

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

**Annual Financial Report as of and for the Years Ended  
September 30, 2019 and 2018**

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

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## REPORT OF MANAGEMENT

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

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

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

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

Baptist Health engaged Deloitte & Touche LLP, independent auditors, to audit our accompanying consolidated financial statements as of and for the years ended September 30, 2019 and 2018, in accordance with auditing standards generally accepted in the United States of America. Their report follows.



Brian E. Keeley  
President and Chief Executive Officer



Matthew Arsenault  
Executive Vice President and  
Chief Financial Officer

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS  
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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated financial statements of Baptist Health South Florida, Inc. and affiliates ("BHSF"), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## **Opinion**

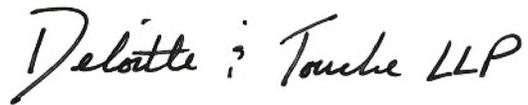
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BHSF as of September 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 2 to the consolidated financial statements, BHSF has changed its method of accounting for revenue and net assets in fiscal year 2019 due to the adoption of Accounting Standards Codification Topic 606, Revenue from Contracts with Customers and all subsequent amendments (collectively, "ASC 606") and the Accounting Standards Codification Topic 958, *Not-for-Profit Entities—Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). BHSF adopted ASC 606 using the modified retrospective approach and ASU 2016-14 on a retrospective basis.

## **Report on Supplementary Information**

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

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

December 19, 2019

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2019 AND 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$205,082,056	\$146,779,645
Assets whose use is limited	8,132,919	50,335,043
Accounts receivable - net	436,888,401	321,410,129
Other current assets	174,230,808	151,851,267
Total current assets	824,334,184	670,376,084
ASSETS WHOSE USE IS LIMITED	3,175,887,425	3,038,850,158
OTHER INVESTMENTS	161,431,455	126,824,705
PROPERTY AND EQUIPMENT - NET	2,625,952,352	2,203,975,074
BENEFICIAL INTEREST IN BOCA RATON REGIONAL HOSPITAL FOUNDATION, INC.	293,894,351	
GOODWILL	82,773,386	77,440,043
OTHER ASSETS	122,172,596	146,441,072
TOTAL ASSETS	<u>\$7,286,445,749</u>	<u>\$6,263,907,136</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$73,360,024	\$48,537,917
Estimated third-party payor settlements	4,599,927	4,317,388
Commercial paper notes	75,500,000	50,000,000
Current maturities of long-term debt	13,750,000	13,090,000
Capital lease obligations - current portion	2,716,053	1,124,855
Accrued wages, salaries and benefits	308,640,672	263,467,871
Accrued expenses and other current liabilities	529,791,985	368,972,637
Total current liabilities	1,008,358,661	749,510,668
LONG-TERM DEBT	1,336,727,132	1,355,783,124
CAPITAL LEASE OBLIGATIONS	15,599,549	13,543,916
OTHER LIABILITIES	321,314,743	243,223,236
Total liabilities	<u>2,682,000,085</u>	<u>2,362,060,944</u>
COMMITMENTS AND CONTINGENCIES (see Note 17)		
NET ASSETS:		
Net assets without donor restrictions	4,241,441,017	3,734,828,213
Noncontrolling interests	38,886,511	36,998,224
Total net assets without donor restrictions	4,280,327,528	3,771,826,437
Net assets with donor restrictions	324,118,136	130,019,755
Total net assets	<u>4,604,445,664</u>	<u>3,901,846,192</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$7,286,445,749</u>	<u>\$6,263,907,136</u>

See accompanying notes to consolidated financial statements.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATESCONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:		
Net patient service revenue before provision for doubtful accounts		\$3,325,540,754
Provision for doubtful accounts		450,298,593
Net patient service revenue	\$3,530,529,220	2,875,242,161
Rental revenue	13,088,932	13,047,673
Other operating revenue	118,554,828	96,786,034
	<u>3,662,172,980</u>	<u>2,985,075,868</u>
Total unrestricted revenues, gains and other support		
EXPENSES:		
Wages, salaries and benefits	1,789,616,287	1,638,434,439
Supplies	547,244,495	463,136,931
Malpractice and other insurance	90,557,105	87,677,174
Administrative and general	733,753,933	583,394,829
Depreciation and amortization	203,231,935	194,212,896
Interest	53,196,975	56,267,588
	<u>3,417,600,730</u>	<u>3,023,123,857</u>
Total expenses		
INCOME (LOSS) FROM OPERATIONS	<u>244,572,250</u>	<u>(38,047,989)</u>
OTHER INCOME:		
Investment income	29,290,977	217,115,128
Gain on extinguishment of long-term debt	3,534,880	1,454,959
Inherent contribution of net assets without donor restrictions from affiliations	259,003,209	254,137,352
Other income (loss) - net	1,940,621	(6,723,756)
	<u>293,769,687</u>	<u>465,983,683</u>
Total other income		
EXCESS OF REVENUES OVER EXPENSES BEFORE INCOME TAX PROVISION AND NONCONTROLLING INTERESTS	538,341,937	427,935,694
INCOME TAX PROVISION	<u>2,604,772</u>	<u>259,364</u>
EXCESS OF REVENUES OVER EXPENSES FROM CONSOLIDATED OPERATIONS	535,737,165	427,676,330
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(24,865,345)</u>	<u>(22,091,964)</u>
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES	<u>\$510,871,820</u>	<u>\$405,584,366</u>

See accompanying notes to consolidated financial statements.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATESCONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Excess of revenues over expenses from consolidated operations	\$535,737,165	\$427,676,330
Net assets released from restrictions used for property and equipment acquisitions	13,324,957	2,902,613
Change in value of split-interest agreements	636,691	(458,767)
Transfers to net assets with donor restrictions	(67,500)	(60,000)
Noncontrolling interest related to surgery centers	3,936,016	4,070,158
Sale of limited partnership interests	961,849	794,006
Purchase of limited partnership interests	(1,776,006)	(843,746)
Partnership distributions	(26,098,917)	(22,265,493)
Change in value of pension liability	(18,153,164)	6,865,351
	<u>508,501,091</u>	<u>418,680,452</u>
Increase in net assets without donor restrictions		
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	35,338,077	29,403,030
Inherent contribution of net assets with donor restrictions from affiliations	179,690,117	20,289,005
Restricted income on donor restricted contributions	1,405,230	1,805,943
Net assets released from restrictions	(7,425,049)	(18,320,756)
Other - net	(59,860)	
Transfers from net assets without restrictions	67,500	60,000
Change in beneficial interest in BRRH Foundation	(8,549,469)	
Provision for uncollectable pledges	(6,368,165)	(1,249,947)
	<u>194,098,381</u>	<u>31,987,275</u>
Increase in net assets with donor restrictions		
INCREASE IN NET ASSETS	702,599,472	450,667,727
NET ASSETS - BEGINNING OF YEAR	<u>3,901,846,192</u>	<u>3,451,178,465</u>
NET ASSETS - END OF YEAR	<u>\$4,604,445,664</u>	<u>\$3,901,846,192</u>

See accompanying notes to consolidated financial statements.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$702,599,472	\$450,667,727
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	203,231,935	194,212,896
<b>Provision for doubtful accounts</b>		<b>450,298,593</b>
Accretion of bond premium and issue costs - net	(5,372,108)	(4,368,694)
Deferred income tax	(90,330)	(1,352,735)
Realized gains on sales of securities - net	(33,856,828)	(186,020,756)
Change in net unrealized gains and losses	69,567,951	28,578,369
Sales of limited partnership interests	(961,849)	(794,006)
Purchases of limited partnership interests	1,776,006	843,746
Inherent contributions of unrestricted net assets from affiliations	(259,003,209)	(254,137,352)
Inherent contribution of restricted net assets from affiliations	(179,690,117)	(20,289,005)
Partnership distributions	26,098,917	22,265,493
Noncontrolling interest related to surgery center acquisitions	(3,936,016)	(4,070,158)
Change in beneficial interest in BRRH Foundation	8,549,467	
(Gain) loss on disposal of assets - net	(304,586)	455,875
Gain on extinguishment of debt - net	(3,534,880)	(1,454,959)
Pension settlement		5,895,398
Pension liability adjustment	18,153,164	(6,865,351)
Changes in assets and liabilities:		
<b>Net increase in accounts receivable</b>	(54,912,459)	<b>(455,011,745)</b>
Net decrease (increase) in other assets	3,593,323	(50,195,865)
<b>Net (decrease) increase in accounts payable</b>	(7,223,691)	<b>19,169,315</b>
<b>Net decrease in third-party payor settlements</b>	(554,257)	<b>(2,290,322)</b>
<b>Net increase in accrued expenses and other liabilities</b>	32,518,745	<b>39,966,638</b>
Net increase in accrued wages, salaries and benefits	28,364,345	4,690,045
Net cash provided by operating activities	<u>545,012,995</u>	<u>230,193,147</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(378,833,413)	(283,019,417)
Inherent contribution of cash from affiliations	44,332,731	16,482,933
Acquisitions of surgery centers and physician practices	(1,991,578)	(2,892,542)
Return of investment from (investment in) Health Systems Solutions, LLC	3,600,000	(3,600,000)
Sales of limited partnership interests	961,849	794,006
Purchases of limited partnership interests	(1,776,006)	(843,746)
Purchases of investments	(4,574,388,923)	(3,858,682,505)
Proceeds from sales and maturities of investments	4,501,503,045	3,947,685,620
Net cash used in investing activities	<u>(406,592,295)</u>	<u>(184,075,651)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contribution restricted for property and equipment purchases	10,402,631	6,796,099
Proceeds from issuance of commercial paper notes - net	25,500,000	
<b>Proceeds from issuance of long-term debt</b>		<b>895,943,006</b>
Debt issue costs		(5,803,959)
Repayment of long-term debt	(87,335,388)	(905,866,791)
Repayment of capital lease obligations	(2,586,615)	
Partnership distributions	(26,098,917)	(22,265,493)
Net cash used in financing activities	<u>(80,118,289)</u>	<u>(31,197,138)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	58,302,411	14,920,358
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>146,779,645</u>	<u>131,859,287</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$205,082,056</u>	<u>\$146,779,645</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for interest - net of amounts capitalized	<u>\$36,062,000</u>	<u>\$56,412,000</u>
Cash paid for income taxes	<u>\$2,410,000</u>	<u>\$1,415,000</u>

See accompanying notes to consolidated financial statements.

## BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

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#### 1. MISSION AND ORGANIZATION

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

Organization - Pursuant to a Master Trust Indenture, an obligated group (the “BHSF Obligated Group”) was created which, at December 1, 2017, consisted of the various BHSF affiliates listed in the following table. On August 1, 2019, a First Supplemental Master Trust Indenture admitted members, as of August 29, 2019, from Boca Raton Regional Hospital, Inc. and affiliated companies (“BRRH System”), into the BHSF Obligated Group. Each member of the BHSF Obligated Group is jointly and severally liable for all debt issued under the Master Trust Indenture (see Note 9). Under the BHSF Master Trust Indenture, the BHSF Obligated Group must comply with restrictions on incurrence of additional debt and certain other covenants (See Note 21).

#### BHSF Affiliates

Baptist Health  
 (“Parent company” and member of the BHSF Obligated Group)

#### “BHSF Hospitals” – (Members of the BHSF Obligated Group)

*Baptist Hospital of Miami, Inc.* (“Baptist Hospital”)  
Operates 728-bed Baptist Hospital located in Miami, Florida

*Bethesda Hospital, Inc.* (“Bethesda Hospitals”)  
Operates 401-bed Bethesda Hospital East and 80-bed Bethesda Hospital West, located in Boynton Beach, Florida

*Boca Raton Regional Hospital, Inc.* (“BRRH Hospital”)  
Operates 400-bed Boca Raton Regional Hospital located in Boca Raton, Florida

*Doctors Hospital, Inc.* (“Doctors Hospital”)  
Operates 281-bed Doctors Hospital located in Coral Gables, Florida

*Fishermen’s Health, Inc.* (“Fishermen’s Community Hospital”)  
Operates 4-bed Fishermen’s Community Hospital located in Marathon, Florida

*Homestead Hospital, Inc.* (“Homestead Hospital”)  
Operates 147-bed Homestead Hospital located in Homestead, Florida

*Mariners Hospital, Inc.* (“Mariners Hospital”)  
Operates 25-bed Mariners Hospital located in Tavernier, Florida

*South Miami Hospital, Inc.* (“South Miami Hospital”)  
Operates 436-bed South Miami Hospital located in South Miami, Florida

*West Kendall Baptist Hospital, Inc.* (“West Kendall Baptist Hospital”)  
Operates 133-bed West Kendall Baptist Hospital located in Miami, Florida

#### “Other Obligated Group Members” – (Members of the BHSF Obligated Group)

*Baptist Outpatient Services, Inc.* (“BOS”)  
Operates outpatient diagnostic centers and urgent care centers at various locations in Miami-Dade County and Broward County, Florida

*Bethesda Health, Inc.* (“Bethesda Health”)  
Provides certain support services for Bethesda Hospitals, located in Boynton Beach, Florida

*Bethesda Health Outpatient Services, Inc.* (“BHOS”)  
Operates an urgent care center and provides diagnostic imaging services, located in Wellington, Florida

*Bethesda Payroll Services, Inc.* (“Bethesda Payroll”)  
Acts as a common pay agent for Bethesda Health, Bethesda Hospitals, BHCI and BHOS, located in Boynton Beach, Florida

*Bethesda Health Comprehensive Imaging Services, Inc.* (“BHCI”) Provides comprehensive diagnostic services at two locations, located in Boynton Beach, Florida

*BRRH Corporation* (“BRRH”) Provides support services for BRRH Hospital, location in Boca Raton, Florida

“Non-Obligated Group Affiliates” – The following entities are not members of the BHSF Obligated Group.

*Baptist Health Enterprises, Inc.* (“BHE” – for-profit) Conducts the for-profit healthcare activities of BHSF and owns partnership interests and stock in separate entities conducting for-profit healthcare and non-healthcare activities

*BRRH Home Health Services, Inc.* (“BRRH Home Health” – not-for-profit) Full services home health agency formed to assist BRRH Hospital

*Baptist Health South Florida Foundation, Inc.* (“BHSF Foundation” – not-for-profit) Fundraising entity for BHSF and affiliates

*Miami Cancer Institute At Baptist Health, Inc.* (“MCIBH” – not-for-profit) Provides oncology support and services to various BHSF affiliates

*Baptist Health Medical Group, Inc.* (“BHMGM” – not-for-profit) The sole member of various physician practices that provide medical services to various BHSF affiliates

*Pineapple Insurance Company* (“PIC” – for-profit) Captive insurance company to facilitate professional and general liability self-insurance program

*Bethesda Holding Company, Inc.* (“BHC” – for-profit) Holding Company that wholly owns stock in separate entities conducting for-profit healthcare activities

*Samaritan Risk Retention Group* (“Samaritan” – for-profit) Captive mutual insurance company providing professional liability insurance for medical staff physicians

*Bethesda Hospital Foundation, Inc.* (“BH Foundation” – not-for-profit) Fundraising entity for Bethesda Health

*BocaCare, Inc.* (“BocaCare” – taxable not-for-profit) Employs physicians and faculty preceptors in various specialties to provide services to BRRH Hospital and its graduate medical education program

In May 2019, BHSF and BRRH System signed a definitive agreement to become affiliated organizations. Full affiliation occurred on July 1, 2019, and as of July 1, 2019, BHSF began consolidating the BRRH System. BRRH System includes not-for-profit entities BRRH Hospital and BRRH Home Health, and a taxable not-for-profit entity BocaCare. The results of BRRH System are not included in the prior period information in the accompanying consolidated balance sheet and statement of operations as of September 30, 2019, or prior to July 1, 2019 (see Note 3).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BHE is a for-profit Florida corporation, which is wholly owned by BHSF. BHE, through its subsidiaries, owns interests between approximately 26% and 69% in limited liability companies (“LLC”) and limited partnerships (“LP”) which own and operate ambulatory surgery centers (“surgery centers”) and sleep centers. BHE has variable interests in the LLCs and LPs through its equity ownership interests. Each LLC and LP is considered a Variable Interest Entity (“VIE”) due to its structure as a limited partnership or functional equivalent. For those LLCs and LPs which BHE consolidates, BHE is considered the primary beneficiary due to the partnership agreements allowing BHE to govern the day-to-day activities and thereby control the most significant economic activities. The total assets (excluding goodwill and intangible assets, net) of the consolidated VIEs within the ambulatory services segment, which are included in the accompanying consolidated balance sheets, as of September 30, 2019 and 2018, were approximately \$47,695,000 and \$41,897,000, respectively, and the total liabilities of the consolidated VIEs were approximately \$8,246,000 and \$10,218,000, respectively.

GAAP requires VIEs to be consolidated if an entity’s interest in the VIE is a controlling financial interest. Under the variable interest model, a controlling financial interest is determined based on which entity, if any, has (i) the power to direct the activities of the VIE that most significantly impacts the VIE’s economic performance and (ii) the obligations to absorb the losses that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. BHE performs assessments of (i) whether entities acquired in the current period should be accounted for under the VIE framework, and (ii) whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain triggering events, and therefore would be subject to the VIE consolidation framework.

The consolidation status of the VIEs with which BHE is involved may change as a result of such reassessments. Changes in consolidation status are applied prospectively with assets and liabilities of a newly consolidated VIE initially recorded at fair value.

BHSF owns PIC, a single-parent, Cayman Islands captive insurance company, to facilitate BHSF's professional and general liability and self-insurance insurance programs, including contracting for reinsurance (see Note 12). SRRG (and together with PIC, the "Insurance Companies") is licensed to transact business under the laws of the state of South Carolina. SRRG is also chartered as a risk retention group and is registered to conduct business in the state of Florida. SRRG was organized for the purpose of offering professional liability insurance to qualifying physicians. In March 2006, SRRG issued a surplus note in the amount of \$5,000,000 to BHSF. Until the note is satisfied, the governing Board of Directors of SRRG is elected by proxy and controlled by BHSF. Principal payments on this note began in fiscal year 2015.

In July 2015, Miami Cardiac & Vascular Institute Management Company, LLC ("MCVI Management Company"), a Florida limited liability company, was formed. MCVI Management Company was established to provide management services for the Miami Cardiac & Vascular Institute. BHSF has a 50% interest in MCVI Management Company which is accounted for using the equity method. MCVI Management Company was funded with an investment of approximately \$1,580,000. BHSF's investment in MCVI Management Company, which is recorded in other assets in the accompanying consolidated balance sheet, was approximately \$1,993,000 and \$1,964,000, as of September 30, 2019 and 2018, respectively.

In February 2019, BHE opened the Hilton Miami-Dadeland Hotel, a 184-guest room hotel located on the Baptist Hospital campus. In February 2019, Baptist Health International Cayman Islands, Ltd. ("BHICI") commenced providing clinical services in the Cayman Islands. In March 2019, BHE acquired controlling interest in a single specialty ambulatory surgery center.

In March 2019, BHE announced the creation of a venture, together with Belmont Village Senior Living, to develop, own, and operate senior living communities in South Florida (see Note 21).

For the fiscal year ended September 30, 2019, BHSF has recorded its participation in the earnings of Health Systems Solutions, LLC, which was immaterial, as other operating revenue in the accompanying consolidated financial statements. In addition, for fiscal year 2019, BHSF recorded expenses related to revenue-cycle services of \$78,786,000 in administrative and general expenses in the accompanying consolidated statement of operations. For fiscal year 2018, BHSF recorded expenses related to revenue-cycle services of \$11,427,000 beginning July 9, 2018, when HSS commenced operations.

Basis of Presentation - The consolidated financial statements include the accounts of the BHSF Obligated Group and Non-Obligated Group Affiliates. All intercompany transactions have been eliminated in consolidation.

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

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

Charity Care - BHSF provides a level of charity care that is consistent with the needs of the community it serves and the financial resources that are available. All or a portion of the charges incurred at established rates are classified as charity by reference to BHSF's established policies. Essentially, these policies define charitable services as those for which no payment is anticipated. In assessing a patient's ability to pay, BHSF utilizes generally recognized poverty income levels for the respective community, but also includes certain cases where incurred charges are considered to be beyond the

patient's ability to pay. In addition, BHSF provides services to other indigent patients under various state and local programs, which pay healthcare providers amounts that are less than the cost of the services provided. Because BHSF does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net patient service revenue in the accompanying consolidated financial statements (see Note 5).

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

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

Adopted Accounting Pronouncements – Effective October 1, 2018, BHSF adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09") using a modified retrospective method of application to all contracts existing on October 1, 2018. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of ASU 2014-09 resulted in changes to the presentation and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of BHSF's provision for doubtful accounts related to self-pay patients, as well as co-pays, co-insurance amounts and deductibles owed to BHSF by patients with insurance. Under ASU 2014-09, the estimated uncollectable amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net patient services revenue, with a corresponding material reduction in the amounts presented separately as provision for doubtful accounts. For the twelve months ended September 30, 2019, BHSF recorded approximately \$388,756,000 of implicit price concessions as a direct reduction of net patient services revenues that would have been recorded as provision for doubtful accounts with a corresponding material reduction in the amount presented separately as provision for doubtful accounts. As part of the adoption of Accounting Standards Codification ("ASC") 606, BHSF elected two of the available practical expedients provided for in the standard. BHSF does not adjust the transaction price for any financing components as those were deemed to be insignificant. Additionally, BHSF expenses all incremental customer contract acquisition costs as incurred as such costs are not material and would be amortized over a period of less than one year.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). ASU 2018-08 assists in evaluating whether transactions should be accounted for as contributions or exchange transactions. The guidance also assists in determining whether a contribution is conditional which would impact the timing of revenue recognition. ASU 2018-08 is effective for fiscal years beginning after June 15, 2018. BHSF adopted this standard as of October 1, 2018. The adoption of this standard had no impact on BHSF's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-For-Profit Entities – Presentation of Financial Statement of Not-for-Profit Entities (Topic 958)* ("ASU 2016-14"). ASU 2016-14 requires not-for-profit entities to present on the balance sheet amounts for two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) rather than the three classes previously required. Not-for-profit entities are required to enhance disclosures regarding board designations and composition of net assets with donor restrictions. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. ASU 2016-14 is applied on a retrospective basis in the year in which the guidance is adopted. BHSF adopted this standard as of September 30, 2019. The adoption of this standard had no material impact on BHSF's financial position, results of operations, or cash flows. ASU 2016-14 required enhanced and additional disclosures which are included in Note 18 and Note 19 to the consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes (Topic 740)* ("ASU 2015-17"). ASU 2015-17 provides guidance to simplify the presentation of deferred income taxes. Under ASU 2015-17, deferred tax liabilities and assets are required to be classified as noncurrent in a classified statement of

financial position. BHSF adopted this standard as of October 1, 2018. The adoption of this standard had no impact on BHSF's consolidated financial statements.

New Accounting Pronouncements – In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The update also requires an entity to separately present the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842): Section A-Leases: Amendments to the FASB Accounting Standards Codification; Section B-Confirming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification; and Section C-Background Information and Basis for Conclusions* (“ASU 2016-02”) which supersedes existing guidance on accounting for leases and generally requires all leases to be recognized in the balance sheet. The provisions of ASU 2016-02 are effective for reporting periods beginning after December 15, 2018; early adoption is permitted. The provisions of this update are to be applied using a modified retrospective approach. BHSF will adopt this ASU including supplemental guidance from ASU 2018-11, *Leases (Topic 842); Targeted Improvements*, issued in July 2018, and ASU 2018-20, *Leases (Topic 842); Narrow-Scope Improvements for Lessors*, issued in December 2018, on October 1, 2019. BHSF will elect the transition package of three practical expedients, which, among other things, does not require the reassessment under the new standard of prior conclusions about lease identification, lease classifications, and initial direct costs. BHSF will also elect the short-term lease recognition exemption for all leases that qualify, permitting BHSF to not apply the recognition requirements of this standard to leases with a term of twelve months or less and an accounting policy to not separate lease and non-lease components for certain classes of assets. BHSF will not elect the use-of-hindsight practical expedient, and therefore will continue to utilize lease terms determined under the existing lease guidance. BHSF will use the risk-free rate as the discount rate. The adoption of this standard will result in the recognition of operating lease liabilities and corresponding right-of-use assets on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). ASU 2016-13 provides guidance regarding the treatment of expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

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

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). ASU 2017-04 simplified the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on dates after January 1, 2017. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (“ASU 2017-07”). ASU 2017-07 requires an employer to disaggregate the service cost component from other components of net benefit costs. The ASU also provides guidance on how to present the service cost component and the other components of net benefit cost in the income statement. ASU 2017-07 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities* (“ASU 2017-12”), which is intended to better align risk management activities and financial reporting for hedging relationships. The new standard eliminates the requirement to separately measure and report hedge ineffectiveness and

generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. It also eases certain documentation and assessment requirements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”), which is intended to improve the effectiveness of disclosures by facilitating clear communication of the information required by GAAP. ASU 2018-13 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal year beginning after December 15, 2019. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans* (“ASU 2018-14”), which is intended to identify a modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The provisions of this update are to be applied using a modified retrospective approach. ASU 2018-14 is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (“ASU 2018-15”), which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate, Overnight Index Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes* (“ASU 2018-16”), which provides guidance on risks associated with financial assets or liabilities permitted to be hedged. ASU 2018-16 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted but FASB requires this standard to be adopted concurrently with ASU 2017-12. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In October 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* (“ASU 2018-17”), which allows a reporting entity to not apply VIE guidance to legal entities under common control if both the parent and the legal entity being evaluated for consolidation are not public business entities. The provisions of this update are to be applied retrospectively with a cumulative-effect adjustment to retained earnings. ASU 2018-17 is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606* (“ASU 2018-18”), which provides guidance on whether certain transactions between collaborative arrangement participants should be accounted for with revenue under Topic 606. The provisions of this update are to be applied retrospectively to the date of the initial application of Topic 606. The provisions of ASU 2018-18 are effective for reporting periods beginning after December 15, 2019, and interim periods within those fiscal years. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

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

Inventories - Inventories, totaling approximately \$65,753,000 and \$49,768,000 at September 30, 2019 and 2018, respectively, consisting primarily of pharmaceutical, medical and surgical supplies, are stated at average cost, and are included in other current assets in the consolidated balance sheets.

Assets Whose Use is Limited and Other Investments - Assets whose use is limited include assets set aside by the Board of Trustees for future capital improvements and education, over which the Board of Trustees retains control and may at its discretion subsequently use for other purposes, unspent note proceeds, and insurance surplus reserves. Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. Other investments are held by the BHSF Foundation and the BH Foundation and include certain assets whose use is restricted by donors (see Note 6).

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

BHSF holds certain financial instruments with derivative features, including forward foreign exchange contracts and short sales of equity securities. BHSF records these derivatives at fair value in its consolidated balance sheets and records the changes in fair value of the derivatives as investment income in the consolidated statements of operations. The change in fair value of derivative instruments held by BHSF resulted in investment gains of approximately \$3,375,000 and investment losses of approximately \$801,000 for the years ended September 30, 2019 and 2018, respectively. BHSF also holds various hybrid financial instruments with embedded derivative features, including convertible preferred stock and convertible bonds.

BHSF records a liability for short sales and forward foreign exchange contracts that are in a loss position. The obligations arising from such transactions are recorded on a trade-date basis and carried at current market values. The majority of forward foreign exchange contract transactions are settled on a short-term basis. Contracts that are not subject to a master netting agreement represent obligations to settle the contract at a rate above the current market exchange rate. At September 30, 2019 and 2018, forward foreign exchange contract obligations totaled approximately \$3,112,000 and \$3,614,000, respectively. Short sale positions are held as part of a long-short equity investment strategy. At September 30, 2019 and 2018, short sale obligations totaled approximately \$76,641,000 and \$3,212,000, respectively. Both short sale and forward foreign exchange contract obligations are recorded in accrued expenses and other liabilities in the accompanying balance sheets.

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

BHSF held alternative investment interests in eleven limited partnerships and one hedge fund as of September 30, 2018. The first partnership invests in a broad range of infrastructure and infrastructure-related assets located in member countries of the Organization for Economic Co-operation and Development, with a primary focus on the United States, Canada, Western Europe and Australia. The second partnership is designed to provide investors with broad exposure to all major sectors of the public property markets throughout North America, Europe, Australia and Asia. The third partnership is a private debt fund that invests primarily in the debt of privately owned U.S. companies with a focus on senior secured debt, second lien debt and, to a lesser extent, subordinated debt. The fourth and fifth partnerships are open-ended commingled real estate funds that invest in various property types including office, retail, industrial, multi-family, and other select property types in the United States. The sixth partnership is an upstream oil & gas fund capitalizing on the micro-cap end of the market in North America. The seventh partnership is an income-focused fund investing in primarily middle market companies within the United States. The eighth partnership is focused purely on late stage venture capital and growth equity. The ninth partnership targets both secondary funds and direct secondary interests. The tenth and eleventh funds focused on leveraged buyouts of small to mid-cap companies located in or having a principal place of business in North America. The hedge fund was a global multi-strategy fund, with a fair value of \$23,329,000, which was fully redeemed during fiscal year 2019, and recognized a realized investment gain of approximately \$127,000.

In fiscal year 2019, BHSF entered into additional alternative investments by securing interests in three limited partnerships. Two of the limited partnerships focused on stressed and distressed credit. The third limited partnership is a real estate fund that is geographically diversified throughout the southern United States.

All BHSF alternative investments are recorded at net asset value. All gains and losses from these alternative investments are reflected in investment income. The carrying value of BHSF's interests in these alternative investments, as of September 30, 2019 and 2018, was approximately \$501,483,000 and \$430,521,000, respectively (see Note 20).

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

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

Gifts of long-lived assets, such as land, buildings or equipment, are reported as a direct addition to net assets without restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as additions to net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Property and equipment are described in more detail in Note 7.

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

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

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

Net Assets With Donor Restrictions – Net assets with donor restrictions are those for which use has been limited by donors to a specific time period, purpose, or includes donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of BHSF or its affiliates (see Note 11).

Excess of Revenues Over Expenses - The consolidated statements of operations include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), changes in the value of split-interest agreements, transfers from net assets with donor restrictions, purchase and sale of limited partnership interests and partnership distributions.

Donor-Restricted Gifts - Unconditional promises to give cash and other assets to BHSF and its affiliates are reported at fair value at the date the promise is received. Contingent promises to give and indications of intentions to give are reported at fair value at the date the contingency is met. The gifts are reported as net assets with donor restriction 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, net assets with donor restrictions are reclassified as net assets without donor restrictions. Net assets released from restrictions used for operations are included in excess of revenues over expenses. Net assets released from restrictions used to purchase property and equipment are reported as a change in net assets.

Goodwill - Goodwill represents the excess of purchase price and related costs over the value assigned to net tangible assets and identifiable intangible assets of businesses acquired and accounted for under the acquisition method of accounting. Goodwill has arisen from various acquisitions by affiliates of BHSF (see Note 8).

Deferred Bond Issue Costs and Bond Premium - Deferred bond issue costs and bond premium are being amortized and accreted using the bonds-outstanding method. For the years ended September 30, 2019 and 2018, amortization of bond issue costs totaled approximately \$330,000 and \$501,000, respectively; and accretion of bond premium totaled approximately \$5,964,000 and \$4,870,000, respectively.

Indigent Care Assessment - The state of Florida Healthcare Consumer Protection and Awareness Act of 1984 created a fund to provide for the treatment of indigent patients. Hospitals in the state of Florida are required to pay into the fund an amount equal to 1.5% of net inpatient revenue and 1.0% of net outpatient revenue. The indigent care assessment is included in administrative and general expenses in the consolidated statements of operations.

Income and Other Taxes - BHSF, the BHSF Hospitals, Bethesda Health, BOS, BHMG, MCIBH, BRRH, BRRH Hospital, BRRH Home Health, BH Foundation, and BHSF Foundation are not-for-profit corporations and recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. BHMG affiliated physician practices are single-member LLCs, which are treated as disregarded entities for federal income tax purposes. BHE, BocaCare, BHC, and the Insurance Companies are for-profit entities. BHSF provides for income taxes in accordance with the provisions of FASB ASC 740, *Income Taxes* (“ASC 740”). As required under ASC 740, deferred tax assets and liabilities are recognized under the balance sheet approach, which recognizes the future tax effect of temporary differences between the amounts recorded in the financial statements and the tax basis of these amounts. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax assets or liabilities are expected to be realized or settled (see Note 15). Taxes collected from patients, tenants, customers and others, concurrent with specific revenue-producing transactions and subsequently remitted to governmental authorities, are recorded on a net basis and excluded from revenues.

### 3. ACQUISITIONS

BRRH System – Effective July 1, 2019, full affiliation occurred and BRRH System became a controlled entity consolidated within BHSF. The preliminary fair value of the assets assumed exceeded liabilities assumed, resulting in an inherent contribution of approximately \$438,693,000, which was recorded as inherent contribution of net assets from affiliations in the consolidated statement of operations and changes in net assets for the period ended September 30, 2019.

Summarized preliminary consolidated opening balance sheet information for BRRH System as of July 1, 2019 is shown below:

Total assets:		Total liabilities:	
Cash	\$44,332,731	Accounts payable and accrued expenses	\$66,042,489
Accounts receivable	70,968,444	Estimated third-party payor settlements	836,796
Other current assets	16,494,398	Current maturity of long-term debt and capital lease obligation	6,265,080
Assets whose use is limited and other investments	7,761,701	Accrued wages, salaries and benefits	16,808,456
Property and equipment	239,791,242	Long-term debt and capital lease obligation, net of current portion	74,206,974
Beneficial interest in BRRH Foundation	302,443,818	Other liabilities	79,428,585
Other assets	489,372	Total liabilities	<u>\$243,588,380</u>
Total assets	<u>\$682,281,706</u>	Total net assets:	
		Net assets without donor restrictions	259,003,209
		Net assets with donor restrictions	179,690,117
		Total net assets	<u>\$438,693,326</u>

As part of the affiliation, BHSF assumed the outstanding debt and capital lease obligations of BRRH Hospital. As of August 29, 2019, all of BRRH Hospital’s outstanding debt was defeased (See Note 9). The capital lease obligation is further described in Note 10.

Pursuant to the affiliation, BHSF assumed BRRH System’s existing retirement plans, including a noncontributory, defined benefit plan (the “BRRH DBP”) further described in Note 14.

The following are the results of BRRH System from the date of the affiliation that have been included in the accompanying consolidated statement of operations and changes in net assets for the fiscal year ended September 30, 2019:

Total unrestricted revenues, gains and other support	\$135,290,522
Excess of expenses over revenues attributable to Baptist Health South Florida, Inc. and Affiliates	(\$5,163,062)
Decrease in net assets without donor restrictions	(\$2,541,926)
Decrease in net assets with donor restrictions	(\$8,549,469)

Following are the unaudited proforma results for the fiscal year ended September 30, 2018, as if the affiliation had occurred on October 1, 2017, which includes the inherent contribution of net assets without donor restrictions recognized as of the affiliation date:

Total unrestricted revenues, gains and other support	\$3,525,043,872
Excess of revenues over expenses attributable to Baptist Health South Florida, Inc. and Affiliates	\$662,944,010
Increase in net assets without donor restrictions	\$444,376,527
Increase in net assets with donor restrictions	\$187,807,048

The Boca Raton Regional Hospital Foundation, Inc. (“BRRH Foundation”) is not consolidated in BHSF for financial reporting purposes as BRRH System does not have control of BRRH Foundation, but it is a related entity to BHSF due to its sole purpose of providing support to BRRH Hospital. The BRRH Foundation is not a member of the obligated group, and BHSF does not expect it to become an obligated group member (See Note 4).

The affiliation has been accounted for as an acquisition in accordance with the guidance on not-for-profit mergers and acquisitions. As of December 19, 2019, the date the consolidated financial statements were issued, the valuation of the balance sheet was not finalized; therefore, in accordance to GAAP, beginning balances may change as a result of the valuation up until June 30, 2020.

BHE – In March 2019, BHE acquired controlling interest in a single specialty ambulatory surgery center located in West Palm Beach, Florida. The total amount of cash consideration paid for a 26.01% interest was approximately \$1,730,000. Additionally, the transaction resulted in the recording of goodwill of approximately \$5,333,000 (See Note 8). The purchase price of the acquisition was allocated to the identifiable assets acquired and liabilities assumed based on estimates of their fair value, with the excess purchase price recorded as goodwill.

#### 4. BENEFICIAL INTEREST IN THE NET ASSETS OF BRRH FOUNDATION

BRRH System accounts for its interest in the BRRH Foundation in accordance with *ASC 958, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* (“ASC 958”). Pursuant to ASC 958, BRRH System and BRRH Foundation are financially interrelated organizations. Accordingly, BRRH System is required to recognize its interest in the net assets of the BRRH Foundation and adjust that interest for its share of the change in net assets of the BRRH Foundation. As of September 30, 2019, all of the net assets held by the BRRH Foundation were recorded as a noncurrent asset in the accompanying consolidated balance sheets of BHSF as a beneficial interest in the net assets of the BRRH Foundation.

The BRRH Foundation is a not-for-profit corporation that was formed to raise funds to support BRRH Hospital. BRRH Hospital periodically requests funds from the BRRH Foundation and, if approved, funds are transferred to BRRH Hospital. Such transfers of funds are reported in the accompanying consolidated financial statements as contributions from the BRRH Foundation. BRRH Hospital’s beneficial interest in the net assets with donor restrictions of the BRRH Foundation and its share of the change in those net assets are reported in the accompanying consolidated balance sheet in net assets with donor restrictions.

The BRRH Foundation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of contributions; valuation of pledges receivables; and valuation of investments. Management relies on historical experience and other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results can differ from those estimates.

A summary of the BRRH Foundation's assets, liabilities, and net assets as of September 30, 2019, is as follows:

Total assets:		Total liabilities:	
Cash	\$1,188,532	Accounts payable and accrued expenses	\$280,846
Pledges receivable	50,793,851	Due to affiliates - net	2,600,917
Assets whose use is limited and other investments	123,201,136	Other liabilities	169,951
Donor designated assets	120,119,958	Total liabilities	<u>\$3,051,714</u>
Other assets	1,642,588		
Total assets	<u>\$296,946,065</u>	Total net assets:	
		Net assets without donor restrictions	122,930,362
		Net assets with donor restrictions	170,963,989
		Total net assets	<u>\$293,894,351</u>

A summary of the BRRH Foundation's results from operations and changes in net assets for the three months ended September 30, 2019, is as follows:

Total revenues, gains, and other support:		Total expenses:	
Contributions	\$4,367,244	Wages, salaries and benefits	\$455,638
Investment income - net	453,202	Purchased services	13,125
Net realized gains on sales of investments	101,059	Supplies and other expenses	711,321
Changes in net unrealized gains and losses on investments	390,106	Distributions to BRRH Hospital	12,680,994
Total revenues, gains, and other support	<u>5,311,611</u>	Total expenses	<u>13,861,078</u>
		Total decrease in net assets	(8,549,467)
		Net assets - beginning of year	302,443,818
		Net assets - end of year	<u>\$293,894,351</u>

The BRRH Foundation's investments include marketable securities, limited partnerships, private equity partnerships, and investment funds. The partnerships and investment funds are not readily marketable as defined by ASC 958, as there are conditions and restrictions on the redemption of these investments. As a practical expedient, the BRRH Foundation reports the partnerships and investment funds based upon the net asset value ("NAV"), or its equivalent, such as ownership interest in these investments as of the reporting date. The BRRH Foundation has elected to use the NAV to report the fair value which is based on the fair values as reported by the respective investment managers.

As of September 30, 2019, the BRRH Foundation's significant financial investments and donor-restricted assets that are measured at fair value on a recurring basis are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Investments Measured at Fair Value	Alternative Investments Measured at Asset Value	Total
Investments:					
Cash and cash equivalents	\$18,171,491		\$18,171,491		\$18,171,491
Corporate equity instruments	82,367,028		82,367,028		82,367,028
Corporate bonds		\$2,953	2,953		2,953
Partnerships				\$921,803	921,803
Hedge funds				39,909,352	39,909,352
Donor-designated assets:					
Corporate equity instruments	90,582,276		90,582,276		90,582,276
Corporate bonds		1,000,943	1,000,943		1,000,943
Partnerships				234,005	234,005
Hedge funds				10,131,243	10,131,243
Total	<u>\$191,120,795</u>	<u>\$1,003,896</u>	<u>\$192,124,691</u>	<u>\$51,196,403</u>	<u>\$243,321,094</u>

## 5. NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at the amount that reflects the consideration to which BHSF expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, BHSF bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by BHSF. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected, or actual charges. BHSF believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in hospitals receiving inpatient acute care services or patients receiving services in outpatient centers. BHSF measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally on the date of service for inpatients or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting, such as pharmaceuticals for example, and BHSF does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, BHSF has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

BHSF determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with BHSF's policy, and implicit price concessions provided to uninsured patients. BHSF determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. BHSF determines its estimate of implicit price concessions based on its historical collection experience using a portfolio approach as a practical expedient by accounting for patient contracts as collective groups rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Agreements with third-party payors typically provide for payments at amounts less than established charges. Payments under traditional Medicare and Medicaid programs are based primarily on prospectively determined rates depending on clinical, diagnostic, and other factors and cost-reimbursement methodologies subject to certain limits. Payments for other payor sources, including managed care health plans, are based primarily on terms involving predetermined rates per diagnosis, per-diem rates, and discounts from established charges and/or other similar contractual arrangements.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. BHSF also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. BHSF estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the year ended September 30, 2019, additional revenue of approximately \$19,000,000 was recognized due to changes in estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Mariners Hospital and Fishermen's Community Hospital are critical access hospitals ("CAH"). As such, they are certified to receive cost-based reimbursement for services provided to Medicare beneficiaries. Among other participation constraints, CAH status requires that Mariners Hospital and Fishermen's Community Hospital operate no more than 25 beds and that their average length of stay not exceed 96 hours.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Federal regulations require submission of annual cost reports covering medical costs and expenses associated with the services provided by each facility to program beneficiaries. Annual cost reports required under the Medicare programs are subject to

routine audits, which may result in adjustments to the amounts ultimately determined to be due to BHSF under these payment programs. These audits often require several years to reach the final determination of amounts earned under the programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Such audits of the Medicare cost reports have been completed for Baptist Hospital and South Miami Hospital through fiscal year 2014; Doctor's Hospital, West Kendall Baptist Hospital, and Bethesda Hospital as of fiscal year 2015; Mariners Hospital and BRRH Hospital as of fiscal year 2016; and Fishermen's Community Hospital as of fiscal year 2017. Homestead Hospital's Medicare cost report audits have been completed as of fiscal year 2016, with the exception of fiscal year 2015. The combined effects from changes in estimate related to the valuation of the prior period third-party payor settlement liability, primarily due to the completion of prior year cost report audits and the filing of the 2018 cost report, was an increase in income from operations of approximately \$7,336,000 and a decrease in income from operations of \$2,309,000 for the years ended September 30, 2019 and 2018, respectively. Medicaid cost reports are no longer required and BHSF has no pending estimates.

Consistent with BHSF's mission, care is provided to patients regardless of their ability to pay. Therefore, BHSF has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts BHSF expects to collect based on its collection history with similar patients.

BHSF provides charity care to patients who are financially unable to pay for the healthcare services they receive. Uninsured patients treated at BHSF facilities with household income at or below 200% to 300% of the federal poverty level are eligible for free care. In addition, uninsured patients may be eligible for charity care if incurred charges are considered beyond the patient's ability to pay. The federal poverty level is established by the federal government and is based on income and family size. BHSF provided charity care at a cost of approximately \$113,422,000 and \$102,519,000 for the years ended September 30, 2019 and 2018, respectively. Excluding BRRH System, the estimated cost of providing charity services is based on recent historical cost-to-charge ratios for charity patients from BHSF's cost accounting system applied to the current period gross uncompensated charges associated with providing care to charity patients. For BRRH System, the estimated cost of providing charity services is based on recent historical cost-to-charge ratios for charity patients from the most recently filed cost report, applied to the current period gross uncompensated charges associated with providing care to charity patients.

BHSF receives payments for services rendered from government agencies (primarily the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, employers and patients. BHSF's net patient service revenue related to patients participating in the traditional Medicare program during the years ended September 30, 2019 and 2018, was approximately 15% of total net patient service revenue. BHSF recognizes that revenues and receivables from the Medicare program are significant to its operations but does not believe that there are significant credit risks associated with this federal program. BHSF does not believe that there are any other significant concentrations of revenues from any particular payor that would subject it to any significant credit risks in the collection of its accounts receivable.

The concentration of net patient service accounts receivable by payor class, as a percentage of total patient service accounts receivables, at September 30, 2018, was as follows:

	<u>2018</u>
Medicare	13%
Medicare managed care	17%
Medicaid	1%
Medicaid managed care	4%
Commercial managed care	55%
Other	<u>10%</u>
Total	<u><u>100%</u></u>

BHSF has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by payors, and service types.

The following summarizes the composition of net patient service revenue by primary payor class for the year ended September 30, 2019:

	<u>2019</u>
Net patient service revenue	
Medicare	\$509,539,323
Medicare managed care	528,439,319
Medicaid, Medicaid managed care	127,358,566
Managed care	2,326,131,863
Other	39,060,149
Total net patient service revenue	<u>\$3,530,529,220</u>

Revenue from patient deductibles and coinsurance are included in the preceding categories based on the primary payor.

The following summarizes the composition of net patient service revenue before the provision for doubtful accounts by payor class for the year ended September 30, 2018:

	<u>2018</u>
Net patient service revenue before provision for doubtful accounts	
Medicare	\$442,075,953
Medicare managed care	426,100,075
Medicaid	61,201,180
Medicaid managed care	97,979,120
Commercial managed care	1,832,493,636
Other	465,690,790
Total net patient service revenue before provision for doubtful accounts	<u>\$3,325,540,754</u>

The following summarizes the activity in BHSF's allowance for doubtful accounts for the year ended September 30, 2018:

	<u>2018</u>
Balance, beginning of year	\$219,014,499
Provision, during the year	450,298,593
Accounts written off (net of recoveries)	<u>(441,610,269)</u>
Balance, end of year	<u>\$227,702,823</u>

BHSF revenues by primary service type were as follows for the year ended September 30, 2019:

	<u>2019</u>
Inpatient services	\$1,481,122,074
Outpatient services	<u>2,049,407,146</u>
Total net patient service revenue	3,530,529,220
Non-patient (ancillary goods, services and rental income)	<u>131,643,760</u>
Total unrestricted revenues, gains, and other support	<u>\$3,662,172,980</u>

BHSF has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to BHSF's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, BHSF in certain instances enters into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is deemed not significant to the contract.

BHSF has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that BHSF otherwise would have recognized is one year or less in duration.

Amounts related to services provided to patients which do not meet the conditions of unconditional rights to payment at the end of the reporting period are contract assets. As of September 30, 2019, BHSF did not have any contract assets.

During the years ended September 30, 2019 and 2018, BHSF received approximately \$109,741,000 and \$305,000, respectively, related to favorable settlements of outstanding disputes with third-party payors. Third-party payor settlements are recorded as an increase to net patient service revenue when the disputes are settled and the cash settlements are received. During the years ended September 30, 2019 and 2018, BHSF recorded an increase to net patient service revenue of approximately \$14,386,000 and \$4,738,000, respectively, due to Medicaid historical rate adjustments for prior years. As a result of these settlements and favorable adjustments for the year ended September 30, 2019, BHSF has recognized an increase of approximately \$124,127,000 in net patient service revenue in the consolidated statement of operations. In fiscal years 2019 and 2018, BHSF received approximately \$3,380,000 and \$8,270,000, respectively, in Low Income Pool (“LIP”) dollars from the state of Florida for BHSF Hospitals.

## 6. ASSETS WHOSE USE IS LIMITED AND OTHER INVESTMENTS

Assets whose use is limited and other investments at September 30, 2019, are set forth in the following table and stated at fair value:

	Assets Whose Use is Limited	Other Investments	Total
Financial assets:			
Cash and short-term investments	\$256,339,035	\$4,890,101	\$261,229,136
U.S. Treasury obligations	283,160,658	14,574,062	297,734,720
U.S. Agency obligations	83,095,043	4,324,357	87,419,400
Municipal bonds	6,336,887	331,372	6,668,259
Corporate equity instruments	1,297,049,479	71,188,652	1,368,238,131
Corporate bonds	484,543,689	25,199,977	509,743,666
Foreign government bonds	192,237,017	10,181,659	202,418,676
Foreign corporate bonds	101,891,260	5,352,021	107,243,281
Foreign exchange contracts	3,108,734	164,651	3,273,385
Global properties securities fund	48,323,574	2,559,414	50,882,988
Infrastructure fund	40,139,127	2,125,933	42,265,060
Private debt fund	58,891,747	3,119,148	62,010,895
Private oil and gas fund	48,067,122	2,545,832	50,612,954
Private real estate funds	197,556,313	10,463,391	208,019,704
Other alternative investments	83,280,659	4,410,885	87,691,544
Total	<u>\$3,184,020,344</u>	<u>\$161,431,455</u>	<u>\$3,345,451,799</u>

Assets whose use is limited and other investments at September 30, 2018, are set forth in the following table and stated at fair value:

	Assets Whose Use is Limited	Other Investments	Total
Financial assets:			
Cash and short-term investments	\$190,156,912	\$12,243,966	\$202,400,878
U.S. Treasury obligations	192,100,740	7,150,443	199,251,183
U.S. Agency obligations	61,827,010	2,364,364	64,191,374
Municipal bonds	5,577,978	213,553	5,791,531
Corporate equity instruments	1,414,392,535	58,500,980	1,472,893,515
Corporate bonds	499,778,090	19,122,246	518,900,336
Foreign government bonds	206,135,493	8,008,141	214,143,634
Foreign corporate bonds	100,303,081	3,858,695	104,161,776
Foreign exchange contracts	3,614,483	140,044	3,754,527
Global properties securities fund	58,897,108	2,288,089	61,185,197
Infrastructure fund	42,349,758	1,645,242	43,995,000
Private debt fund	64,518,341	2,506,468	67,024,809
Private oil and gas fund	33,986,992	1,320,358	35,307,350
Private real estate funds	152,188,731	5,912,368	158,101,099
Other alternative investments	41,961,457	1,549,748	43,511,205
Total	3,067,788,709	126,824,705	3,194,613,414
Redemption receivable from other alternative investments	21,396,492		21,396,492
Total	<u>\$3,089,185,201</u>	<u>\$126,824,705</u>	<u>\$3,216,009,906</u>

Other investments represent assets of the BHSF Foundation and BH Foundation. At September 30, 2019 and 2018, other investments in the amount of approximately \$86,960,000 and \$70,808,000, respectively, were donor-restricted.

The following is the composition of assets whose use is limited at September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Board designated for:		
Funded depreciation	\$2,903,652,366	\$2,763,741,207
Education	<u>335,043</u>	<u>335,043</u>
Total Board designated	2,903,987,409	2,764,076,250
Unspent note proceeds	235,330,219	282,298,004
Insurance reserves	<u>44,702,716</u>	<u>42,810,947</u>
Total	3,184,020,344	3,089,185,201
Less amount required for current liabilities	<u>(8,132,919)</u>	<u>(50,335,043)</u>
Assets whose use is limited	<u>\$3,175,887,425</u>	<u>\$3,038,850,158</u>

Unspent note proceeds as of September 30, 2019 and 2018, represent \$235,330,219 and \$282,298,004; respectively, of invested proceeds, inclusive of net realized and unrealized gains, from the 2017 Taxable Notes issuance (see Note 9).

Investment income and gains and losses for assets whose use is limited, other investments and cash and cash equivalents are comprised of the following for the years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Investment income:		
Interest and dividends income	\$65,002,100	\$59,672,741
Realized gains on sales of securities	179,470,857	287,021,363
Realized losses on sales of securities	(145,614,029)	(101,000,607)
Change in net unrealized gains and losses	<u>(69,567,951)</u>	<u>(28,578,369)</u>
Investment income	<u>\$29,290,977</u>	<u>\$217,115,128</u>
Other changes in net assets with donor restrictions:		
Investment income	\$997,713	\$1,274,996
Realized income on investments - net	<u>407,517</u>	<u>530,947</u>
Total	<u>\$1,405,230</u>	<u>\$1,805,943</u>

## 7. PROPERTY AND EQUIPMENT - NET

Property and equipment at September 30, 2019 and 2018, are summarized as follows:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$520,429,149	\$424,608,221
Buildings and improvements	2,159,775,476	1,893,046,863
Equipment	1,072,004,107	976,425,636
Software and licenses	<u>270,239,799</u>	<u>258,333,771</u>
Total	4,022,448,531	3,552,414,491
Less accumulated depreciation	<u>(1,648,017,274)</u>	<u>(1,546,027,578)</u>
Total	2,374,431,257	2,006,386,913
Construction in progress	<u>251,521,095</u>	<u>197,588,161</u>
Property and equipment - net	<u>\$2,625,952,352</u>	<u>\$2,203,975,074</u>

Interest costs incurred during fiscal years 2019 and 2018 were approximately \$58,221,000 and \$58,885,000, respectively. Interest capitalized was approximately \$5,024,000 and \$2,618,000, during fiscal years 2019 and 2018, respectively. Depreciation expense on property and equipment, for the years ended September 30, 2019 and 2018, amounted to approximately \$203,220,000 and \$194,206,000, respectively.

During fiscal years 2019 and 2018, BHSF and certain BHSF Hospitals made several building and land purchases with a total cost of approximately \$70,642,000 and \$18,658,000, respectively. These acquisitions are for use in BHSF's clinical and administrative operations.

As of September 30, 2019 and 2018, BHSF has accrued approximately \$31,160,000 and \$38,037,000, respectively, for the acquisition and construction of property and equipment. These amounts are included in accounts payable and accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

## 8. GOODWILL

Goodwill is subject to at least an annual assessment for impairment by applying a fair-value based test. BHSF performs an annual impairment test during the fourth quarter of each fiscal year or more frequently, when events or other changes in circumstances indicate that the carrying value of goodwill may not be recoverable. During the fourth quarter of September 30, 2019, BHSF performed its annual goodwill impairment test and concluded there was no impairment of goodwill.

A summary of the changes in goodwill at September 30, 2019 and 2018, is listed below:

	<u>2019</u>	<u>2018</u>
Goodwill, beginning of year	\$77,440,043	\$72,507,450
Ambulatory surgery center acquisitions and purchase price adjustments	5,333,343	4,915,521
Acquisition of assets relating to Fishermen's Hospital and purchase price adjustments		17,072
	<u>                    </u>	<u>                    </u>
Goodwill, end of year	<u><u>\$82,773,386</u></u>	<u><u>\$77,440,043</u></u>

## 9. DEBT

On May 16, 2007, the BHSF Obligated Group issued through the City of South Miami Health Facilities Authority \$800,000,000 of its Hospital Revenue Bonds, Series 2007 ("2007 Bonds") in accordance with the provisions of a new Master Trust Indenture dated as of May 1, 2007. The 2007 Bonds were refunded on December 28, 2017, and are no longer outstanding. The refunding of the 2007 Bonds resulted in a gain on extinguishment of debt of approximately \$7,230,000 for the year ended September 30, 2018.

On April 1, 2010, Bethesda Health issued \$130,000,000 of Palm Beach County Health Facilities Authority ("PBCHFA") Revenue Bonds, Series 2010A ("2010A Bonds"), which were limited obligations of the PBCHFA (the Issuer), payable solely from and secured by payments to be made under a Loan Agreement, dated as of April 1, 2010. On April 23, 2010, Bethesda Health issued Series 2010B Bonds for the purpose of financing a portion of a construction project to build a new 80-bed hospital in the western Boynton Beach community. As a result of affiliation with BHSF, certain entities of Bethesda Health became part of the BHSF Obligated Group and the existing Bethesda Master Trust Indenture was terminated. Beginning October 1, 2017, all of the covenants under the Bethesda Health Master Trust Indenture no longer apply to Bethesda Health. The 2010A Bonds and 2010B Bonds were refunded on December 28, 2017, and are no longer outstanding. The refunding of these bonds resulted in a loss of extinguishment on debt of approximately \$5,775,000 for the year ended September 30, 2018.

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

On December 21, 2011, the BHSF Obligated Group implemented a commercial paper program that allows BHSF to issue up to \$150,000,000 of taxable commercial paper notes for general corporate purposes at an interest rate to be determined at the time of the commercial paper notes issuance. The commercial paper program was issued under the Master Trust Indenture, as amended and supplemented by a Second Supplemental Master Trust Indenture. As of September 30, 2019, notes totaling \$75,500,000 have been issued and are outstanding; the notes bear interest rates of 2.14% and 2.10% per annum, with maturity dates of October 18, 2019, and November 18, 2019; these commercial paper notes were repaid in fiscal year 2020 (see Note 21).

On September 25, 2014, BRRH and BRRH Hospital issued \$89,570,000 of PBCHFAs Hospital Revenue Refunding Bonds, Series 2014 (“2014 Bonds”). The proceeds of the 2014 Bonds were used to refund previously outstanding debt and related issue costs. BRRH and BRRH Hospital were the only members of the BRRH Master Trust Indenture dated September 1, 2014. As of August 29, 2019, the BRRH Master Trust Indenture no longer applies to BRRH System. As of August 29, 2019, the 2014 Bonds were defeased with the proceeds from a draw on BHSF’s commercial paper program, and are no longer outstanding. BRRH and BRRH Hospital recognized a combined gain from extinguishment of approximately \$3,535,000 from the refunding of outstanding bonds recorded within other income in the consolidated statement of operations as of September 30, 2019.

On January 9, 2017, the BHSF Obligated Group issued \$250,000,000 of its Baptist Health South Florida Obligated Group Taxable Notes, Series 2017 (the “2017 Taxable Notes”). The 2017 Taxable Notes were issued under the Master Trust Indenture, as amended and restated by a Third Supplemental Master Trust Indenture. The 2017 Taxable Notes bear interest at 4.34% per annum, payable annually on November 15, and will mature on November 15, 2041. Proceeds of the 2017 Taxable Notes may be used for any corporate purposes. A portion of these proceeds have been designated to repay the principal of the 2011 Taxable Notes.

On December 28, 2017, the BHSF Obligated Group issued through the City of South Miami Health Facilities Authority \$809,565,000 of its Hospital Refunding Revenue Bonds, Series 2017 (“2017 Bonds”) in accordance with the provisions of the Fifth Supplemental Master Trust Indenture dated as of December 1, 2017. The 2017 Bonds bear interest at rates ranging from 3.00% to 5.00%, payable semiannually each February 15 and August 15, and mature annually on August 15 through 2047. Proceeds of the 2017 Bonds, together with other available funds, were used to refund outstanding bonds and pay issue costs incurred in connection with the issuance of the 2017 Bonds. BHSF recognized a gain from extinguishment of approximately \$1,455,000 from the refunding of outstanding bonds recorded as other income in the consolidated statement of operations as of September 30, 2018.

Under the Master Trust Indentures, the BHSF Obligated Group has certain restrictions on incurrence of additional debt and certain other covenants. Payment of principal and interest on the long-term debt is wholly dependent on the credit of the BHSF Obligated Group. As of September 30, 2019, the BHSF Obligated Group was in compliance with all of its financial debt covenants.

A summary of debt at September 30, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
2017 Tax-Exempt Bonds (net of unaccreted bond premium - 2019: \$75,755,534, 2018: \$81,638,138; and deferred issue costs - 2019: \$5,369,649, 2018: \$5,684,313)	\$852,725,885	\$871,383,825
2017 Taxable Notes (net of deferred issue costs - 2019: \$1,902,166; 2018: \$1,987,978)	248,097,834	249,477,277
2011 Taxable Notes (net of deferred issue costs - 2019: \$346,587; 2018: \$522,723)	249,653,413	248,012,022
Commercial paper notes (including unamortized discount - 2019: \$126,388; 2018: \$73,389)	<u>75,500,000</u>	<u>50,000,000</u>
Total	1,425,977,132	1,418,873,124
Amount representing current maturities	<u>(89,250,000)</u>	<u>(63,090,000)</u>
Long-term debt	<u>\$1,336,727,132</u>	<u>\$1,355,783,124</u>

At September 30, 2019, the scheduled principal payments on long-term debt for the next five years and thereafter are as follows:

<u>Year ending</u> <u>September 30</u>	<u>Revenue</u> <u>Bonds</u>	<u>Taxable</u> <u>Notes</u>	<u>Commercial</u> <u>Paper</u>	<u>Total</u>
2020	\$13,750,000		\$75,500,000	\$89,250,000
2021	14,435,000	\$250,000,000		264,435,000
2022	15,155,000			15,155,000
2023	15,915,000			15,915,000
2024	16,710,000			16,710,000
Thereafter	<u>706,375,000</u>	<u>250,000,000</u>		<u>956,375,000</u>
Total	<u>\$782,340,000</u>	<u>\$500,000,000</u>	<u>\$75,500,000</u>	<u>\$1,357,840,000</u>

## 10. CAPITAL LEASE OBLIGATION

On October 14, 2011, Bethesda Health sold a medical office building to an unrelated party for approximately \$36,000,000, resulting in a gain of approximately \$28,000,000. Bethesda Health simultaneously leased back approximately 50% of the rentable square feet of the building for fifteen years resulting in the deferral of approximately \$18,000,000 of the total gain.

The lease has been recorded as an \$18,000,000 capital lease payable over fifteen years, and the deferred gain will be recognized on a straight-line basis over the same period. In connection with the change of control effective October 1, 2017, Bethesda Health has elected to apply pushdown accounting by applying the guidance in ASC 805 *Business Combinations*. The adjustments for pushdown accounting resulted in a new basis of zero for the capital lease asset.

BHSF enters into various agreements for the acquisition of operating equipment under capital lease obligations. The underlying assets are entered as part of property, plant, and equipment on the consolidated balance sheet and the corresponding amortization is recorded as depreciation expense in the consolidated statement of operations. In fiscal year 2019, BHSF entered into capital lease agreements for medical equipment of approximately \$3,443,000.

As part of the affiliation with BRRH System, BHSF assumed the capital lease obligations of BRRH Hospital as of July 1, 2019, of approximately \$1,862,000 (See Note 3).

The following is a schedule of approximate future payments for the next five years and thereafter on capital leases in effect as September 30, 2019:

Year ending	
<u>September 30</u>	
2020	\$3,933,285
2021	3,745,529
2022	3,290,560
2023	3,350,922
2024	3,137,894
Thereafter	<u>5,797,731</u>
	23,255,921
Amount representing interest	<u>(4,940,319)</u>
Total capital lease obligation	<u>\$18,315,602</u>

## 11. NET ASSETS

A summary of the changes in consolidated net assets without donor restrictions attributable to BHSF and the noncontrolling interests for the year ended September 30, 2019, is as follows:

	Total	BHSF	Noncontrolling Interests
Balance, beginning of year	<u>\$3,771,826,437</u>	<u>\$3,734,828,213</u>	<u>\$36,998,224</u>
Excess of revenues over expenses	535,737,165	510,871,820	24,865,345
Net assets released from restrictions used for property and equipment acquisitions	13,324,957	13,324,957	
Change in value of split-interest agreements	636,691	636,691	
Transfers from restricted net assets with donor restrictions	(67,500)	(67,500)	
Change in value of pension liability	(18,153,164)	(18,153,164)	
Noncontrolling interest related to surgery centers	3,936,016		3,936,016
Sale of limited partnership interests	961,849		961,849
Purchase of limited partnership interests	(1,776,006)		(1,776,006)
Partnership distributions	<u>(26,098,917)</u>		<u>(26,098,917)</u>
Increase in net assets without donor restrictions	<u>508,501,091</u>	<u>506,612,804</u>	<u>1,888,287</u>
Balance, end of year	<u>\$4,280,327,528</u>	<u>\$4,241,441,017</u>	<u>\$38,886,511</u>

A summary of the changes in consolidated net assets without donor restrictions attributable to BHSF and the noncontrolling interests for the year ended September 30, 2018, is as follows:

	Total	BHSF	Noncontrolling Interests
Balance, beginning of year	\$3,353,145,985	\$3,319,994,650	\$33,151,335
Excess of revenues over expenses	427,676,330	405,584,366	22,091,964
Net assets released from restrictions used for property and equipment acquisitions	2,902,613	2,902,613	
Change in value of split-interest agreements	(458,767)	(458,767)	
Transfers from net assets with donor restrictions	(60,000)	(60,000)	
Noncontrolling interest related to surgery centers	4,070,158		4,070,158
Change in value of pension liability	6,865,351	6,865,351	
Sale of limited partnership interests	794,006		794,006
Purchase of limited partnership interests	(843,746)		(843,746)
Partnership distributions	(22,265,493)		(22,265,493)
Increase in net assets without donor restrictions	418,680,452	414,833,563	3,846,889
Balance, end of year	<u>\$3,771,826,437</u>	<u>\$3,734,828,213</u>	<u>\$36,998,224</u>

Net assets with donor restrictions are designated for the following purposes at September 30, 2019 and 2018:

	2019	2018
Equipment and building fund	\$62,153,658	\$53,580,727
Indigent care	6,985,542	6,955,938
Health education	83,838,288	69,483,090
Beneficial interest in BRRH Foundation	171,140,648	
Total	<u>\$324,118,136</u>	<u>\$130,019,755</u>

BHSF's endowment consists of funds that have been limited by donors to a specific time period or purpose. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment funds received are included in assets whose use is limited and invested in accordance with BHSF's investment policy. Accumulated gains from these investments are included in the net assets with donor restrictions balance until designated for use.

Gifts donated to restricted endowments are classified as net assets with donor restrictions at their original fair value, until those amounts are appropriated for expenditure by the BHSF Hospitals or BOS in accordance with donors' wishes. Income derived from net assets with donor restrictions is available to support the BHSF Hospitals, BOS, BHMGM, and MCIBH, absent explicit donor stipulations to the contrary.

Changes in endowment net assets for the year ended September 30, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions
Change in endowment net assets:		
Endowment net assets, beginning of year	\$18,069,511	\$20,858,445
Contributions		5,310,100
Investment income (loss)	391,997	(75,505)
Amounts used for expenditures	(93,079)	(90,908)
Other - net		(90,897)
Present value allowance adjustments		(2,086,453)
Endowment net assets, end of year	<u>\$18,368,429</u>	<u>\$23,824,782</u>

Changes in endowment net assets for the year ended September 30, 2018, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>
Change in endowment net assets:		
Endowment net assets, beginning of year		\$13,655,806
Inherent contribution from affiliations	\$16,847,809	7,058,849
Contributions		196,005
Investment income	1,221,702	292,124
Amounts used for expenditures		(186,119)
Other - net		(191,218)
Present value allowance adjustments		32,998
Endowment net assets, end of year	<u>\$18,069,511</u>	<u>\$20,858,445</u>

## 12. MEDICAL MALPRACTICE AND GENERAL LIABILITY INSURANCE

BHSF is self-insured for professional and general liability coverage. Coverage in excess of the self-insurance limits, less coinsurance, is provided on a claims-made basis by PIC, which reinsures 100% of its professional and general liability risk with unrelated commercial insurance carriers. The adequacy of the coverage provided and the provisions for losses are reviewed at least annually by independent actuaries. Should the claims-made policies be terminated, or not renewed or replaced with equivalent insurance, claims based on incidents during their term, but reported subsequently, will be uninsured. At September 30, 2019 and 2018, BHSF has accrued undiscounted estimates of approximately \$279,951,000 and \$248,232,000, respectively, which represents the cost to settle malpractice and general liability claims reported and claims incurred but not reported. Approximately \$81,122,000 and \$69,231,000 is included in accrued expenses and other current liabilities, and approximately \$198,828,000 and \$179,001,000 is included in other liabilities, in the accompanying consolidated balance sheets at September 30, 2019 and 2018, respectively.

The fiscal year 2019 and 2018 consolidated statements of operations reflect a change in estimate reducing the accrued undiscounted cost to settle malpractice and general liability claims of approximately \$13,293,000 and \$12,239,000, respectively, primarily due to favorable development and settlement of historical outstanding claims.

## 13. EMPLOYEE BENEFITS PROGRAMS

BHSF subsidizes the cost of health insurance for its employees through a self-insured employee health plan. Under the self-insurance plan, all claims from employees and their covered dependents, less deductibles and coinsurance, as provided in the plan, are paid directly by BHSF to the plan administrators. BHSF has commercial insurance coverage for per-occurrence claims in excess of the self-insured limits. At September 30, 2019 and 2018, BHSF has recorded liabilities for outstanding and estimated unreported claims of its employees and their covered dependents under this plan of approximately \$25,162,000 and \$19,671,000, respectively, which are included in accrued wages, salaries and benefits in the accompanying consolidated balance sheets.

BHSF is self-insured for workers' compensation claims. BHSF purchases commercial insurance coverage for per-occurrence workers' compensation claims in excess of the self-insured limit. As of September 30, 2019 and 2018, BHSF has recorded liabilities for outstanding and estimated unreported claims covered under this plan of approximately \$7,237,000 and \$9,199,000, respectively, which are included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

## 14. RETIREMENT PLAN

Defined Contribution Plans – BHSF sponsors system-wide defined contribution retirement plans (the “Plans”) in which participation is available to substantially all full-time employees. Under the terms of the Plans, BHSF provides a basic contribution of 3% of the employee's gross salary. In addition, BHSF matches 50% of the amount the participating employee has contributed through a voluntary salary reduction agreement with BHSF. The maximum matching contribution is limited to 2% of the employee's gross salary. Provisions of the Plans include 100% vesting of BHSF contributions after three years of continuous service. Upon a participant's retirement, death or disability, or as required by law, the participant's vested interest in his or her account can be distributed in either a lump-sum amount equal to the value of the participant's vested interest in his or her account or annual installments over the life expectancy of the participant. The funding levels for the Plans are subject to periodic determination by the Board of Trustees of BHSF. Costs incurred in connection with the Plans, for the years ended September 30, 2019 and 2018, were approximately \$55,073,000 and \$49,393,000, respectively,

and are included in wages, salaries and benefits expense in the accompanying consolidated statements of operations. With the exception of Bethesda Health and BRRH System, BHSF does not offer defined benefit plans.

Bethesda Health has established a defined contribution plan, which is available for eligible employees hired on or after October 1, 2005. The defined contribution plan was established to provide benefits for employees of the sponsor and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. Costs incurred in connection with the defined contribution plan for the year ended September 30, 2019 and 2018, were approximately \$3,653,000 and \$1,367,000, respectively, and is included in wages, salaries and benefits expense in the accompanying consolidated statements of operations.

BRRH System also provides a defined contribution plan (403(b) program Program) for all employees who voluntarily participate; a supplemental executive retirement plan for select employees; and a defined contribution plan (401(k) Program) for its BocaCare employees who voluntarily participate.

Defined Benefits Plans – Bethesda Health participates in a noncontributory defined benefit plan (“Bethesda DBP”), covering substantially all of their qualified employees hired before October 1, 2015. The Bethesda DBP was closed to new entrants as of October 1, 2015. The benefits are based on years of service and employees’ compensation levels and are calculated using the projected unit credit actuarial cost method. On September 21, 2014, Bethesda Health approved a freeze of the Bethesda DBP and ceased all future benefit accruals effective September 30, 2018. Participants of the Bethesda DBP are eligible for the defined contribution plan noted below. Bethesda Health’s current funding policy is to contribute annual amounts that meet the requirements of IRC Section 412 for minimum funding and the requirements for IRC Section 404 with regard to maximum contribution limitations. Annual contributions to the Bethesda DBP equal the amount accrued for pension expense. Contributions of \$8,700,000 were paid to the Bethesda DBP during the fiscal year ended September 30, 2019.

Bethesda Health follows the provision of ASC Topic 715, *Compensation-Retirement Benefits*. ASC Topic 715 requires the recognition of the funded status (the difference between the fair value of plan assets and the projected benefit obligations) of the Bethesda DBP in the accompanying consolidated balance sheet, with a corresponding adjustment to net assets without donor restrictions. Bethesda Health mortality rates are projected generally from 2012 using Aon Proxy Scale MP-2019. At September 30, 2019 and 2018, the Bethesda DBP was underfunded by \$16,963,000 and \$17,109,000, respectively, which is included in other liabilities in the accompanying consolidated balance sheets. Actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of net assets without donor restrictions. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in net assets without donor restrictions.

Included in net assets without donor restrictions at September 30, 2019 and 2018, were unrecognized actuarial losses of \$44,633,000 and \$35,775,000, respectively. These amounts have not yet been recognized in net periodic pension cost. The actuarial loss included in net assets without donor restrictions and expected to be recognized in net periodic pension cost during the year ending September 30, 2020, is \$2,210,000.

The following table sets forth the Bethesda DBP’s funded status and amounts recognized in BHSF’s consolidated financial statements:

	2019	2018
Change in benefit obligation:		
Benefit obligation, beginning of year	\$219,703,000	\$259,469,000
Service cost		5,554,000
Interest cost	9,256,000	10,109,000
Actuarial loss (gain)	27,673,000	(10,293,000)
Benefits paid	(9,161,000)	(45,136,000)
Benefit obligation, end of year	<u>247,471,000</u>	<u>219,703,000</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	202,594,000	236,673,000
Actual return on plan assets	28,622,000	4,251,000
Employer contributions	8,700,000	7,200,000
Expenses paid	(247,000)	(394,000)
Participants benefits paid - net	(9,161,000)	(45,136,000)
Fair value of plan assets, end of year	<u>230,508,000</u>	<u>202,594,000</u>
Funded status of plan:	<u>(\$16,963,000)</u>	<u>(\$17,109,000)</u>

Changes recognized in net assets without donor restrictions during 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Net loss	\$10,203,000	\$1,043,000
Amortization of net loss	<u>(1,345,000)</u>	<u>(7,908,000)</u>
	<u>\$8,858,000</u>	<u>(\$6,865,000)</u>

The accumulated benefit obligation as of September 30, 2019 and 2018, was \$247,471,000 and \$219,703,000, respectively.

Estimated future benefit payments at September 30, 2019, are as follows:

Year ending <u>September 30</u>	
2020	\$9,909,000
2021	10,471,000
2022	10,974,000
2023	11,393,000
2024	11,806,000
2025-2029	<u>63,917,000</u>
	<u>\$118,470,000</u>

Net pension cost includes the following components:

	<u>2019</u>	<u>2018</u>
Service cost		\$5,554,000
Interest cost	\$9,256,000	10,109,000
Settlement expense		5,895,000
Expected return on plan assets	(10,905,000)	(15,191,000)
Amortization of unrecognized net assets	<u>1,345,000</u>	<u>2,012,000</u>
Total net pension (income) costs	<u>(\$304,000)</u>	<u>\$8,379,000</u>

The following assumptions were used to determine the benefit obligation and net benefit cost with a measurement date of September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Benefit obligation:		
Discount rate	3.3%	4.3%
Rate of compensation increase	N/A	3.5%
Net benefit cost:		
Discount rate	4.3%	4.4%
Expected return on plan assets	6.0%	6.8%
Rate of compensation increase	N/A	3.5%

The weighted-average expected long-term rate of return on the Bethesda DBP assets is based upon historical financial market relationships that have existed over time with the presumption that this trend will generally remain constant in the future.

Bethesda Health has examined historical benchmarks for returns in each asset in its portfolio and based on the target asset mix has developed a weighted-average expected return for the portfolio as a whole of 5.5%, taking into consideration forecasts of long-term expected inflation rates.

Bethesda DBP assets are administered by a trustee and invested principally in cash and cash equivalents, corporate bonds, and marketable equity securities. The primary investment objective of the Bethesda DBP is to achieve long-term objectives return, while mitigating against downside risk and considering expected cash flows. Based on an assessment of its long-term goals and desired risk levels, the investment policy statement approved in January 2017 includes a guide path that adjusts the target allocation as the Bethesda DBP's funded status changes. The following table sets forth the target allocation percentages aligning to the Bethesda DBP's funded status as of September 30, 2019:

	2019	2018
Asset class:		
Real estate	4.0%	4.0%
Debt securities	70.0%	70.0%
Equity and international securities	25.0%	25.0%

Target allocation percentages aligning to the Bethesda DBP's funded status also includes 1.0% for cash and cash equivalents for the periods ended September 30, 2019 and 2018. Rebalancing is executed when changes in market value occur and results allocations being outside of a pre-specific range. The following table sets forth the percentage of the fair value of each major category of the Bethesda DBP assets to total Bethesda DBP assets as of September 30, 2019 and 2018:

	2019	2018
Short-term, interest-bearing accounts	1.0%	1.0%
Investment funds:		
Real estate	4.0%	4.0%
Debt securities	71.0%	70.0%
Equity and international securities	24.0%	25.0%

The table below summarizes the estimated fair values of the Bethesda DBP's assets by major category and by the three levels of inputs that may be used to determine fair value as defined in Note 20 as of September 30, 2019:

	As of September 30, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Investments Measured at Fair Value	Alternative Investments Measured at Net Asset Value	Total
Financial assets:					
Cash and short-term investments	\$2,037,000		\$2,037,000		\$2,037,000
Common collective trusts				\$228,475,000	228,475,000
Total	<u>\$2,037,000</u>	<u>\$0</u>	<u>\$2,037,000</u>	<u>\$228,475,000</u>	<u>\$230,512,000</u>

The table below summarizes the estimated fair values of the Bethesda DBP's assets by major category and by the three levels of inputs that may be used to determine fair value as defined in Note 20 as of September 30, 2018:

	As of September 30, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Investments Measured at Fair Value	Alternative Investments Measured at Net Asset Value	Total
Financial assets:					
Cash and short-term investments	\$2,990,000		\$2,990,000		\$2,990,000
Common collective trusts				\$199,604,000	199,604,000
Total	<u>\$2,990,000</u>	<u>\$0</u>	<u>\$2,990,000</u>	<u>\$199,604,000</u>	<u>\$202,594,000</u>

The following is a schedule of additional information regarding the Bethesda DBP investments measured at net asset value as of September 30, 2019 and 2018:

	September 30, 2019		
	Fair Value	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Real estate	\$8,271,000	Daily	Trade date minus two days
Common equity securities	\$55,692,000	Daily	Trade date minus two days
Corporate bonds	\$164,512,000	Daily	Trade date minus two days

	September 30, 2018		
	Fair Value	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Real estate	\$7,200,000	Daily	Trade date minus two days
Common equity securities	\$49,631,000	Daily	Trade date minus two days
Corporate bonds	\$142,773,000	Daily	Trade date minus two days

As of September 30, 2019, there were no unfunded commitments.

BRRH System has a noncontributory, defined benefit plan (“BRRH DBP”) that covered substantially all of its qualified employees until October 1, 2007, when new employees or re-hires were excluded from participation. The benefits are based on the number of years of service and the employee’s compensation level calculated using the pure unit credit actuarial cost method. BRRH System’s funding policy is to contribute annual amounts that meet the requirements of Section 430 of the IRC for minimum funding, as amended by the Pension Protection Act of 2006 and the Moving Ahead for Progress in the 21<sup>st</sup> Century Act. Effective June 30, 2013, BRRH DBP was amended to freeze future benefit accruals. In 2018, BRRH System used the RP-2014 Blue Collar Mortality Table with Scale MP-2017. In 2019, BRRH System used the RP-2014 Blue Collar Mortality Table with Scale MP-2018. As of September 30, 2019, the BRRH DBP was underfunded by \$57,303,000, which is included in other liabilities in the accompanying consolidated balance sheets.

The following table sets forth the BRRH DBP’s funded status and amounts recognized in BHSF’s consolidated financial statements:

	2019
Change in benefit obligation:	
Benefit obligation, beginning balance as of affiliation	\$164,586,000
Interest cost	1,505,000
Benefits paid	(1,788,000)
Actuarial loss	9,201,000
Benefit obligation, end of year	<u>173,504,000</u>
Change in plan assets:	
Fair value of plan assets, beginning balance as of affiliation	116,155,000
Actual return on plan assets	592,000
Employer contributions	1,242,000
Participants benefits paid - net	(1,788,000)
Fair value of plan assets, end of year	<u>116,201,000</u>
Funded status of plan:	<u><u>(\$57,303,000)</u></u>

The accumulated amounts of net losses included in net assets without donor restrictions that have not been recognized as components of net periodic pension expense is approximately \$67,708,000 as of September 30, 2019. The estimated net loss that will be amortized from net assets without donor restrictions into net periodic pension expense over the next fiscal year is \$1,346,000. There are no accumulated amounts of net prior service cost or credit, or net transition asset or obligation.

Amounts recognized in the consolidated statements of operations and changes in net assets consist of the following for the year ended September 30, 2019:

	<u>2019</u>
Unrecognized actuarial loss	\$9,295,000
Pension expense	<u>818,000</u>
Net amount recognized	<u><u>\$10,113,000</u></u>

The accumulated benefit obligation as of September 30, 2019, was approximately \$173,504,000.

Estimated future benefit payments at September 30, 2019, are as follows:

<u>Year ending</u>	
<u>September 30</u>	
2020	\$7,577,000
2021	8,042,000
2022	8,568,000
2023	8,932,000
2024	9,275,000
Thereafter	<u>49,124,000</u>
	<u><u>\$91,518,000</u></u>

There will be an estimated pension contribution to the BRRH DBP of approximately \$8,370,000 during the year ended September 30, 2020.

Net pension cost includes the following components:

	<u>2019</u>
Interest cost	\$1,505,000
Expected return on assets	(2,033,000)
Amortization of accumulated loss	<u>1,346,000</u>
	<u><u>\$818,000</u></u>

The following assumptions were used to determine the benefit obligation and net benefit cost with a measurement date of September 30, 2019:

	<u>2019</u>
Benefit obligation:	
Discount rate	3.3%
Rate of compensation increase	N/A
Net benefit cost:	
Discount rate	3.7%
Expected return on plan assets	7.0%
Rate of compensation increase	N/A

The weighted-average expected long-term rate of return on BRRH DBP assets is based upon historical financial market relationships that have existed over time with the presumption that this trend will generally remain constant in the future.

BRRH System has examined historical benchmarks for returns on each asset in its portfolio and, based on the target asset mix, has developed a weighted-average expected return for the portfolio as a whole of 7.0%, taking into consideration forecasts of long-term expected inflation rates.

BRRH DBP assets are administered by a trustee and invested principally in cash and cash equivalents, mutual funds, equities, fund of funds, hedge funds and partnerships with underlying investments in marketable securities. BRRH DBP does not invest in complex derivative structures and has established other limitations to diversify its portfolio and reduce exposure to any one issuer or industry. The primary investment objective of the BRRH DBP is a long-term rate of return on assets that is no less than the assumed actuarial rate of return. BHSF realizes that market performance varies and that this objective may not be meaningful during some periods. The following table sets forth the target allocation percentages aligning to the BRRH DBP's funded status as of September 30, 2019:

	<u>2019</u>
Asset class:	
Mutual funds - equity	47.3%
Mutual funds - fixed income	25.5%
Partnerships	0.3%
Hedge funds	26.9%

Rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy range. These divergences should be of short-term nature. Management, under direction from the Investment Committee of the Board of Trustees, shall coordinate re-balancing the portfolio.

The table below summarizes the estimated fair values of the BRRH DBP's assets by major category and by the three levels of input that may be used to determine fair value as defined in Note 20 as of September 30, 2019:

	<u>As of September 30, 2019</u>				
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Total Investments Measured at Fair Value</u>	<u>Alternative Investments Measured at Net Asset Value</u>	<u>Total</u>
Financial assets:					
Cash and cash equivalents	\$752		\$752		\$752
Mutual funds - equity	55,002,276		55,002,276		55,002,276
Mutual funds - fixed income	29,724,144		29,724,144		29,724,144
Partnerships				\$342,323	342,323
Hedge funds				31,198,031	31,198,031
Total	<u>\$84,727,172</u>	<u>\$0</u>	<u>\$84,727,172</u>	<u>\$31,540,354</u>	<u>\$116,267,526</u>

## 15. INCOME TAXES

The components of the income tax provision for the years ended September 30, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Current income tax provision:		
Federal	\$2,476,614	\$1,591,241
State	<u>220,836</u>	<u>17,785</u>
Total current income tax provision	<u>2,697,450</u>	<u>1,609,026</u>
Deferred income taxes:		
Federal	(133,561)	(1,254,148)
State	<u>40,883</u>	<u>(95,514)</u>
Total deferred income taxes	<u>(92,678)</u>	<u>(1,349,662)</u>
Income tax provision	<u><u>\$2,604,772</u></u>	<u><u>\$259,364</u></u>

Deferred income taxes, at September 30, 2019 and 2018, are provided for the temporary differences between the tax bases of the assets and liabilities of BHE and Insurance Companies and their bases for financial reporting purposes.

The tax effects of temporary differences are as follows:

	<u>2019</u>	<u>2018</u>
Deferred tax (liabilities) assets:		
Unrealized gains	(\$458,825)	(\$798,286)
Realized losses		8,546
Other current assets	1,523,186	1,060,304
Accrued liabilities and other	9,457	10,225
Depreciation	290,770	904,507
Net unearned premiums	274,129	268,526
Loss and loss adjustment	161,589	99,175
Reserve discount amortization	(69,360)	
Investment in unconsolidated subsidiaries	(5,634,743)	(3,492,996)
Net operating loss carryforward	3,440,629	1,384,154
Installment gain	<u>(219,299)</u>	<u>(219,299)</u>
Total net deferred tax liabilities	<u><u>(\$682,467)</u></u>	<u><u>(\$775,144)</u></u>

The current accounting standards require that deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their bases for financial reporting purposes. *Accounting for Uncertainty in Income Taxes, ASC 740-10* (formerly FIN48), prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. Future tax benefits, such as minimum tax credit carry forwards, are required to be recognized to the extent that realization of such benefits is more likely than not. As of September 30, 2019 and 2018, BHSF had no material unrecognized tax positions. No material unrecognized tax positions are expected through September 30, 2020.

BHSF is periodically audited by federal and state taxing authorities. The outcome of these audits may result in BHSF being assessed taxes in addition to amounts previously paid. Federal returns for fiscal years 2016 through 2018 remain open and subject to examination by the Internal Revenue Service.

## 16. LEASE AGREEMENTS

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

The following is a schedule of the approximate minimum future rental revenue for the next five years and thereafter on non-cancelable leases in effect at September 30, 2019:

Year ending	
<u>September 30</u>	
2020	\$19,934,000
2021	7,291,000
2022	5,127,000
2023	3,963,000
2024	2,744,000
Thereafter	4,231,000
Total	<u>\$43,290,000</u>

## 17. COMMITMENTS AND CONTINGENCIES

Construction - BHSF has made certain commitments associated with its continuous construction programs. BHSF's future construction expenditures related to these commitments in years subsequent to 2019 are estimated at \$245,040,000. Actual construction expenditures may vary from these estimates.

Information Technology and Other Purchase Commitments - BHSF has made certain commitments for various information technology products and services, as well as other equipment and services. These expenditures are payable up to ten years subsequent to 2019 and are estimated at \$383,782,000. Actual expenditures may vary from these estimates.

Operating Leases - BHSF's operating leases are primarily related to its office and medical equipment, parking and office space. Office and medical equipment leases are subject to automatic renewal at the end of their respective lease terms for successive one-year periods under renegotiated terms and conditions. BHSF leases parking and office space under agreements that provide for terms of three to thirty years and renewals at rates to be negotiated. Office space rents are adjusted annually for changes in the CPI. Total lease expenses charged to operations for the years ended September 30, 2019 and 2018, amounted to approximately \$29,442,000 and \$31,319,000, respectively.

The following is a schedule of the approximate minimum future rental payments for the next five years and thereafter on non-cancelable leases in effect at September 30, 2019:

Year ending	
<u>September 30</u>	
2020	\$21,830,000
2021	19,262,000
2022	16,973,000
2023	15,320,000
2024	12,220,000
Thereafter	27,039,000
Total	<u>\$112,644,000</u>

Physician Income Guarantees - Baptist Hospital, Doctors Hospital, Fishermen's Community Hospital, Homestead Hospital, Mariners Hospital, South Miami Hospital and West Kendall Baptist Hospital provide income and revenue guarantee agreements to certain non-employed physicians and physician groups who agree to fill a community need in the hospitals' service areas and commit to remain in practice there for a specified period of time. Under such agreements, the hospitals are required to make payments to the physicians and physician groups in excess of the amounts earned or revenue collected in their practices up to the amount of the guarantees. The income and revenue collection guarantee agreements in effect at September 30, 2019, expire at various times through August 31, 2022.

At September 30, 2019, the maximum potential amount of future payments under the income and revenue collection guarantees was \$42,412,000. At September 30, 2019, a liability for future payments under the income and revenue collection guarantees in the amount of \$33,668,000 is included in accrued expenses and other current liabilities and other liabilities in the accompanying consolidated balance sheet.

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

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

BHSF identified a matter that resulted in certain of its hospitals being out of compliance with the 340B drug pricing program ("340B program") for the period from August 2013 through January 2017 for Baptist Hospital, and from August 2013 through March 2017 for Doctors Hospital, South Miami Hospital, and Homestead Hospital. In May 2017, BHSF self-disclosed this issue to the US Health Resources & Services Administration ("HRSA"). The self-disclosure as to Baptist Hospital was incorporated by HRSA into an audit of Baptist Hospital's 340B Program, which concluded with a final audit report issued by HRSA in November 2017, which was closed by HRSA in February 2019. As a result of the HRSA audit, Baptist Hospital is required to contact certain drug manufacturers to address matters identified in the HRSA audit, which may include repayments to drug manufacturers from which Baptist Hospital purchased drugs. The self-disclosures as to Doctors Hospital, South Miami Hospital and Homestead Hospital were closed by HRSA in October 2018. Separately, BHSF identified a 340B program compliance issue as to these hospitals for which identification of potential financial impact and additional disclosure obligations is in process. At this time, BHSF cannot predict any estimated loss or range of loss to BHSF in connection with manufacturer repayments that may be due as to Baptist Hospital, Doctors Hospital, South Miami Hospital or Homestead Hospital, or what impact, if any, such repayments might have on BHSF's consolidated financial position, results of operations or cash flows.

In May 2019, BRRH, acting on behalf of BocaCare, submitted a voluntary disclosure under the Centers of Medicare and Medicaid Services ("CMS") Self-Referral Disclosure Protocol ("SRDP"), relating to a technical structure issue involving the compensation of two employed physicians. In September 2019, BRRH, acting on behalf of BRRH Hospital, filed a second SRDP disclosure that relates to similar technical issues with some of the compensation provisions of an agreement between BRRH Hospital and an independent medical practice, pursuant to which the practice furnishes various professional and management services to BRRH Hospital and certain of its patients. At this time, BHSF cannot reasonably estimate when and in what amount either disclosure will be resolved.

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

## 18. FUNCTIONAL EXPENSES

BHSF provides healthcare services, fundraising, and other general and administrative services. Expenses related to providing these services for the years ended September 30, 2019, are as follows:

	September 30, 2019				Total
	Fundraising	Healthcare services	Insurance services	Other non-healthcare services	
Wages, salaries and benefits	\$7,468,939	\$1,443,348,794		\$338,798,554	\$1,789,616,287
Supplies	255,069	538,824,519		8,164,907	547,244,495
Malpractice and other insurance		83,686,403		6,870,702	90,557,105
Administrative and general	3,932,764	448,031,063	\$5,458,168	276,331,938	733,753,933
Depreciation and amortization	1,138	147,792,314		55,438,483	203,231,935
Interest		32,979,924	183,788	20,033,263	53,196,975
	<u>\$11,657,910</u>	<u>\$2,694,663,017</u>	<u>\$5,641,956</u>	<u>\$705,637,847</u>	<u>\$3,417,600,730</u>

BHSF provides healthcare services and other general and administrative services. Expenses related to providing these services for the years ended September 30, 2018, are as follows:

	September 30, 2018				Total
	Fundraising	Healthcare services	Insurance services	Other non-healthcare services	
Wages, salaries and benefits	\$6,220,725	\$1,292,537,388		\$339,676,326	\$1,638,434,439
Supplies	315,869	455,226,004		7,595,058	463,136,931
Malpractice and other insurance		80,062,461		7,614,713	87,677,174
Administrative and general	3,667,912	377,113,542	\$6,863,088	195,750,287	583,394,829
Depreciation and amortization	1,479	145,951,099		48,260,318	194,212,896
Interest		30,547,705	199,100	25,520,783	56,267,588
	<u>\$10,205,985</u>	<u>\$2,381,438,199</u>	<u>\$7,062,188</u>	<u>\$624,417,485</u>	<u>\$3,023,123,857</u>

The tables above exclude expenses related to items recorded as other income within the consolidated statement of operations. Healthcare services include operating expenses for BHSF affiliates whose main purpose is to provide these services to the community such as the BHSF Hospitals and various outpatient affiliates. Insurance services includes operating expenses for SRRG and PIC. Expenses related to corporate services are included as other non-healthcare services along with operating expenses related to BHSF affiliates that do not provide direct healthcare services or insurance services.

## 19. LIQUIDITY

BHSF regularly monitors liquidity requirements to meet operational needs and other contractual commitments, while also striving to maximize the investment of available funds. In addition, BHSF has various sources at its disposal, including a commercial paper program.

The following table summarizes BHSF's financial assets available for general expenditures within one year after September 30, 2019 and 2018:

Financial assets:	2019	2018
Cash and cash equivalents	\$205,082,056	\$146,779,645
Assets whose use is limited	3,184,020,344	3,089,185,201
Other investments	161,431,455	126,824,705
Pledges receivable	58,506,044	53,698,965
Other receivables	378,382,357	267,711,164
Other assets	230,649,821	248,523,886
Total financial assets	4,218,072,077	3,932,723,566
Less amounts not available to be used within one year:		
Cash restricted by donors for specific use	72,963,109	52,761,224
Endowment funds restricted by donors	23,824,782	20,858,445
Investments not eligible for redemption	232,564,095	144,023,940
Investments with maturities over one year	7,186,663	8,193,463
Insurance reserves	44,702,716	42,810,947
Pledges receivable due in more than one year	46,090,259	49,895,652
Other long term assets	122,172,596	146,441,072
Total financial assets not available to be used within one year	549,504,220	464,984,743
Financial assets available to meet general expenditures within one year	\$3,668,567,857	\$3,467,738,823

As of September 30, 2019, approximately 83.4% of BHSF's investment portfolio consists of highly liquid investments; 9.6% of the portfolio's investments may be redeemable at a future specified redemption date, and 7.0% of the portfolio's investment are currently not eligible for redemption (See Note 20).

## 20. FAIR VALUE MEASUREMENTS

Assets Whose Use is Limited and Other Investments - BHSF has elected the fair value option for all investments in debt and equity securities. BHSF classifies investments according to a hierarchy of techniques used to determine fair value based on the types of inputs.

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

Level 2 inputs are quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets other than quoted prices in Level 1 or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities. Investments classified as Level 2 primarily include debt securities such as U.S. Agency obligations, municipal bonds, domestic and foreign corporate bonds and foreign government bonds. BHSF's bank custodians use independent pricing services to provide fair values for these securities. These pricing services use the market and income approaches and utilize pricing models that vary by asset class and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, these pricing services utilize available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. As of September 30, 2019 and 2018, BHSF has recorded the valuations, without adjustment, which were provided by the pricing service.

Level 3 inputs are unobservable inputs that are supported by little or no market activity and are significant to the fair value of the asset or liability. Unobservable inputs reflect BHSF's own judgment about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments for which fair values are determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels occur when there are changes in the determination of whether inputs are observable or not, and changes in market activity. There were no changes to level classifications for securities held at September 30, 2018.

Alternative investments measured at fair value using net asset value ("NAV") per share, or its equivalent, as a practical expedient have not been classified in the fair value hierarchy as a result of adopting ASU 2015-07. The fair value amounts presented for such investments are intended to permit reconciliation of the fair value hierarchy to the investments presented in the consolidated balance sheet.

The disclosure of fair value measurements as of September 30, 2019, is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Investments Measured at Fair Value	Alternative Investments Measured at Net Asset Value	Total
<b>Financial assets:</b>					
Cash and short-term investments	\$261,229,136		\$261,229,136		\$261,229,136
U.S. Treasury obligations	252,593,222	\$45,141,498	297,734,720		297,734,720
U.S. Agency obligations	8,457,470	78,961,930	87,419,400		87,419,400
Municipal bonds		6,668,259	6,668,259		6,668,259
Corporate equity instruments	1,368,238,131		1,368,238,131		1,368,238,131
Corporate bonds		509,743,666	509,743,666		509,743,666
Foreign government bonds		202,418,676	202,418,676		202,418,676
Foreign corporate bonds		107,243,281	107,243,281		107,243,281
Foreign exchange contracts	3,273,385		3,273,385		3,273,385
Global properties securities fund				\$50,882,988	50,882,988
Infrastructure fund				42,265,060	42,265,060
Private debt fund				62,010,895	62,010,895
Private real estate funds				208,019,704	208,019,704
Private oil and gas fund				50,612,954	50,612,954
Other alternative investments				87,691,544	87,691,544
<b>Total</b>	<b>\$1,893,791,344</b>	<b>\$950,177,310</b>	<b>\$2,843,968,654</b>	<b>\$501,483,145</b>	<b>\$3,345,451,799</b>
<b>Financial liabilities:</b>					
Derivative liabilities	\$79,918,000		\$79,918,000		\$79,918,000

The disclosure of fair value measurements as of September 30, 2018, is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Investments Measured at Fair Value	Alternative Investments Measured at Net Asset Value	Total
<b>Financial assets:</b>					
Cash and short-term investments	\$202,400,878		\$202,400,878		\$202,400,878
U.S. Treasury obligations	175,553,995	\$23,697,188	199,251,183		199,251,183
U.S. Agency obligations		64,191,374	64,191,374		64,191,374
Municipal bonds		5,791,531	5,791,531		5,791,531
Corporate equity instruments	1,472,893,515		1,472,893,515		1,472,893,515
Corporate bonds		518,900,336	518,900,336		518,900,336
Foreign government bonds		214,143,634	214,143,634		214,143,634
Foreign corporate bonds		104,161,776	104,161,776		104,161,776
Foreign exchange contracts	3,754,527		3,754,527		3,754,527
Global properties securities fund				\$61,185,197	61,185,197
Infrastructure fund				43,995,000	43,995,000
Private debt fund				67,024,809	67,024,809
Private real estate funds				158,101,099	158,101,099
Private oil and gas fund				35,307,350	35,307,350
Other alternative investments				43,511,205	43,511,205
Redemption receivable from other alternative investments				21,396,492	21,396,492
<b>Total</b>	<b>\$1,854,602,915</b>	<b>\$930,885,839</b>	<b>\$2,785,488,754</b>	<b>\$430,521,152</b>	<b>\$3,216,009,906</b>
<b>Financial liabilities:</b>					
Derivative liabilities	\$6,966,000		\$6,966,000		\$6,966,000

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

The following is a schedule of additional information regarding the alternative investments held by BHSF that are valued using NAV as the practical expedient to fair value as of the years ended September 30, 2019:

	September 30, 2019			
	NAV	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global property securities	\$50,882,988		Monthly	15 days
Infrastructure fund	\$42,265,060		Bi-Annually	90 days
Private debt fund	\$62,010,895		Not currently eligible	
Private real estate funds	\$208,019,704		Various	Various, up to 135 days if eligible
Private oil and gas fund	\$50,612,954	\$8,426,000	Not currently eligible	
Other alternative funds	\$87,691,544	\$153,258,202	Not currently eligible	

The following is a schedule of additional information regarding the alternative investments held by BHSF that are valued using NAV as the practical expedient to fair value as of the year ended September 30, 2018:

	September 30, 2018			
	NAV	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global property securities	\$61,185,197		Monthly	15 days
Infrastructure fund	\$43,995,000		Bi-Annually	90 days
Private debt fund	\$67,024,809		Not currently eligible	
Private real estate funds	\$158,101,099	\$29,009,000	Quarterly	One quarter in advance, 30 days in advance
Private oil and gas fund	\$35,307,350	\$22,250,000	Not currently eligible	
Other alternative funds	\$41,441,400	\$35,041,000	Not currently eligible	
Other alternative funds in process of redemption	\$2,069,805		Various	Various over the next 18 months

BHSF has unfunded commitments of \$12,500,000 for additional alternative investments that did not have an NAV as of September 30, 2019.

Debt - The combined estimated fair value of BHSF's outstanding debt at September 30, 2019 and 2018, was \$1,456,053,000 and \$1,357,324,000, respectively (See Note 9). The fair values of the debt are determined using a market pricing approach by using trade data, comparable trades, and other information using observable inputs and are considered Level 2 on the fair value hierarchy.

Other Assets and Liabilities - As of September 30, 2019, BHSF held certain items that are required to be measured at fair value on a recurring basis. Cash and cash equivalents, accounts receivables, other assets, estimated third-party payor settlement, accrued expenses, and other liabilities are reflected in the consolidated balance at their carrying value, which approximate their fair value due to their short maturity.

## 21. SUBSEQUENT EVENTS

In the first quarter of fiscal year 2020, BHSF repaid outstanding \$75,500,000 commercial paper notes.

On September 24, 2019, the BHSF Obligated Group priced \$365,775,000 of its Hospital Revenue Bonds, Series 2019 (“2019 Bonds”) which were issued on October 15, 2019, through the Palm Beach County Health Facilities Authority. The 2019 Bonds bear interest at rates ranging from 3.00% to 5.00%, payable semiannually each February 15 and August 15, and mature annually on August 15 through 2049. Payment of principal and interest on the 2019 Bonds is wholly dependent on the credit of the BHSF Obligated Group. Proceeds from the 2019 Bonds are to fund construction and renovation projects for healthcare facilities of the BHSF Obligated Group.

In November 2019, BHSF and Belmont Village Senior Living entered into binding agreements to develop, own, and operate a senior living community located in Coral Gables.

In the first quarter of fiscal year 2020, Bethesda Payroll was removed from the BHSF Obligated Group.

In the first quarter of fiscal year 2020, BHSF funded capital calls of approximately \$17,529,000 relating to alternative investment funds which, as of September 30, 2019, had unfunded commitments.

BHSF evaluated events and transactions for potential recognition or disclosure through December 19, 2019, the date the consolidated financial statements were issued.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET INFORMATION  
SEPTEMBER 30, 2019

	BHSF Obligated Group	Combined Non-Obligated Group Affiliates	Consolidating Entries	Consolidated
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$165,240,718	\$39,841,338		\$205,082,056
Assets whose use is limited	8,132,919			8,132,919
Accounts receivable - net	403,814,804	33,073,597		436,888,401
Note receivable - affiliate	2,290,795	1,554,691	(\$3,845,486)	0
Due from affiliates	174,027,949	8,246,980	(182,274,929) (2)	0
Other current assets	162,113,553	12,884,531	(767,276) (2)	174,230,808
Total current assets	915,620,738	95,601,137	(186,887,691)	824,334,184
ASSETS WHOSE USE IS LIMITED	3,139,002,302	36,885,123		3,175,887,425
OTHER INVESTMENTS		161,431,455		161,431,455
PROPERTY AND EQUIPMENT - NET	2,460,100,164	165,852,188		2,625,952,352
BENEFICIAL INTEREST IN NET ASSETS OF BAPTIST HEALTH SOUTH FLORIDA FOUNDATION, INC.	168,927,860		(168,927,860) (3)	0
BENEFICIAL INTEREST IN NET ASSETS OF BOCA RATON REGIONAL HOSPITAL FOUNDATION	293,894,351			293,894,351
GOODWILL	26,481,404	56,291,982		82,773,386
OTHER ASSETS	53,636,543	68,536,053		122,172,596
DUE FROM AFFILIATES	807,077,735		(807,077,735) (2)	0
NOTE RECEIVABLE - AFFILIATE	64,530,802		(64,530,802) (2)	0
INVESTMENT IN AFFILIATES	1,534,976,513	1,534,356	(1,536,510,869) (5)	0
<b>TOTAL ASSETS</b>	<b>\$9,464,248,412</b>	<b>\$586,132,294</b>	<b>(\$2,763,934,957)</b>	<b>\$7,286,445,749</b>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable	\$72,329,609	\$1,030,415		\$73,360,024
Estimated third-party payor settlements	4,599,927			4,599,927
Commercial paper notes	75,500,000			75,500,000
Current maturities of long-term debt	13,750,000			13,750,000
Capital lease obligation	2,613,174	102,879		2,716,053
Accrued wages, salaries and benefits	252,034,572	56,606,100		308,640,672
Accrued expenses and other liabilities	474,987,869	55,632,379	(\$828,263) (2)	529,791,985
Note payable affiliate - current portion	1,554,691	2,290,795	(3,845,486) (2)	0
Due to affiliates	139,022,909	43,252,021	(182,274,930) (2)	0
Total current liabilities	1,036,392,751	158,914,589	(186,948,679)	1,008,358,661
LONG-TERM DEBT	1,336,727,132 (1)			1,336,727,132
CAPITAL LEASE OBLIGATION	15,590,764	8,785		15,599,549
OTHER LIABILITIES	298,910,384	22,404,359		321,314,743
NOTE PAYABLE - AFFILIATE		64,530,802	(64,530,802) (2)	0
DUE TO AFFILIATES	1,477,933,637	807,016,737	(2,284,950,374) (2)	0
Total liabilities	4,165,554,668	1,052,875,272	(2,536,429,855)	2,682,000,085
<b>NET ASSETS (DEFICIT):</b>				
Net assets without donor restrictions:				
Baptist Health South Florida, Inc. and Affiliates	4,918,143,870	(763,033,416)	86,330,563 (5)	4,241,441,017
Noncontrolling interests			38,886,511 (4)	38,886,511
Total net assets without donor restrictions	4,918,143,870	(763,033,416)	125,217,074	4,280,327,528
Net assets with donor restrictions	380,549,874	152,814,198	(209,245,936) (3,5)	324,118,136
Total net assets (deficit)	5,298,693,744	(610,219,218)	(84,028,862)	4,604,445,664
<b>STOCKHOLDER'S EQUITY:</b>				
Capital stock		54,200	(54,200) (5)	0
Additional paid-in-capital		26,123,166	(26,123,166) (5)	0
Retained earnings		78,412,363	(78,412,363) (5)	0
Total stockholder's equity		104,589,729	(104,589,729)	0
Noncontrolling interests		38,886,511	(38,886,511) (4)	0
Total equity		143,476,240	(143,476,240)	0
Total net assets (deficit) and stockholder's equity	5,298,693,744	(466,742,978)	(227,505,102)	4,604,445,664
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<b>\$9,464,248,412</b>	<b>\$586,132,294</b>	<b>(\$2,763,934,957)</b>	<b>\$7,286,445,749</b>

Notes:

- (1) The members of the BHSF Obligated Group are jointly and severally liable for the entire amount of the long-term debt issued under the Master Trust Indenture. Long-term debt has been allocated to members of the BHSF Obligated Group based on the use of the proceeds.
- (2) To eliminate intercompany receivables and payables
- (3) To eliminate beneficial interest in net assets of Baptist Health South Florida Foundation, Inc.
- (4) To reclassify noncontrolling interests
- (5) To eliminate equity in affiliates in income, the investment in affiliates balance and the related retained earnings

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION  
YEAR ENDED SEPTEMBER 30, 2019

	BHSF Obligated Group	Combined Non-Obligated Group Affiliates	Consolidating Entries	Consolidated
<b>UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:</b>				
Net patient service revenue	\$3,287,095,543	\$243,489,175	(\$55,498)	\$3,530,529,220
Rental revenue	14,284,307	12,857,056	(14,052,431) (7,8)	13,088,932
Other operating revenue	176,751,631	137,779,451	(195,976,254) (7)	118,554,828
Total unrestricted revenues, gains and other support	3,478,131,481	394,125,682	(210,084,183)	3,662,172,980
<b>EXPENSES:</b>				
Wages, salaries and benefits	1,451,674,152	337,515,845	426,290 (8)	1,789,616,287
Supplies	515,102,745	32,241,330	(99,580) (7,8)	547,244,495
Malpractice and other insurance	84,513,451	15,185,955	(9,142,301) (7)	90,557,105
Administrative and general	785,068,498	155,270,275	(206,584,840) (7,8)	733,753,933
Depreciation and amortization	179,915,049	14,476,545	8,840,341 (8)	203,231,935
Interest	52,681,723	4,852,687	(4,337,435) (7)	53,196,975
Total expenses	3,068,955,618	559,542,637	(210,897,525)	3,417,600,730
EQUITY IN AFFILIATES	(188,507,296)		188,507,296 (6)	0
INCOME (LOSS) FROM OPERATIONS	220,668,567	(165,416,955)	189,320,638	244,572,250
<b>OTHER INCOME (EXPENSE):</b>				
Investment income:				
Interest on affiliate advances	4,108,946	222,931	(4,331,877) (7)	0
Other investment income - net	26,467,085	2,823,892		29,290,977
Gain on extinguishment of debt	3,534,880			3,534,880
Inherent contribution of net assets without restrictions from affiliation with Boca Raton Regional Hospital	259,003,209			259,003,209
Other (loss) income	(1,481,526)	(96,388)	3,518,535 (7,8)	1,940,621
Total other income (expense)	291,632,594	2,950,435	(813,342)	293,769,687
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) BEFORE INCOME TAX PROVISION AND NONCONTROLLING INTERESTS	512,301,161	(162,466,520)	188,507,296	538,341,937
INCOME TAX PROVISION	1,429,341	1,175,431		2,604,772
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) FROM CONSOLIDATED OPERATIONS	510,871,820	(163,641,951)	188,507,296	535,737,165
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS		(24,865,345)		(24,865,345)
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) ATTRIBUTABLE TO BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES	\$510,871,820	(\$188,507,296)	\$188,507,296	\$510,871,820

Notes:

- (6) To eliminate equity in income, the investment balance in affiliates and the related retained earnings  
(7) To eliminate intercompany revenue and expense transactions  
(8) To reclassify rental income and expense of BHSF Hospitals from other income to income from operations

**BAPTIST HEALTH SOUTH FLORIDA, INC., OBLIGATED GROUP AFFILIATES**

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET INFORMATION  
SEPTEMBER 30, 2019

	BHSF Obligated Group						Combined BHSF Obligated Group
	Baptist Health South Florida, Inc.	Combined BHSF Hospitals	Baptist Outpatient Services, Inc.	Bethesda Health and Related Companies	BRRH Corporation	Combining Entries	
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents	\$132,276,307	\$2,162,942	\$764	\$2,285,115	\$28,515,590		\$165,240,718
Assets whose use is limited		8,132,919					8,132,919
Accounts receivable - net		396,503,280	7,003,177	255,942	52,405		403,814,804
Note receivable - affiliate	2,290,795						2,290,795
Due from affiliates	34,523,815	133,063,012		11,226,666		(\$4,785,544) (2)	174,027,949
Other current assets	58,966,967	100,089,520	2,494,697	517,192	45,177		162,113,553
Total current assets	228,057,884	639,951,673	9,498,638	14,284,915	28,613,172	(4,785,544)	915,620,738
ASSETS WHOSE USE IS LIMITED	3,138,980,034	22,268					3,139,002,302
PROPERTY AND EQUIPMENT - NET	492,531,835	1,865,302,883	35,691,753	43,065,629	23,508,064		2,460,100,164
BENEFICIAL INTEREST IN NET ASSETS OF BAPTIST HEALTH SOUTH FLORIDA FOUNDATION, INC	38,556,404	130,187,321	184,135				168,927,860
BENEFICIAL INTEREST IN NET ASSETS OF BOCA RATON REGIONAL HOSPITAL FOUNDATION, INC		293,894,351					293,894,351
GOODWILL		26,481,404					26,481,404
OTHER ASSETS	29,680,388	21,496,795		2,459,360			53,636,543
DUE FROM AFFILIATES	1,381,722,181					(574,644,446) (2)	807,077,735
NOTE RECEIVABLE - AFFILIATE	64,530,802						64,530,802
INVESTMENT IN AFFILIATES	1,426,000,751			2,175,247	106,800,515		1,534,976,513
<b>TOTAL ASSETS</b>	<b>\$6,800,060,279</b>	<b>\$2,977,336,695</b>	<b>\$45,374,526</b>	<b>\$61,985,151</b>	<b>\$158,921,751</b>	<b>(\$579,429,990)</b>	<b>\$9,464,248,412</b>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>							
<b>CURRENT LIABILITIES:</b>							
Accounts payable	\$44,396,045	\$22,295,715		\$116,123	\$5,521,726		\$72,329,609
Estimated third-party payor settlements		4,599,927					4,599,927
Commercial paper notes	75,500,000						75,500,000
Current maturities of long-term debt	(1)	10,644,460 (1)	\$92,358 (1)	3,013,182 (1)		(1)	13,750,000 (1)
Capital lease obligation		1,412,631		1,200,543			2,613,174
Accrued wages, salaries and benefits	92,676,770	149,826,547	6,907,341	2,621,604	2,310		252,034,572
Accrued expenses and other liabilities	144,975,115	315,002,724	8,267,205	6,072,783	670,042		474,987,869
Note payable affiliate - current portion		1,554,691					1,554,691
Due to affiliates		15,509,558		468,020	127,830,875	(\$4,785,544) (2)	139,022,909
Total current liabilities	357,547,930	520,846,253	15,266,904	13,492,255	134,024,953	(4,785,544)	1,036,392,751
LONG-TERM DEBT	248,097,834 (1)	899,140,335 (1)	5,635,344 (1)	183,853,619 (1)		(1)	1,336,727,132 (1)
CAPITAL LEASE OBLIGATION		3,359,680		12,231,084			15,590,764
OTHER LIABILITIES	3,933,131	273,394,478	2,578,160	15,514,462	3,490,153		298,910,384
NOTE PAYABLE - AFFILIATE							0 (2)
DUE TO AFFILIATES	1,477,933,634	499,595,120			75,049,329	(574,644,446) (2)	1,477,933,637
Total liabilities	2,087,512,529	2,196,335,866	23,480,408	225,091,420	212,564,435	(579,429,990)	4,165,554,668
<b>NET ASSETS (DEFICIT):</b>							
Net assets without donor restrictions	4,633,673,269	479,509,571	21,709,983	(163,106,269)	(53,642,684)		4,918,143,870
Net assets with donor restrictions	78,874,481	301,491,258	184,135				380,549,874
Total net assets (deficit)	4,712,547,750	781,000,829	21,894,118	(163,106,269)	(53,642,684)		5,298,693,744
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<b>\$6,800,060,279</b>	<b>\$2,977,336,695</b>	<b>\$45,374,526</b>	<b>\$61,985,151</b>	<b>\$158,921,751</b>	<b>(\$579,429,990)</b>	<b>\$9,464,248,412</b>

**Notes:**

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

BAPTIST HEALTH SOUTH FLORIDA, INC., OBLIGATED GROUP AFFILIATES

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION  
YEAR ENDED SEPTEMBER 30, 2019

	BHSF Obligated Group						Combined BHSF Obligated Group
	Baptist Health South Florida, Inc.	Combined BHSF Hospitals	Baptist Outpatient Services, Inc.	Bethesda Health and Related Companies	BRRH Corporation	Combining Entries	
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:							
Net patient service revenue		\$3,169,283,421	\$110,196,102	\$7,616,020			\$3,287,095,543
Rental revenue	\$8,961,896			5,295,089	\$27,322	(4,5)	14,284,307
Other operating revenue	626,640,792	59,643,586	6,540,767	22,385,207	164,674	(\$538,623,395)	176,751,631
Total unrestricted revenues, gains and other support	635,602,688	3,228,927,007	116,736,869	35,296,316	191,996	(538,623,395)	3,478,131,481
EXPENSES:							
Wages, salaries and benefits	275,529,462	1,116,854,605	38,235,612	21,054,473		(5)	1,451,674,152
Supplies	(2,830,740)	504,804,685	2,548,072	1,137,083		9,443,645 (4,5)	515,102,745
Malpractice and other insurance	64,382,240	80,864,365	1,316,556	300	11,976	(62,061,986) (4)	84,513,451
Administrative and general	294,106,168	899,349,598	56,843,672	20,295,381	478,733	(486,005,054) (4,5)	785,068,498
Depreciation and amortization	38,268,323	135,386,669	5,223,099	751,731	285,227	(5)	179,915,049
Interest	11,175,266	32,699,207	214,060	8,145,517	447,673	(4)	52,681,723
Total expenses	680,630,719	2,769,959,129	104,381,071	51,384,485	1,223,609	(538,623,395)	3,068,955,618
EQUITY IN AFFILIATES	267,822,014					(456,329,310) (3)	(188,507,296)
INCOME (LOSS) FROM OPERATIONS	222,793,983	458,967,878	12,355,798	(16,088,169)	(1,031,613)	(456,329,310)	220,668,567
OTHER INCOME (EXPENSE):							
Investment income:							
Interest on affiliate advances	4,108,946					(4)	4,108,946
Other investment income	26,182,898	413,095		(131,454)	2,546		26,467,085
Gain on extinguishment of debt					3,534,880		3,534,880
Inherent contribution of unrestricted net assets from affiliation with Boca Raton Regional Hospital	259,003,209						259,003,209
Other (loss) income		(1,508,671)	27,055		90	(4,5)	(1,481,526)
Total other income (expense)	289,295,053	(1,095,576)	27,055	(131,454)	3,537,516	0	291,632,594
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) BEFORE INCOME TAX PROVISION AND NONCONTROLLING INTERESTS	512,089,036	457,872,302	12,382,853	(16,219,623)	2,505,903	(456,329,310)	512,301,161
INCOME TAX PROVISION	1,217,216	198,249	13,876				1,429,341
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) FROM CONSOLIDATED OPERATIONS	510,871,820	457,674,053	12,368,977	(16,219,623)	2,505,903	(456,329,310)	510,871,820
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS							-
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) ATTRIBUTABLE TO BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES	\$510,871,820	\$457,674,053	\$12,368,977	(\$16,219,623)	\$2,505,903	(\$456,329,310)	\$510,871,820

Notes:

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

(4) To eliminate intercompany revenue and expense transactions

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

BAPTIST HEALTH SOUTH FLORIDA, INC. HOSPITALS

SUPPLEMENTAL COMBINING BALANCE SHEET INFORMATION  
SEPTEMBER 30, 2019

	Baptist Hospital of Miami, Inc.	Bethesda Hospital, Inc.	Boca Raton Regional Hospital, Inc.	Doctors Hospital, Inc.	Homestead Hospital, Inc.	Mariners Hospital, Inc.	Fishermen's Community Hospital, Inc.	South Miami Hospital, Inc.	West Kendall Baptist Hospital, Inc.	Combined BHSF Hospitals
<b>ASSETS</b>										
<b>CURRENT ASSETS:</b>										
Cash and cash equivalents	\$49,200	\$439,223	\$1,641,598	\$7,516	\$4,460	\$2,250	\$1,650	\$12,245	\$4,800	\$2,162,942
Assets whose use is limited			7,797,876					335,043		8,132,919
Accounts receivable - net	162,169,372	46,246,153	66,062,387	19,714,371	15,367,855	6,054,466	1,141,461	56,420,405	23,326,810	396,503,280
Due from affiliates			133,063,012							133,063,012
Other current assets	24,706,440	15,841,556	17,654,655	3,775,230	9,165,643	3,222,703	2,924,466	17,298,174	5,500,653	100,089,520
Total current assets	186,925,012	62,526,932	226,219,528	23,497,117	24,537,958	9,279,419	4,067,577	74,065,867	28,832,263	639,951,673
ASSETS WHOSE USE IS LIMITED		2,551	19,717							22,268
PROPERTY AND EQUIPMENT - NET	858,472,976	161,300,341	218,352,080	141,780,306	35,747,828	22,801,458	12,265,906	230,424,847	184,157,141	1,865,302,883
BENEFICIAL INTEREST IN NET ASSETS OF BAPTIST HEALTH SOUTH FLORIDA FOUNDATION, INC.	57,306,934	20,448,732		11,783,037	4,437,585	10,290,709	6,759,219	17,589,471	1,571,634	130,187,321
BENEFICIAL INTEREST IN NET ASSETS OF BOCA RATON REGIONAL HOSPITAL FOUNDATION, INC.			293,894,351							293,894,351
GOODWILL				22,547,681			3,933,723			26,481,404
OTHER ASSETS	3,885,112	9,077,534	1,311,284	558,000	182,850		404,999	6,077,016		21,496,795
<b>TOTAL ASSETS</b>	<b>\$1,106,590,034</b>	<b>\$253,356,090</b>	<b>\$739,796,960</b>	<b>\$200,166,141</b>	<b>\$64,906,221</b>	<b>\$42,371,586</b>	<b>\$27,431,424</b>	<b>\$328,157,201</b>	<b>\$214,561,038</b>	<b>\$2,977,336,695</b>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>										
<b>CURRENT LIABILITIES:</b>										
Accounts payable		\$4,565,145	\$17,730,570							\$22,295,715
Estimated third-party payor settlements			99,672	\$1,268,723				\$314,826		4,599,927
Current maturities of long-term debt	\$3,076,775 (1)			1,744,163 (1)	\$1,800,644 (1)	169,090 (1)		2,202,628 (1)	\$1,651,160 (1)	10,644,460
Capital lease obligation	241,236		930,159					241,236		1,412,631
Accrued wages, salaries and benefits	57,737,205	10,605,185	10,409,075	11,252,277	14,622,279	3,737,088	\$912,953	27,771,768	12,778,717	149,826,547
Accrued expenses and other liabilities	112,827,030	27,240,785	41,617,335	20,549,388	25,894,695	4,382,890	3,969,464	56,097,899	22,423,238	315,002,724
Note payable affiliate - current portion	1,554,691									1,554,691
Due to affiliates	347,055	10,376,959		4,785,544						15,509,558
Total current liabilities	175,783,992	52,788,074	70,786,811	39,600,095	42,317,618	11,205,774	4,882,417	86,628,357	36,853,115	520,846,253
LONG-TERM DEBT	437,387,142 (1)			106,422,608 (1)	109,868,896 (1)	10,317,282 (1)		134,396,534 (1)	100,747,873 (1)	899,140,335
CAPITAL LEASE OBLIGATION	1,339,664		680,352					1,339,664		3,359,680
OTHER LIABILITIES	61,685,813	62,577,409	83,698,703	12,385,751	13,448,179	881,838	1,184,368	26,452,763	11,079,654	273,394,478
NOTE PAYABLE - AFFILIATE										0
DUE TO AFFILIATES			634,445		401,998,338		37,153,904		59,808,433	499,595,120
Total liabilities	676,196,611	115,365,483	155,800,311	158,408,454	567,633,031	22,404,894	43,220,689	248,817,318	208,489,075	2,196,335,866
<b>NET ASSETS (DEFICIT):</b>										
Net assets without donor restrictions	373,086,489	117,713,629	412,856,001	29,974,650	(507,164,395)	9,675,983	(22,548,484)	61,415,369	4,500,329	479,509,571
Net assets with donor restrictions	57,306,934	20,276,978	171,140,648	11,783,037	4,437,585	10,290,709	6,759,219	17,924,514	1,571,634	301,491,258
Total net assets (deficit)	430,393,423	137,990,607	583,996,649	41,757,687	(502,726,810)	19,966,692	(15,789,265)	79,339,883	6,071,963	781,000,829
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<b>\$1,106,590,034</b>	<b>\$253,356,090</b>	<b>\$739,796,960</b>	<b>\$200,166,141</b>	<b>\$64,906,221</b>	<b>\$42,371,586</b>	<b>\$27,431,424</b>	<b>\$328,157,201</b>	<b>\$214,561,038</b>	<b>\$2,977,336,695</b>

Note:

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

BAPTIST HEALTH SOUTH FLORIDA, INC. HOSPITALS

SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS INFORMATION  
YEAR ENDED SEPTEMBER 30, 2019

	Baptist Hospital of Miami, Inc.	Bethesda Hospital, Inc.	Boca Raton Regional Hospital, Inc. <sup>(3)</sup>	Doctors Hospital, Inc.	Homestead Hospital, Inc.	Mariners Hospital, Inc.	Fishermen's Community Hospital, Inc.	South Miami Hospital, Inc.	West Kendall Baptist Hospital, Inc.	Combining Hospital Entries	Combined
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:											
Net patient service revenue	\$1,411,221,166	\$350,360,781	\$123,153,709	\$205,215,454	\$190,929,695	\$64,358,067	\$14,724,261	\$547,218,245	\$262,102,043		\$3,169,283,421
Other operating revenue	33,028,958	8,371,865	2,346,592	3,107,088	2,749,599	2,801,837	444,293	5,224,147	2,911,422	(\$1,342,215) (2)	59,643,586
Total unrestricted revenues, gains and other support	1,444,250,124	358,732,646	125,500,301	208,322,542	193,679,294	67,159,904	15,168,554	552,442,392	265,013,465	(1,342,215)	3,228,927,007
EXPENSES:											
Wages, salaries and benefits	429,103,018	147,759,779	50,322,398	75,256,908	99,990,265	20,299,120	7,316,634	193,331,732	93,474,751		1,116,854,605
Supplies	239,357,364	71,802,745	41,753,866	30,145,120	20,527,049	7,031,222	726,486	70,432,074	23,028,759		504,804,685
Malpractice and other insurance	28,333,896	18,634,067	1,538,505	4,128,552	10,608,780	1,116,924	431,004	10,512,899	5,559,738		80,864,365
Administrative and general	387,521,622	71,891,880	28,047,578	62,632,754	88,976,777	18,975,028	10,625,651	156,884,752	75,135,771	(1,342,215) (2)	899,349,598
Depreciation and amortization	61,120,036	15,195,731	6,292,847	10,593,634	3,860,216	2,200,482	1,073,499	23,320,032	11,730,192		135,386,669
Interest	16,466,341		117,826	3,027,043	4,160,012	391,911		5,041,694	3,494,380		32,699,207
Total expenses	1,161,902,277	325,284,202	128,073,020	185,784,011	228,123,099	50,014,687	20,173,274	459,523,183	212,423,591	(1,342,215)	2,769,959,129
INCOME (LOSS) FROM OPERATIONS	282,347,847	33,448,444	(2,572,719)	22,538,531	(34,443,805)	17,145,217	(5,004,720)	92,919,209	52,589,874	0	458,967,878
OTHER INCOME (EXPENSE):											
Investment income		339,065	74,030								413,095
Other (expense) income	(259,651)		(20,632)	(1,421,360)	(42,198)	285,769	167,843	447,203	(665,645)		(1,508,671)
OTHER (EXPENSE) INCOME	(259,651)	339,065	53,398	(1,421,360)	(42,198)	285,769	167,843	447,203	(665,645)		(1,095,576)
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) BEFORE INCOME TAX PROVISION	282,088,196	33,787,509	(2,519,321)	21,117,171	(34,486,003)	17,430,986	(4,836,877)	93,366,412	51,924,229	0	457,872,302
INCOME TAX PROVISION (BENEFIT)	98,195			24,442	31,103	(500)		5,770	39,239		198,249
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	\$281,990,001	\$33,787,509	(\$2,519,321)	\$21,092,729	(\$34,517,106)	\$17,431,486	(\$4,836,877)	\$93,360,642	\$51,884,990	\$0	\$457,674,053

Notes:

(2) To eliminate intercompany revenue and expense transactions

(3) includes BRRH administrative functions