows:

Beginning balance	\$	–
Medical benefits incurred related to:		
Current year		32,065
Prior years		–
Total		<u>32,065</u>
Medical benefits paid related to:		
Current year		(27,868)
Prior years		–
Total		<u>(27,868)</u>
Ending balance	\$	<u><u>4,197</u></u>

In addition to the claims included in the table above, LHP has incurred additional medical claims and payment of \$20,416 that are not included in the above table. LHP sub-capitates a portion of its claims to its noncontrolling member. These claims are included in premium revenue and medical claims expense for the year ended September 30, 2019.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Other Factors Affecting Income From Operations (continued)

During 2019, as part of its plan to focus on core operations, Baptist solicited and received offers to purchase LHP, and expects to sell LHP within its next fiscal year. The components of assets and liabilities held for sale in the accompanying consolidated balance sheets are as follows:

	September 30	
	2019	2018
Cash and cash equivalents	\$ 4,662	\$ 3,574
Prepaid expenses and other current assets	6,131	321
Investments limited as to use	2,483	–
Net property, plant, and equipment	60	–
Current assets held for sale	<u>\$ 13,336</u>	<u>\$ 3,895</u>
Investments limited as to use	\$ –	\$ 1,000
Net property, plant, and equipment	–	65
Noncurrent assets held for sale	<u>\$ –</u>	<u>\$ 1,065</u>

	September 30	
	2019	2018
Accounts payable	\$ 10,332	\$ 1,915
Accrued compensation and benefits	140	31
Long-term debt	1,000	–
Current liabilities held for sale	<u>\$ 11,472</u>	<u>\$ 1,946</u>

The operating losses of LHP were reclassified to discontinued operations in the accompanying consolidated statements of operations and changes in net assets and totaled \$3,785 and \$3,551 for the years ended September 30, 2019 and 2018, respectively. The components of revenues and expenses presented in discontinued operations in the accompanying consolidated statements of operations and changes in net assets are as follows:

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Other Factors Affecting Income From Operations (continued)

	September 30	
	2019	2018
Premium revenue	\$ 57,272	\$ —
Expenses		
Salaries and benefits	740	174
General, administrative, and other	116	2
Medical claims expense	52,481	—
Professional fees and purchased services	7,742	3,375
Depreciation and amortization	4	—
Investment income	26	—
Loss from discontinued operations	<u>\$ (3,785)</u>	<u>\$ (3,551)</u>

Included in the consolidated statements of cash flows is activity related to LHP as follows:

	September 30	
	2019	2018
Increase in prepaid expenses and other current assets	\$ (5,810)	\$ (321)
Increase in accounts payable and accrued expenses	8,526	1,946
Net cash provided by operating activities	<u>2,716</u>	<u>1,625</u>
Purchase of investments	(2,571)	(4,574)
Capital expenditures	5	(65)
Net cash used in investing activities	<u>(2,566)</u>	<u>(4,639)</u>
Issuance of long-term debt	1,000	—
Net cash provided by financing activities	<u>\$ 1,000</u>	<u>\$ —</u>

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

5. Cash and Investments

The composition of cash, cash equivalents, and investments is presented below:

	September 30	
	2019	2018
Cash and cash equivalents and short-term investments	\$ 75,347	\$ 136,701
U.S. corporate obligations	101,475	63,009
U.S. Treasury obligations	20,192	20,360
U.S. government agencies and sponsored entities	25,586	20,968
Collateralized debt obligations	4,894	5,447
Equity securities	85,753	107,044
Alternative investments	40,920	36,691
Other	20,544	10,169
	\$ 374,711	\$ 400,389

A summary of the limitations as to the use of investments limited as to use is as follows:

	September 30	
	2019	2018
Internally designated:		
For expansion	\$ 48,831	\$ 46,859
Malpractice trust funds	7,336	7,115
Other	28,262	31,671
Held by trustee under bond indenture agreements:		
Debt service reserve fund	13,623	13,431
	98,052	99,076
Less amount to pay current liabilities	8,386	1,337
	\$ 89,666	\$ 97,739

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Cash and Investments (continued)

Investment income (including unrealized gains and losses) from investments limited as to use, short-term investments, cash, and cash equivalents comprised the following:

	Year Ended September 30	
	2019	2018
Excess of revenues, other support, and gains over expenses and losses:		
Nonoperating gains (losses):		
Interest and dividend income	\$ 9,764	\$ 5,920
Realized gains (losses) on sales of securities	2,553	1,295
Net unrealized (losses) gains on trading securities	<u>(2,166)</u>	<u>3,376</u>
	<u>\$ 10,151</u>	<u>\$ 10,591</u>
Other changes in net assets without donor restrictions:		
Net unrealized gains on other-than-trading securities	<u>\$ 36</u>	<u>\$ 164</u>
Other changes in net assets with donor restrictions:		
Net unrealized gains (losses) on other-than-trading securities	<u>\$ 102</u>	<u>\$ (128)</u>

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

6. Property, Plant, and Equipment

BHCC had property, plant, and equipment, less allowances for depreciation and amortization, as follows:

	September 30	
	2019	2018
Land	\$ 58,069	\$ 22,765
Land improvements	15,325	14,950
Buildings	302,138	298,289
Equipment	322,567	307,498
	698,099	643,502
Accumulated for depreciation and amortization	(425,012)	(404,669)
	273,087	238,833
Construction-in-progress	5,120	3,808
	\$ 278,207	\$ 242,641

At September 30, 2019 and 2018, property, plant, and equipment included \$12,416 and \$12,093 in equipment under capital leases, net of \$5,299 and \$4,738 in accumulated amortization, respectively.

Depreciation expense for the years ended September 30, 2019 and 2018, was \$28,821 and \$26,674, respectively.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt

BHCC was obligated under long-term debt as follows:

	September 30	
	2019	2018
Health Facilities Revenue Bonds, Series 2009A, net of issue costs of \$33 and \$40 at September 30, 2019 and 2018, respectively, principal and interest payable in monthly amounts of \$115 through January 1, 2024, at a fixed interest rate of 3.25%	\$ 5,553	\$ 6,727
Health Facilities Revenue Bonds (Baptist Hospital, Inc.), Series 2010A, net of unamortized discount of \$508 and \$538, and unamortized issue costs of \$2,971 and \$3,143, at September 30, 2019 and 2018, respectively, with \$3,760 due August 15, 2020, at an interest rate of 5.13%; \$18,195 of term bonds at an interest rate of 5.5% due on August 15, 2024; \$36,440 of term bonds at an interest rate of 5.75% due on August 15, 2029; and \$73,075 of term bonds at an interest rate of 6.0% due on August 15, 2036, with interest payable semiannually	127,991	131,374
Promissory Note Payable, net of issue costs of \$29 and \$30 at September 30, 2019 and 2018, respectively, payable in varying amounts until February 1, 2040, at a fixed rate of 3.72%	17,511	18,255
Pensacola POB, Inc. Note Payable, payable monthly in varying amounts through March 1, 2020, at a variable rate of interest (3.65% at September 30, 2019)	8,926	9,394

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Long-Term Debt (continued)

	September 30	
	2019	2018
Andrews Institute Medical Park Note Payable, payable monthly in varying amounts until March 1, 2020, at a variable rate of interest (3.65% at September 30, 2019)	\$ 11,118	\$ 11,701
Andrews Institute Medical Park Note Payable, payable monthly in varying amounts until March 1, 2020, at a variable rate of interest (3.65% at September 30, 2019)	5,301	5,579
Infrastructure improvement construction loan, net of issue costs of \$11 and \$12 at September 30, 2019 and 2018, respectively, drawn over 24 months; interest payable monthly during draw period based on 30-day LIBOR plus 160 basis points (3.6% at September 30, 2019)	11,989	12,988
Electronic Health Record financing loan, payable over ten years, at a fixed rate of 2.56%	20,499	22,778
Capital lease obligations	1,305	1,768
Other long-term debt	4,447	4,007
	214,640	224,571
Less current portion	11,310	10,871
	\$ 203,330	\$ 213,700

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt (continued)

2009A Health Facilities Revenue Bonds

In December 2009, \$15,000 of Health Facilities Revenue Bonds, Series 2009A (the 2009A Bonds) were issued by the Escambia County Health Facilities Authority (the Authority) on behalf of Baptist at a fixed rate of 5.49%. The proceeds of the 2009A Bonds were used to extinguish previously issued bonds.

2010A Health Facilities Revenue Bonds

In February 2010, \$155,000 of Health Facilities Revenue Bonds, Series 2010A (the 2010A Bonds) were issued by the Authority on behalf of Baptist at fixed rates ranging from 3% to 6%. The proceeds of the 2010A Bonds were used to extinguish previously issued bonds, to pay or reimburse the cost of acquiring, constructing, and equipping certain capital projects, to pay related cost of issuance, and fund a debt service reserve and capitalized interest fund.

2010B Health Facilities Revenue Bonds

In February 2010, \$24,000 of Taxable Variable Rate Demand Bonds, Series 2010B (the 2010B Bonds) were issued by the Authority on behalf of Baptist. The proceeds of the 2010B Bonds were used to reimburse Baptist for previous expenditures and to pay related cost of issuance.

Promissory Note Payable

In December 2011, Baptist and Bank of America, N.A. (Bank of America) modified and replaced the 2010B Bonds with a promissory note payable in order to eliminate the Baptist's renewal risk related to a letter of credit and reimbursement agreement entered into between a remarketing agent and Baptist. In December 2016, Baptist modified the 2010B Bonds, converting from a variable interest rate to a fixed interest rate of 3.72%.

The 2009A Bonds and the 2010A Bonds (the Bonds) are limited obligations of the Authority, payable principally from the receipts of loan agreements between the Authority and Baptist. The Bonds are secured by a gross revenue pledge of Baptist (the Obligated Group) and a mortgage on the Gulf Breeze Hospital campus. Baptist and LCI comprise the Combined Group under a Master Trust Indenture. LCI, as a restricted affiliate under the Master Trust Indenture, agrees to

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Long-Term Debt (continued)

to be bound by its terms but is not directly liable for obligations issued under the Master Trust Indenture. The Master Trust Indenture requires certain covenants and reporting requirements to be met by the Combined Group. All covenants were complied with for the years ended September 30, 2019 and 2018, respectively.

Pensacola POB, Inc. Note Payable

In March 2010, Pensacola POB, Inc., a subsidiary of Ventures, entered into a note for \$13,423. The proceeds of the note were used to extinguish previously issued bonds. The note, modified in 2013 to extend the maturity date and decrease monthly debt service, is payable in varying amounts until March 2020 at a variable rate of interest, which is based on the bond rating of the Combined Group. The Obligated Group has provided a guaranty as security for the note that requires the Combined Group to meet certain financial covenants.

Andrews Institute Medical Park Notes Payable

In March 2010, Andrews Institute Medical Park (Andrews), a subsidiary of Ventures, entered into two notes for \$17,358 and \$7,971. The proceeds of the notes were used to extinguish previously issued debt. The notes, modified in 2013 to extend the maturity dates and decrease monthly debt service, are payable in varying amounts until March 2020 at a variable rate of interest, which is based on the bond rating of the Combined Group. The Obligated Group has provided a guaranty as security for the note that requires the Combined Group to meet certain financial covenants.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt (continued)

Construction Loan

During February 2014, Baptist entered into a \$15,000 loan with Bank of America. The proceeds, to be used for infrastructure improvements, were drawn over 24 months, with interest payable only during the draw period. The loan matures 15 years from closing, with interest payable based on the 30-day LIBOR plus 160 basis points.

Electronic Health Record Loan

In October 2016, Baptist entered into an agreement to borrow up to \$25,000 to finance the purchase and implementation of a new Electronic Health Record (Note 12). The debt was interest only until September 2017 at LIBOR plus 125 basis points and then converted to a fully amortizing note, payable over ten years, at a fixed interest rate of 2.56%.

Debt Maturities

Maturities of long-term debt (excluding capital leases) for the succeeding five years are as follows:

	<u>Amount</u>
Year ending September 30:	
2020	\$ 10,874
2021	10,609
2022	12,293
2023	10,973
2024	11,333
Thereafter	160,807

Capital Lease Obligations

BHCC has entered into capital leases for various pieces of equipment, payable in monthly installments ranging from 44 to 72 months, at varying interest rates from 1.6% to 6.0%.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Long-Term Debt (continued)

Future minimum payments under the capital leases are as follows:

	<u>Amount</u>
Year ending September 30:	
2020	\$ 483
2021	449
2022	316
2023	147
Thereafter	—
Total minimum capital lease payments	<u>1,395</u>
Less amount representing interest	<u>90</u>
Present value of minimum lease payments	1,305
Less current portion	<u>436</u>
	<u>\$ 869</u>

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

8. Line of Credit Arrangements

At September 30, 2019 and 2018, BHCC has available line of credit arrangements totaling \$49,000. These lines of credit bear interest at rates ranging from LIBOR plus 1.30% to LIBOR plus 3.15% (3.32% to 5.17% at September 30, 2019, and 3.40% to 3.81% at September 30, 2018). At September 30, 2019 and 2018, amounts outstanding under these line of credit arrangements were \$47,500 and are included in other current liabilities in the accompanying consolidated balance sheets.

9. Derivative Financial Instruments

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

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

The primary risk managed by using derivative financial instruments is interest rate risk. Interest rate swaps are entered into to manage interest rate risk associated with BHCC's variable-rate borrowings. Interest rate swap agreements between BHCC and third parties (counterparties) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and expose BHCC to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for BHCC's counterparties. The counterparties to these contracts are financial

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Derivative Financial Instruments (continued)

institutions that carry investment-grade credit ratings. The interest rate swap agreements contain collateral provisions applicable to both parties to mitigate credit risk. BHCC does not anticipate nonperformance by its counterparties. BHCC has not been requested to post collateral for any interest rate swap agreements in a negative position. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of BHCC derivative positions in the context of its blended cost of capital. At September 30, 2019 and 2018, the notional amount of BHCC's interest rate swap agreements was \$55,155.

Substantially all of BHCC's derivative instruments contain provisions that require the Combined Group to maintain an investment-grade credit rating. If the Combined Group's credit rating was to fall below investment grade, it would be in violation of such provisions, and the counterparties to the derivative instruments could request immediate payment on derivative instruments in net liability positions. The aggregate fair value of all derivative financial instruments with credit-related contingent features that are in a liability position at September 30, 2019 and 2018, is \$443 and \$300, respectively. If the credit-risk-related contingent features underlying these agreements had been triggered on September 30, 2019, BHCC could have been required to settle the agreements with the counterparties, requiring cash or other liquid assets of \$491.

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

Derivatives Not Designated as Hedging Instruments	Liability Derivatives		
	Balance Sheet Location	Fair Value	
		September 30	
		2019	2018
Interest rate swap agreements	Other long-term liabilities	<u>\$ 443</u>	<u>\$ 300</u>

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

9. Derivative Financial Instruments (continued)

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in Excess of Revenues, Other Support, and Gains over Expenses and Losses	Amount of Gain (Loss) on Derivatives Recognized in Excess of Revenues, Other Support, and Gains Over Expenses and Losses	
		Year Ended September 30 2019	2018
Interest rate swap agreements	Change in fair value of interest rate swap agreements	\$ (143)	\$ 764
	Other nonoperating losses	(136)	(262)
		<u>\$ (279)</u>	<u>\$ 502</u>

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

10. Retirement Plans

The Parent sponsors a noncontributory, defined benefit pension plan that covers substantially all of BHCC's employees, other than the employees of LCI who participate in a separate plan. BHCC froze the plan effective February 28, 2007. The effect of the curtailment is that no new benefits will be accrued after February 28, 2007. All benefits earned by the defined benefit plan's participants through that date will be available upon retirement under the plan provisions. Future growth in benefits will no longer occur beyond February 28, 2007. BHCC's policy is to contribute annually the minimum amount necessary to comply with the requirements of the Employee Retirement Income Security Act of 1974. BHCC funds the required contributions to the plan.

The Parent also sponsors a supplemental employee retirement benefit plan (SERP) for certain executives. This plan is not funded.

ASC Topic 715, *Compensation – Retirement Benefits*, requires employers that sponsor defined benefit plans to recognize the funded status of their postretirement benefit plans in the balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end balance sheet, and provide additional disclosures.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Retirement Plans (continued)

The following tables set forth the benefit obligations and the assets of the defined benefit plan and SERP changes in the plan assets and benefit obligations recognized in unrestricted net assets, and the components of net periodic benefit costs:

	Year Ended September 30	
	2019	2018
Accumulated benefit obligation	\$ 143,624	\$ 127,264
Change in projected benefit obligation:		
Projected benefit obligation, as of prior measurement date	\$ 127,264	\$ 135,255
Interest cost	5,345	5,115
Benefit payments	(6,077)	(5,866)
Actuarial loss (gain)	17,092	(7,240)
Projected benefit obligation (carryforward)	143,624	127,264
Changes in plan assets at fair value (bring forward):		
Fair value of plan assets, as of prior measurement date	95,254	94,193
Actual return on plan assets	6,306	2,266
Employer contributions	2,957	4,661
Benefit payments	(6,077)	(5,866)
Fair value of plan assets	98,440	95,254
Deficiency of fair value of plan assets over projected benefit obligation included in other long-term liabilities	\$ (45,184)	\$ (32,010)

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Retirement Plans (continued)

No plan assets are expected to be returned to BHCC during the fiscal year ending September 30, 2020.

Included in net assets without donor restrictions at September 30, 2019 and 2018, were unrecognized actuarial losses of \$75,636 and \$61,963, respectively.

Changes in plans' assets and benefit obligations recognized in unrestricted net assets were as follows:

	Year Ended September 30	
	2019	2018
Net actuarial gain	\$ (15,511)	\$ 4,990
Amortization of:		
Net actuarial loss	1,838	2,099
Prior service cost	—	—
Total recognized in net assets without donor restrictions	<u>\$ (13,673)</u>	<u>\$ 7,089</u>

The components of net periodic pension expense were as follows:

	Year Ended September 30	
	2019	2018
Interest cost	\$ 5,345	\$ 5,115
Expected return on plan assets	(4,725)	(4,515)
Amortization of net actuarial loss	1,838	2,099
Net periodic pension expense	<u>\$ 2,458</u>	<u>\$ 2,699</u>

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Retirement Plans (continued)

The unrecognized actuarial loss and prior service cost included in net assets without donor restrictions and expected to be recognized in net periodic pension cost during the year ending September 30, 2019, is \$2,471.

The assumptions used to determine accrued pension costs and net periodic pension cost are set forth below:

	September 30	
	2019	2018
Used to determine projected benefit obligation		
Defined benefit pension plan:		
Weighted-average discount rate	3.24%	4.32%
Weighted-average rate of compensation increase	N/A	N/A
Weighted-average expected long-term rate of return on plan assets	4.30%	5.05%
Supplemental employee retirement benefit plan:		
Weighted-average discount rate	3.02%	4.22%
Weighted-average rate of compensation increase	N/A	N/A
Weighted-average expected long-term rate of return on plan assets	N/A	N/A
	Year Ended September 30	
	2019	2018
Used to determine benefit cost		
Defined benefit pension plan:		
Weighted-average discount rate	4.32%	3.89%
Weighted-average rate of compensation increase	N/A	N/A
Weighted-average expected long-term rate of return on plan assets	5.05%	4.90%
Supplemental employee retirement benefit plan:		
Weighted-average discount rate	4.22%	3.65%
Weighted-average rate of compensation increase	N/A	N/A
Weighted-average expected long-term rate of return on plan assets	N/A	N/A

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Retirement Plans (continued)

Asset Allocation

The weighted-average asset allocation for the defined benefit pension plan as of September 30, 2019 and 2018, and the target allocation for fiscal 2019, by asset category, is as follows:

Asset Category	Target Allocation Fiscal 2019	Percentage of Plan Assets	
		September 30 2019	2018
U.S. equities	19.0%	14.1%	15.2%
International equities	18.9	23.0	23.2
Fixed income	56.0	54.4	53.4
Real estate	6.1	6.1	6.2
Cash and cash equivalents	0.0	2.4	2.0
Total	100.0%	100.0%	100.0%

The Retirement Plan Committee has approved the investment of the defined benefit pension plan's asset in mutual funds that invest in the asset categories noted above.

Fair Value of Plan Assets

The defined benefit pension plan's assets, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 15, at September 30, 2019 and 2018, were as follows:

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,409	\$ —	\$ —	\$ 2,409
U.S. equities	2,132	—	—	2,132
International equities	16,297	1	—	16,298
Fixed income securities	6,104	22,143	—	28,247
Real estate	3,610	—	—	3,610
	<u>\$ 30,552</u>	<u>\$ 22,144</u>	<u>\$ —</u>	<u>\$ 52,696</u>

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

10. Retirement Plans (continued)

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,882	\$ —	\$ —	\$ 1,882
U.S. equities	2,358	—	—	2,358
International equities	16,028	—	—	16,028
Fixed income securities	—	19,549	—	19,549
Real estate	1,897	—	—	1,897
	<u>\$ 22,165</u>	<u>\$ 19,549</u>	<u>\$ —</u>	<u>\$ 41,714</u>

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of the securities included in Level 2 are based on pricing inputs that are either directly observable or that can be derived or supported from observable data as of the reporting date.

The following table represents a reconciliation of the plan's assets presented in the valuation hierarchy to the total plan assets:

	September 30	
	2019	2018
Cash and cash equivalents, and investments	\$ 52,696	\$ 41,714
Other investments at net asset value (NAV)	45,744	53,540
Total plan assets	<u>\$ 98,440</u>	<u>\$ 95,254</u>

The plan holds units of various Aon Hewitt Group Trust Funds (Trust Funds) offered through a private placement. The units are valued daily using the net asset value (NAV). The NAVs are based on the fair value of each fund's underlying investments. Level 1 assets are priced using quotes for trades occurring in active markets for the identical asset. Level 2 assets are priced using observable inputs for the asset (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Retirement Plans (continued)

Investment Strategy

The defined benefit pension plan's asset allocation and investment strategy are designed to earn returns on plan assets, consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of large losses. BHCC uses investment managers specializing in each asset category and provides the investment managers with specific guidelines that include allowable and/or prohibited investment types. BHCC regularly monitors manager performance and compliance with investment guidelines.

Expected Rate of Return

The expected long-term rate of return on the defined benefit pension plan's assets is based on historical and projected rates of return for current and planned asset categories in the plan's investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

The expected employer contributions for the year ending September 30, 2020, are \$7,525.

The following represents the expected benefit plan payments for the next five years and the five years thereafter:

	<u>Amount</u>
Year ending September 30:	
2020	\$ 7,124
2021	7,385
2022	7,610
2023	7,788
2024	7,968
2025–2029	40,504

BHCC sponsors a defined contribution plan, covering all eligible associates, excluding LCI's employees. Benefits are determined as a percentage of a participant's salary and increase over

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

10. Retirement Plans (continued)

specified periods of employee service. Participants become fully vested in the employer contributions after six years. Defined contribution expense matched by BHCC was \$3,620 and \$3,442 for the years ended September 30, 2019 and 2018, respectively. The service-graded employer contribution expense was \$783 and \$815 for the years ended September 30, 2019 and 2018, respectively.

LCI provides a tax deferred annuity 403(b) retirement plan to all eligible employees. Employees of LCI who work a minimum of 20 hours per week are eligible to participate in the plan after completing one year of employment. Voluntary employee contributions are allowed to the extent permitted by law. LCI contributes a total of 3%, with a match of up to 2% of each eligible participant's compensation. In compliance with Internal Revenue Service regulations, employer contributions for eligible participants vest under a six-year graduated vesting schedule. Retirement expense for the years ended September 30, 2019 and 2018, was \$2,556 and \$2,284, respectively.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

11. Concentrations of Credit Risk

BHCC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	September 30	
	2019	2018
Medicare	37%	38%
Medicaid	8	8
Other third-party payors	43	41
Patient responsibility	12	13
	100%	100%

12. Commitments and Contingencies

Operating Leases

BHCC leases certain equipment and building space under operating leases, some of which include renewal periods. Future minimum lease payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more are as follows:

	Amount
Year ending September 30:	
2020	\$ 4,660
2021	4,156
2022	3,175
2023	1,238
2024	1,035
Thereafter	9,492
	\$ 23,756

Total expense under operating leases was \$16,339 and \$14,819 for the years ended September 30, 2019 and 2018, respectively.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

12. Commitments and Contingencies (continued)

Malpractice

With the exception of LCI, BHCC's subsidiaries maintain a self-insured retention (SIR) for general and professional liability insurance on a claims-made basis. The SIR is \$3,000 per occurrence with a \$9,000 aggregate plus a \$2,000 aggregate buffer. In addition, these subsidiaries have various excess claims-made policies extending coverages up to \$30,000. BHCC's employed physicians are self-insured with coverage limits of \$1,000 per occurrence and \$3,000 in the aggregate.

Losses are accrued based on estimates provided by BHCC's consulting actuary and are based on actuarial assumptions that incorporate past experience and other considerations, including the nature of each claim or incident and relevant trends. The accrued liability for self-insured claims, discounted at 1.9% and 2.5%, amounted to \$20,138 and \$13,650 at September 30, 2019 and 2018, respectively, and is included in the accompanying consolidated balance sheets as follows:

	September 30	
	2019	2018
Other current liabilities	\$ 8,386	\$ 1,337
Other long-term liabilities	11,752	12,313
	<u>\$ 20,138</u>	<u>\$ 13,650</u>

BHCC has on deposit, in a revocable trust, cash and investments totaling \$7,336 and \$7,115 at September 30, 2019 and 2018, respectively, to be used for payment of self-insured claims in the future, which are included in investments limited as to use.

LCI carries general and professional liability insurance on a claims-made basis, with coverage up to \$1,000 per occurrence and \$3,000 in the aggregate, and employee benefits liability insurance with coverage up to \$1,000 per occurrence and \$1,000 in the aggregate. In addition, LCI has excess coverage policies for losses up to \$5,000 per occurrence and in the aggregate.

Should any of the claims-made policies not be renewed or replaced with equivalent insurance, claims based on occurrences during the terms but reported subsequently will be uninsured.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

12. Commitments and Contingencies (continued)

Malpractice insurance expense for the years ended September 30, 2019 and 2018, was approximately \$6,803 and \$9,010, respectively.

Asset Retirement Obligations

ASC Topic 410-20, *Asset Retirement and Environmental Obligations*, provides guidance with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation are conditional on a future event. ASC Topic 410-20 requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. BHCC has determined that conditional legal obligations exist for certain of its facilities related primarily to underground storage tanks and asbestos materials. Conditional asset retirement obligations recorded as of September 30, 2019 and 2018, were \$2,400 and \$2,579, respectively. There are no assets legally restricted for purposes of settling asset retirement obligations.

During 2019 and 2018, \$215 and \$2, respectively, of retirement obligations were settled. Accretion expense of \$36 and \$35 was recorded during the years ended September 30, 2019 and 2018, respectively.

Air Rights

BHCC owns medical office buildings and has executed agreements with several parties in which these parties purchase office space. Simultaneously with the execution of the purchase agreements, Baptist entered into an air rights lease with the purchasers, providing for access to building easements. Included in the air rights lease are put options that grant the purchaser the right to sell the office space back to Baptist at the 7th, 10th, 20th, and 30th anniversaries of the execution of the lease. Because of the put options, the purchases of the office space do not qualify as a sale under generally accepted accounting principles and instead are accounted for as financing transactions. A purchaser has provided notice to exercise a put option with an anticipated transaction date in 2020. Included in other current liabilities at September 30, 2019, is \$1,000, and in other long-term liabilities in the accompanying consolidated balance sheets at September 30, 2019 and 2018, is \$7,400 and \$6,390, respectively, in financing obligations related to these transactions.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

12. Commitments and Contingencies (continued)

Electronic Health Record

In October 2015, BHCC finalized its vendor selections for the purchase and implementation of a new EHR impacting BHCC's acute care and ambulatory practices, as well as certain ancillary and revenue cycle systems. BHCC executed a ten-year agreement for implementation costs and services, as well as ongoing maintenance and support for a total of \$34.7 million over the life of the contract. The costs include acquisition, implementation, and ongoing support and maintenance. Through September 30, 2019, Baptist has capitalized \$32,534 related to the EHR project. The EHR went live in December 2017, and is being amortized over eight years. Amortization expense was \$4,620 and \$3,680 for the years ended September 30, 2019 and 2018, respectively. Amortization expense for the years ended 2020 through 2024 is estimated to be \$4,600, respectively. The vendor granted credits to BHCC in 2019 totaling \$1,927, recorded as a reduction of expense, to reimburse BHCC for operating costs incurred related to post-implementation activity.

13. Supplemental Cash Flows Information

BHCC experienced changes in the components of working capital as follows:

	Year Ended September 30	
	2019	2018
Increase in accounts and contracts receivable	\$ (12,865)	\$ (114,314)
Increase in inventories	(1,388)	(989)
Increase in prepaid expenses and other current assets	(17,338)	(3,179)
Increase (decrease) in accounts payable and accrued expenses	15,628	(2,038)
Decrease in amounts due to third-party payors	(2,390)	(4,205)
Increase in other current liabilities	2,169	3,248
	<u>\$ (16,184)</u>	<u>\$ (121,477)</u>

Interest paid was \$12,663 and \$11,370 for the years ended September 30, 2019 and 2018, respectively.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

14. Other Assets

The composition of other assets is as follows:

	September 30	
	2019	2018
Cash surrender value of insurance	\$ 5,538	\$ 5,929
Goodwill, net of accumulated amortization of \$946 in 2019	8,510	9,456
Physician guarantees	209	4
Investment in joint ventures	761	769
Investment in rental property	454	460
Other	563	2,937
	\$ 16,035	\$ 19,555

Estimated amortization expense for goodwill for each of the years ended 2020 through 2024 is \$946.

15. Fair Value Measurements

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

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

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

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

15. Fair Value Measurements (continued)

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

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. BHCC has no financial assets or financial liabilities with significant Level 3 inputs.

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

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

15. Fair Value Measurements (continued)

The fair value of financial assets and financial liabilities at September 30, 2019 and 2018, measured at fair value on a recurring basis was as follows:

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 73,006	\$ —	\$ —	\$ 73,006
Short-term investments:				
U.S. corporate obligations	—	74,332	—	74,332
U.S. Treasury obligations	7,732	—	—	7,732
U.S. government agencies and sponsored entities	—	18,725	—	18,725
Collateralized debt obligations	—	3,636	—	3,636
Domestic equities	31,787	—	—	31,787
Foreign equities	27,451	—	—	27,451
Other	—	1,395	—	1,395
Total short-term investments	66,970	98,088	—	165,058
Investments limited as to use:				
Cash and cash equivalents	2,341	—	—	2,341
U.S. corporate obligations	—	27,143	—	27,143
U.S. Treasury obligations	12,460	—	—	12,460
U.S. government agencies and sponsored entities	—	6,861	—	6,861
Collateralized debt obligations	—	1,258	—	1,258
Domestic equities	16,740	—	—	16,740
Foreign equities	9,775	—	—	9,775
Other	6,926	482	—	7,408
Total investments limited as to use	48,242	35,744	—	83,986
	\$ 188,218	\$ 133,832	\$ —	\$ 322,050
Liabilities				
Interest rate swap agreements	\$ —	\$ 443	\$ —	\$ 443

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

15. Fair Value Measurements (continued)

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 134,365	\$ —	\$ —	\$ 134,365
Short-term investments:				
U.S. corporate obligations	—	40,399	—	40,399
U.S. Treasury obligations	7,427	—	—	7,427
U.S. government agencies and sponsored entities	—	14,608	—	14,608
Collateralized debt obligations	—	3,911	—	3,911
Domestic equities	40,162	—	—	40,162
Foreign equities	32,911	—	—	32,911
Other	—	1,164	—	1,164
Total short-term investments	80,500	60,082	—	140,582
Investments limited as to use:				
Cash and cash equivalents	2,336	—	—	2,336
U.S. corporate obligations	—	22,610	—	22,610
U.S. Treasury obligations	12,933	—	—	12,933
U.S. government agencies and sponsored entities	—	6,360	—	6,360
Collateralized debt obligations	—	1,536	—	1,536
Domestic equities	20,757	—	—	20,757
Foreign equities	13,214	—	—	13,214
Other	6,705	457	—	7,162
Total investments limited as to use	55,945	30,963	—	86,908
	<u>\$ 270,810</u>	<u>\$ 91,045</u>	<u>\$ —</u>	<u>\$ 361,855</u>
Liabilities				
Interest rate swap agreements	\$ —	\$ 300	\$ —	\$ 300

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

15. Fair Value Measurements (continued)

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

	September 30	
	2019	2018
Short-term investments, at fair value	\$ 165,058	\$ 140,582
Alternative investments accounted for under the equity method	27,595	26,366
Other	11,000	–
Total short-term investments	\$ 203,653	\$ 166,948
Investments limited as to use, at fair value	\$ 83,986	\$ 86,908
Alternative investments accounted for under the equity method	13,325	10,325
Other	741	1,843
Total investments limited as to use	\$ 98,052	\$ 99,076

Must add both to the balance sheet

See Note 9 for location of interest rate swap liabilities in the accompanying consolidated balance sheets.

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 financial assets and financial liabilities were determined as follows:

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

Interest rate swaps – The fair value of interest rate swaps was determined based on the use of widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. The analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

15. Fair Value Measurements (continued)

inputs, such as interest rate curves. In addition, credit valuation adjustments are included to reflect both BHCC's nonperformance risk and the respective counterparty's nonperformance risk. BHCC pays fixed rates, ranging from 3.3% to 3.5%, and receives cash flows based primarily on percentages of LIBOR, ranging from 67% to 74% of LIBOR.

The carrying value of accounts receivable, accounts payable, and accrued liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The fair values of BHCC's fixed-rate bonds are estimated using Level 2 inputs based on quoted market prices for the same or similar issues and approximate \$141,551 and \$149,679 as of September 30, 2019 and 2018, respectively. The carrying values of these fixed-rate bonds were \$137,056 and \$141,822 as of September 30, 2019 and 2018, respectively. The carrying amount approximates fair value for all other long-term debt.

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

16. Changes in Consolidated Net Assets Without Donor Restrictions

Changes in consolidated net assets without donor restrictions that are attributable to BHCC and the noncontrolling interests in subsidiaries are as follows:

	Total	Controlling Interest	Noncontrolling Interests
Balance October 1, 2018	\$ 346,162	\$ 339,395	\$ 6,767
Excess of revenues, other support, and gains over expenses and losses	33,441	32,497	944
Other activity	(17,631)	(16,617)	(1,014)
Change in net assets without donor restrictions	15,810	15,880	(70)
Balance September 30, 2019	<u>\$ 361,972</u>	<u>\$ 355,275</u>	<u>\$ 6,697</u>

	Total	Controlling Interest	Noncontrolling Interests
Balance October 1, 2017	\$ 327,301	\$ 321,799	\$ 5,502
Excess of revenues, other support, and gains over expenses and losses	14,391	12,773	1,618
Other activity	4,470	4,823	(353)
Change in net assets without donor restrictions	18,861	17,596	1,265
Balance September 30, 2018	<u>\$ 346,162</u>	<u>\$ 339,395</u>	<u>\$ 6,767</u>

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

17. Financial Assets and Liquidity Resources

As of September 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital expenditures not financed with debt, were as follows:

Cash and cash equivalents	\$ 73,006
Short-term investments	203,653
Accounts and contracts receivable	119,550
Total financial assets	<u>396,209</u>
Liquidity resource:	
Unused bank lines of credit	1,500
	<u>\$ 397,709</u>

18. Functional Classification of Expenses

BHCC provides healthcare services, including inpatient, outpatient, ambulatory and community-based services to individuals within its geographic areas supported by its facilities. Administrative services include administration, finance and accounting, information technology, human resources, legal and other functions. Expenses are allocated to healthcare services and administrative services based on the functional department for which they are incurred. Departmental expenses may include various allocations of costs based on direct assignment, expenses or other methods.

Expenses by functional classification for the years ended September 30, 2019 and 2018, consist of the following:

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

18. Functional Classification of Expenses (continued)

	Year Ended September 30, 2019		
	Healthcare Services	Administrative Services	Total
Salaries and benefits	\$ 438,851	\$ 23,173	\$ 462,024
Supplies	155,369	4,807	160,176
General, administrative, and other	70,084	57,037	127,121
Professional fees and purchased services	101,375	10,018	111,393
Contract medical costs	16,224	164	16,388
Depreciation and amortization	27,646	996	28,642
Interest	12,088	598	12,686
	\$ 821,637	\$ 96,793	\$ 918,430

	Year Ended September 30, 2018		
	Healthcare Services	Administrative Services	Total
Salaries and benefits	\$ 413,230	\$ 21,749	\$ 434,979
Supplies	140,264	4,338	144,602
General, administrative, and other	59,839	48,960	108,799
Professional fees and purchased services	105,106	10,395	115,501
Contract medical costs	15,971	161	16,132
Depreciation and amortization	25,906	801	26,707
Interest	11,080	343	11,423
	\$ 771,396	\$ 86,747	\$ 858,143

Baptist Health Care Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

19. New Hospital Construction

During 2019, BHCC announced plans for the construction of a new hospital facility to replace the Baptist downtown Pensacola hospital. Construction of the new facility is estimated to begin in 2020 and conclude in 2023. Projected costs are estimated to be \$615 million, and are expected to be financed with a planned public debt offering, currently not expected to exceed \$550 million, in the first quarter of calendar 2020.

Operations of the current Baptist downtown Pensacola campus will continue uninterrupted through completion of the new facility, and BHCC is planning for a continued presence, although in a reduced capacity, at this campus after the new facility is occupied. Evaluation of the existing campus property, plant, and equipment, and a determination of what will be moved to the new facility are expected to be completed during 2020. That information will be used to assess the remaining useful lives and adjust depreciation accordingly.

20. Subsequent Events

BHCC evaluated events and transactions occurring subsequent to September 30, 2019, and through December 19, 2019, the date the accompanying consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition or disclosure in the accompanying consolidated financial statements.

Supplementary Information

Baptist Health Care Corporation and Subsidiaries

Consolidating Balance Sheet Information (In Thousands)

September 30, 2019

	Consolidated Total	Consolidating/ Eliminating Entries	Baptist Health Care Corporation	Combined Group	Jay Hospital, Inc.	Baptist Health Care Foundation, Inc.	Baptist Health Ventures, Inc. and Subsidiaries
Assets							
Current assets:							
Cash and cash equivalents	\$ 73,006	\$ -	\$ -	\$ 69,645	\$ 113	\$ 233	\$ 3,015
Short-term investments	203,653	(153,005)	153,005	194,131	-	9,522	-
Accounts receivable, net	93,116	-	1,015	87,527	1,514	-	3,060
Contracts receivable	26,434	-	-	26,434	-	-	-
Current portion of investments limited as to use	8,386	-	-	8,386	-	-	-
Inventories	15,682	-	-	14,271	152	-	1,259
Prepaid expenses and other current assets	28,929	-	5,446	21,731	49	-	1,703
Assets held for sale	13,336	-	-	13,336	-	-	-
Total current assets	462,542	(153,005)	159,466	435,461	1,828	9,755	9,037
Investments limited as to use, less current portion	89,666	(82,255)	88,500	80,487	-	2,934	-
Net property, plant, and equipment	278,207	-	137	225,248	2,321	-	50,501
Other assets	16,035	(15,560)	6,679	24,121	-	50	745
Total assets	\$ 846,450	\$ (250,820)	\$ 254,782	\$ 765,317	\$ 4,149	\$ 12,739	\$ 60,283

Baptist Health Care Corporation and Subsidiaries

Consolidating Balance Sheet Information (continued) (In Thousands)

	Consolidated Total	Consolidating/ Eliminating Entries	Baptist Health Care Corporation	Combined Group	Jay Hospital, Inc.	Baptist Health Care Foundation, Inc.	Baptist Health Ventures, Inc. and Subsidiaries
Liabilities and net assets							
Current liabilities:							
Accounts payable	\$ 53,587	\$ –	\$ 4,575	\$ 47,489	\$ 372	\$ –	\$ 1,151
Accrued compensation and benefits	32,005	–	6,358	23,318	421	–	1,908
Accrued interest	1,510	–	–	1,441	–	–	69
Estimated third-party settlements	7,636	–	–	7,089	547	–	–
Current portion of long-term debt	11,310	–	–	9,702	–	–	1,608
Other current liabilities	74,203	–	3,836	70,037	6	–	324
Liabilities held for sale	11,472	–	–	11,472	–	–	–
Total current liabilities	191,723	–	14,769	170,548	1,346	–	5,060
Long-term debt, less current portion	203,330	–	–	176,863	–	–	26,467
Asset retirement obligations	2,400	–	–	2,263	137	–	–
Other long-term liabilities	80,609	(90,805)	108,799	53,749	257	93	8,516
Due to affiliated organizations	–	(98,278)	87,316	16,294	–	–	(5,332)
Total liabilities	478,062	(189,083)	210,884	419,717	1,740	93	34,711
Net assets (deficit):							
Without donor restrictions:							
Controlling interest	355,275	(61,044)	43,898	337,808	2,409	7,592	24,612
Noncontrolling interests in subsidiaries	6,697	–	–	5,737	–	–	960
	361,972	(61,044)	43,898	343,545	2,409	7,592	25,572
With donor restrictions – controlling interest	6,416	(693)	–	2,055	–	5,054	–
Total net assets (deficit)	368,388	(61,737)	43,898	345,600	2,409	12,646	25,572
Total liabilities and net assets (deficit)	\$ 846,450	\$ (250,820)	\$ 254,782	\$ 765,317	\$ 4,149	\$ 12,739	\$ 60,283

Baptist Health Care Corporation and Subsidiaries

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

Year Ended September 30, 2019

	Consolidated Total	Consolidating/ Eliminating Entries	Baptist Health Care Corporation	Combined Group	Jay Hospital, Inc.	Baptist Health Care Foundation, Inc.	Baptist Health Ventures, Inc. and Subsidiaries
Revenues and other support without donor restrictions:							
Net patient service revenue	\$ 584,753	\$ (110)	\$ 5,671	\$ 550,653	\$ 9,337	\$ –	\$ 19,202
Federal, state, and other awards	79,202	–	–	79,202	–	–	–
Vocational service contracts	198,453	–	–	198,453	–	–	–
Contract revenue	29,111	–	–	29,111	–	–	–
Other revenue	41,945	(67,740)	64,174	27,203	465	612	17,231
Net assets released from restrictions used for operations	7,017	–	–	5,281	–	1,736	–
Total revenues and other support without donor restrictions	940,481	(67,850)	69,845	889,903	9,802	2,348	36,433
Expenses:							
Salaries and benefits	462,024	(201)	44,269	390,467	7,527	–	19,962
Supplies	160,176	–	1,799	151,352	1,290	39	5,696
General, administrative, and other	127,121	(69,526)	16,056	157,276	3,255	1,696	18,364
Professional fees and purchased services	111,393	(689)	6,529	103,282	854	–	1,417
Contract medical costs	16,388	–	–	16,388	–	–	–
Depreciation and amortization	28,642	(99)	395	25,262	403	–	2,681
Interest	12,686	(169)	99	11,307	3	–	1,446
Total expenses	918,430	(70,684)	69,147	855,334	13,332	1,735	49,566
Income (loss) from operations before gain							
from weather related events	22,051	2,834	698	34,569	(3,530)	613	(13,133)
Gain from weather related events	–	–	–	–	–	–	–
Income (loss) from operations	22,051	2,834	698	34,569	(3,530)	613	(13,133)

Continued on next page

Baptist Health Care Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Information (continued) (In Thousands)

	Consolidated Total	Consolidating/ Eliminating Entries	Baptist Health Care Corporation	Combined Group	Jay Hospital, Inc.	Baptist Health Care Foundation, Inc.	Baptist Health Ventures, Inc. and Subsidiaries
Nonoperating gains (losses):							
Change in fair value of interest rate swap agreements	\$ (143)	\$ —	\$ —	\$ (143)	\$ —	\$ —	\$ —
Net unrealized gains on trading securities	(2,166)	2,544	(2,544)	(2,059)	—	(107)	—
Investment income (loss)	12,317	(10,769)	9,642	16,091	(461)	434	(2,620)
Other, net	1,382	12,043	(14,447)	4,079	(26)	(521)	254
	<u>11,390</u>	<u>3,818</u>	<u>(7,349)</u>	<u>17,968</u>	<u>(487)</u>	<u>(194)</u>	<u>(2,366)</u>
Excess (deficiency) of revenues, other support, and gains over expenses and losses	33,441	6,652	(6,651)	52,537	(4,017)	419	(15,499)
Less excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	944	—	—	636	—	—	308
Excess (deficiency) of revenues, other support, and gains over expenses and losses attributable to controlling interest	32,497	6,652	(6,651)	51,901	(4,017)	419	(15,807)
Net assets without donor restrictions:							
Excess (deficiency) of revenues, other support, and gains over expenses and losses attributable to controlling interests	32,497	6,652	(6,651)	51,901	(4,017)	419	(15,807)
Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	944	—	—	636	—	—	308
Net unrealized gains on other-than-trading securities	36	—	36	—	—	—	—
Net assets released from restrictions for purchase of property, plant, and equipment	499	—	—	499	—	—	—
Pension adjustment	(13,673)	—	(863)	(12,810)	—	—	—
Net assets transfer from affiliate	—	—	27,239	(138,396)	15,026	151	95,980
Other	(708)	(1,134)	—	584	50	—	(208)
Increase (decrease) in net assets without donor restrictions before discontinued operations	19,595	5,518	19,761	(97,586)	11,059	570	80,273
Loss from discontinued operations	(3,785)	—	—	(3,785)	—	—	—
Increase (decrease) in net assets without donor restrictions	15,810	5,518	19,761	(101,371)	11,059	570	80,273

Continued on next page

Baptist Health Care Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Information (continued) (In Thousands)

	Consolidated Total	Consolidating/ Eliminating Entries	Baptist Health Care Corporation	Combined Group	Jay Hospital, Inc.	Baptist Health Care Foundation, Inc.	Baptist Health Ventures, Inc. and Subsidiaries
Net assets with donor restrictions:							
Contributions	\$ 6,767	\$ –	\$ –	\$ 5,703	\$ –	\$ 1,064	\$ –
Net unrealized losses on other-than-trading securities	102	–	–	–	–	102	–
Net assets released from restrictions	(7,516)	–	–	(5,780)	–	(1,736)	–
Other	(16)	1,134	–	(1,149)	–	(1)	–
Decrease in net assets with donor restrictions	(663)	1,134	–	(1,226)	–	(571)	–
Increase (decrease) in net assets	15,147	6,652	19,761	(102,597)	11,059	(1)	80,273
Net assets (deficit) at beginning of year	353,241	(68,389)	24,137	448,197	(8,650)	12,647	(54,701)
Net assets (deficit) at end of year	<u>\$ 368,388</u>	<u>\$ (61,737)</u>	<u>\$ 43,898</u>	<u>\$ 345,600</u>	<u>\$ 2,409</u>	<u>\$ 12,646</u>	<u>\$ 25,572</u>

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

Combining Balance Sheet Information
(In Thousands)

September 30, 2019

	Combined Total	Combining/ Eliminating Entries	Baptist Hospital, Inc.	Lakeview Center, Inc. and Subsidiaries
Assets				
Current assets:				
Cash and cash equivalents	\$ 69,645	\$ –	\$ 14,999	\$ 54,646
Short-term investments	194,131	–	74,226	119,905
Accounts receivable, net	87,527	–	81,921	5,606
Contracts receivable	26,434	–	–	26,434
Current portion of investments limited as to use	8,386	–	8,386	–
Inventories	14,271	–	13,424	847
Prepaid expenses and other current assets	21,731	–	15,806	5,925
Assets held for sale	13,336	–	13,336	–
Total current assets	435,461	–	222,098	213,363
Investments limited as to use, less current portion	80,487	–	30,614	49,873
Net property, plant, and equipment	225,248	–	199,261	25,987
Other assets	24,121	–	12,025	12,096
Total assets	<u>\$ 765,317</u>	<u>\$ –</u>	<u>\$ 463,998</u>	<u>\$ 301,319</u>
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 47,489	\$ –	\$ 34,897	\$ 12,592
Accrued compensation and benefits	23,318	–	18,725	4,593
Accrued interest	1,441	–	1,441	–
Estimated third-party settlements	7,089	–	7,089	–
Current portion of long-term debt	9,702	–	9,542	160
Other current liabilities	70,037	–	59,743	10,294
Liabilities held for sale	11,472	–	11,472	–
Total current liabilities	170,548	–	142,909	27,639
Long-term debt, less current portion	176,863	–	175,514	1,349
Asset retirement obligations	2,263	–	2,263	–
Other long-term liabilities	53,749	–	53,749	–
Due to affiliated organizations	16,294	–	16,294	–
Total liabilities	419,717	–	390,729	28,988
Net assets:				
Without donor restrictions:				
Controlling interest	337,808	–	66,108	271,700
Noncontrolling interests in subsidiaries	5,737	–	5,737	–
	343,545	–	71,845	271,700
With donor restrictions – controlling interest	2,055	–	1,424	631
Total net assets	345,600	–	73,269	272,331
Total liabilities and net assets	<u>\$ 765,317</u>	<u>\$ –</u>	<u>\$ 463,998</u>	<u>\$ 301,319</u>

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

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

Year Ended September 30, 2019

	Combined Total	Combining/ Eliminating Entries	Baptist Hospital, Inc.	Lakeview Center, Inc. and Subsidiaries
Revenues and other support without donor restrictions:				
Net patient service revenue	\$ 550,653	\$ —	\$ 533,400	\$ 17,253
Federal, state, and other awards	79,202	—	—	79,202
Vocational service contracts	198,453	—	—	198,453
Contract revenue	29,111	—	—	29,111
Other revenue	27,203	(7,393)	31,192	3,404
Net assets released from restrictions used for operations	5,281	—	5,281	—
Total revenues and other support without donor restrictions	889,903	(7,393)	569,873	327,423
Expenses:				
Salaries and benefits	390,467	—	247,180	143,287
Supplies	151,352	—	137,033	14,319
General, administrative, and other	157,276	—	114,765	42,511
Professional fees and purchased services	103,282	(6,279)	34,426	75,135
Contract medical costs	16,388	—	—	16,388
Depreciation and amortization	25,262	—	22,806	2,456
Interest	11,307	—	11,217	90
Total expenses	855,334	(6,279)	567,427	294,186
Income (loss) from operations before gain from weather related events	34,569	(1,114)	2,446	33,237
Gain from weather related events	—	—	—	—
Income (loss) from operations	34,569	(1,114)	2,446	33,237
Nonoperating gains (losses):				
Change in fair value of interest rate swap agreements	(143)	—	(143)	—
Unrealized (losses) on trading securities	(2,059)	—	(958)	(1,101)
Investment income	16,091	—	8,764	7,327
Other, net	4,079	1,114	(2,105)	5,070
	17,968	1,114	5,558	11,296
Excess (deficiency) of revenues, other support, and gains over expenses and losses	52,537	—	8,004	44,533
Less excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	636	—	636	—
Excess (deficiency) of revenues, other support, and gains over expenses and losses attributable to controlling interest	51,901	—	7,368	44,533

Continued on next page

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

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

	Combined Total	Combining/ Eliminating Entries	Baptist Hospital, Inc.	Lakeview Center, Inc. and Subsidiaries
Net assets without donor restrictions:				
Excess (deficiency) of revenues, other support, and gains over expenses and losses attributable to controlling interest	\$ 51,901	\$ —	\$ 7,368	\$ 44,533
Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	636	—	636	—
Net assets released from restriction for purchase of property, plant, and equipment	499	—	499	—
Pension adjustment	(12,810)	—	(12,810)	—
Net asset transfer from affiliate	(138,396)	—	(138,396)	—
Other	584	—	(612)	1,196
Increase in net assets without donor restrictions before discontinued operations	(97,586)	—	(143,315)	45,729
Loss from discontinued operations	(3,785)	—	(3,785)	—
Increase in net assets without donor restrictions	(101,371)	—	(147,100)	45,729
Net assets with donor restrictions:				
Contributions	5,703	—	5,703	—
Net assets released from restrictions	(5,780)	—	(5,780)	—
Other	(1,149)	—	47	(1,196)
Decrease in net assets with donor restrictions	(1,226)	—	(30)	(1,196)
(Decrease) increase in net assets	(102,597)	—	(147,130)	44,533
Net assets at beginning of year	448,197	—	220,399	227,798
Net assets at end of year	\$ 345,600	\$ —	\$ 73,269	\$ 272,331

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation is available via ey.com/privacy. For more information about our organization, please visit ey.com.

© 2019 Ernst & Young LLP.
All Rights Reserved.

ey.com