# Baptist Healthcare System, Inc. and Affiliates

Consolidated Financial Statements as of and for the Years Ended August 31, 2021 and 2020, and Independent Auditors' Report

# BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated financial statements of Baptist Healthcare System, Inc. and Affiliates ("Baptist"), which comprise the consolidated balance sheets as of August 31, 2021 and 2020, 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 Baptist'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 Baptist's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Baptist Healthcare System, Inc. and Affiliates as of August 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended is in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

December 7, 2021

# BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

## CONSOLIDATED BALANCE SHEETS
## AS OF AUGUST 31, 2021 AND 2020
## (Amounts in thousands)

| | 2021 | 2020 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 531,340 | $ 725,608 |
| Investments | 609,848 | 53,605 |
| Assets limited as to use or restricted—required for current obligations | 18,271 | 16,779 |
| Patient accounts receivable, net | 574,532 | 416,188 |
| Inventories | 97,353 | 80,043 |
| Estimated third-party settlement receivable | 56,572 | 10,388 |
| Prepaids and other | 75,045 | 118,980 |
| Total current assets | 1,962,961 | 1,421,591 |
| ASSETS LIMITED AS TO USE OR RESTRICTED | 1,473,285 | 1,238,668 |
| PROPERTY AND EQUIPMENT—Net | 1,367,511 | 1,272,065 |
| OTHER ASSETS | 198,895 | 156,804 |
| TOTAL ASSETS | $5,002,652 | $4,089,128 |
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 185,331 | $ 112,898 |
| Accrued expenses | 229,649 | 178,482 |
| Accrued interest payable | 2,633 | 1,465 |
| Estimated third-party settlement payable | 52,464 | 11,895 |
| Current installments of long-term debt | 5,169 | 48,685 |
| Current portion for medical malpractice and workers’ compensation | 18,271 | 16,779 |
| Contract liability | 219,731 | 278,259 |
| Current portion for operating lease liabilities | 20,335 | 13,826 |
| Other | 24,808 | 57,095 |
| Total current liabilities | 758,391 | 719,384 |
| LONG-TERM DEBT | 1,322,333 | 909,839 |
| LONG-TERM PORTION FOR OPERATING LEASE LIABILITIES | 113,049 | 76,456 |
| OTHER LIABILITIES | 256,540 | 210,749 |
| Total liabilities | 2,450,313 | 1,916,428 |
| NET ASSETS: | | |
| Without donor restrictions: | | |
| Baptist net assets without donor restrictions | 2,499,376 | 2,123,484 |
| Noncontrolling interest in subsidiaries | 4,953 | 5,125 |
| Total net assets without donor restrictions | 2,504,329 | 2,128,609 |
| With donor restrictions | 48,010 | 44,091 |
| Total net assets | 2,552,339 | 2,172,700 |
| TOTAL LIABILITIES AND NET ASSETS | $5,002,652 | $4,089,128 |

See notes to consolidated financial statements.

# BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF OPERATIONS
## FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020
## (In thousands)

| | 2021 | 2020 |
|---|---|---|
| UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT: | | |
| Net patient service revenue | $ 3,648,048 | $ 2,709,533 |
| Other | 236,691 | 283,488 |
| Net assets released from restrictions used for operations | 1,236 | 1,620 |
| Total revenues, gains, and other support | 3,885,975 | 2,994,641 |
| EXPENSES: | | |
| Salaries and benefits | 2,061,736 | 1,633,435 |
| Supplies | 847,349 | 635,191 |
| Purchased services | 324,166 | 267,542 |
| Utilities | 42,631 | 35,952 |
| Administration and other | 119,679 | 105,862 |
| Depreciation and amortization | 147,006 | 139,942 |
| Provider tax and assessment fees | 84,898 | 50,668 |
| Asset impairment | 73,508 | - |
| Interest | 39,062 | 35,180 |
| Total expenses | 3,740,035 | 2,903,772 |
| OPERATING INCOME | 145,940 | 90,869 |
| OTHER INCOME (EXPENSE): | | |
| Investment return | 194,768 | 111,061 |
| Net benefit cost other than service cost | (3,431) | (3,160) |
| Inherent contribution from acquisition | 47,221 | - |
| Other (expense) income | (10,162) | 885 |
| Total other income | 228,396 | 108,786 |
| EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES BEFORE PROVISION FOR INCOME TAX | 374,336 | 199,655 |
| PROVISION FOR INCOME TAX | 503 | 188 |
| EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES | 373,833 | 199,467 |
| EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST | (1,272) | (70) |
| EXCESS OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES ATTRIBUTABLE TO BAPTIST—Net of noncontrolling interest | $ 372,561 | $ 199,397 |

See notes to consolidated financial statements.

## BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

### CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
### FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020
### (In thousands)

| | 2021 | 2020 |
|---|---|---|
| NET ASSETS WITHOUT RESTRICTIONS ATTRIBUTABLE TO BAPTIST: | | |
| Excess of revenues, gains, and other support over expenses attributable to Baptist—net of noncontrolling interest | $ 372,561 | $ 199,397 |
| Net change in defined benefit pension related items | 121 | (542) |
| Net change in post-retirement benefit plan related items | (654) | (1,533) |
| Net assets released from restrictions used for capital | 6,332 | 989 |
| Other | (2,468) | (1,456) |
| Increase in net assets without donor restrictions attributable to Baptist | 375,892 | 196,855 |
| NET ASSETS WITHOUT DONOR RESTRICTIONS ATTRIBUTABLE TO NONCONTROLLING INTEREST: | | |
| Excess of revenues over expenses | 1,274 | 70 |
| Contributions from noncontrolling interest | - | 531 |
| Distributions to noncontrolling interest | (1,446) | (881) |
| Decrease in net assets without donor restrictions attributable to noncontrolling interest | (172) | (280) |
| INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS | 375,720 | 196,575 |
| NET ASSETS WITH DONOR RESTRICTIONS: | | |
| Contributions, interest income, and other | 6,567 | 6,385 |
| Net assets released from restrictions used for capital | (6,332) | (989) |
| Net assets released from restrictions used for operations | (1,236) | (1,620) |
| Change in beneficial interest in perpetual trust | 4,920 | 2,308 |
| Increase in net assets with donor restrictions | 3,919 | 6,084 |
| CHANGE IN NET ASSETS | 379,639 | 202,659 |
| NET ASSETS—Beginning of year | 2,172,700 | 1,970,041 |
| NET ASSETS—End of year | $ 2,552,339 | $ 2,172,700 |

See notes to consolidated financial statements.

## BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

### CONSOLIDATED STATEMENTS OF CASH FLOWS
### FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020
### (In thousands)

| | 2021 | 2020 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | $ 379,639 | $ 202,659 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 147,006 | 139,942 |
| Loss on extinguishment of debt | 2,572 | - |
| Net realized and unrealized gains on investments and assets limited as to use or restricted | (174,204) | (94,083) |
| Restricted contributions | (6,567) | (6,321) |
| Loss on sale or disposition of property and equipment | 3,724 | 2,333 |
| Asset impairment | 73,508 | - |
| Net assets released from restriction for capital | (6,332) | - |
| Net change in defined benefit pension related items | (121) | 542 |
| Net change in post-retirement benefit plan related items | 654 | 1,533 |
| Change in beneficial interest in perpetual trust | (4,920) | (2,308) |
| Inherent contribution from acquisition | (47,221) | - |
| Other | 198 | (195) |
| Changes in: | | |
| Patient accounts receivable—net | (117,314) | 4,022 |
| Inventories and prepaids and other | (25,242) | (81,851) |
| Other assets | 20,216 | 35,736 |
| Accounts payable, accrued expenses, and accrued interest payable | 75,294 | 38,354 |
| Estimated third-party payer settlements | (2,678) | 1,432 |
| Operating lease liabilities | (21,163) | (14,838) |
| Other current liabilities | (109,871) | 268,876 |
| Other liabilities | 44,913 | 4,191 |
| Net cash provided by operating activities | 232,091 | 500,024 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (3,947,579) | (6,528,224) |
| Proceeds from disposition of investments | 3,336,406 | 6,775,995 |
| Purchases of property and equipment | (184,406) | (176,903) |
| Proceeds from sale of property and equipment | 54 | 40 |
| Acquisitions—cash received | 46,632 | - |
| Acquisitions—net of cash acquired | - | (6,333) |
| Proceeds from sale of joint venture | - | 653 |
| Net cash provided by (used in) investing activities | (748,893) | 65,228 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of long-term debt and line of credit | 507,908 | 45,000 |
| Net costs of debt issuance | (1,701) | (50) |
| Principal payments on long-term debt | (189,387) | (46,275) |
| Finance lease and notes payable payments | (5,739) | (6,850) |
| Restricted contributions | 6,567 | 6,321 |
| Net assets released from restriction for capital | 6,332 | - |
| Contributions from noncontrolling interest | - | 531 |
| Distributions to noncontrolling interest | (1,446) | (881) |
| Net cash provided by (used in) financing activities | 322,534 | (2,204) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (194,268) | 563,048 |
| CASH AND CASH EQUIVALENTS—Beginning of year | 725,608 | 162,560 |
| CASH AND CASH EQUIVALENTS—End of year | $ 531,340 | $ 725,608 |

See notes to consolidated financial statements.

### 1. DESCRIPTION OF MISSION, VISION AND ORGANIZATION

**Mission and Vision Statement**—Baptist's mission is to demonstrate the love of Christ by providing and coordinating care and improving health in our communities. Baptist will lead in clinical excellence, compassionate care and growth to meet the needs of our patients. Baptist's faith-based values include Integrity, Respect, Excellence, Collaboration, Compassion and Joy.

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

Baptist owns 55% of Baptist Physicians' Surgery Center, a for-profit limited liability corporation and 51% of Cumberland Valley Surgery Center, LLC. Baptist has an ownership interest in CHC Community Care LLC, a Delaware for-profit limited liability company that is the sole member of two non-profit corporations and one limited liability company, each of which operates an accredited long-term acute care hospital located within a Baptist Health hospital: ContinueCare Hospital at Baptist Health Corbin; ContinueCare Hospital at Baptist Health Paducah; and ContinueCare Hospital at Baptist Health Madisonville. Effective October 1, 2019, Baptist purchased the remaining ownership interest in Baptist Eastpoint Surgery Center, LLC, and now owns 100% of this entity. Effective February 1, 2020 Baptist acquired 100% ownership of Baptist Health Surgery Center in Lexington, Kentucky (See Footnote 3 for details).

Baptist Health Plan f/k/a Bluegrass Family Health (BHP) is a nonprofit, taxable affiliate health maintenance organization. On August 24, 2017, BHP's Board of Directors agreed to the voluntary dissolution of BHP. On March 13, 2018, BHP received an order from the Kentucky Department of Insurance approving the voluntary dissolution of BHP. As a result, all active enrollment ended on November 30, 2018. BHP has received notification from the Kentucky Department of Insurance that it has met statutory regulations for dissolution. All remaining assets and liabilities were assumed by Baptist and BHP was dissolved effective December 1, 2019.

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

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

Baptist Health Network Partners, LLC is a Kentucky limited liability company that supports hospital/physician clinical integration in all Baptist Kentucky regions.

Baptist Healthcare Partners, LLC is a Kentucky limited liability company formed in 2015 whose sole member is Baptist Healthcare System, Inc. BHCP was formed to participate in the Centers for Medicare and Medicaid (CMS) Medicare Shared Savings Program (MSSP) as an Accountable Care Organization.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Cash Equivalents**—Baptist considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At August 31, 2021 and 2020, cash equivalents consisted primarily of money market accounts. Cash and cash equivalent balances may exceed limits insured by the FDIC from time to time.

**Noncontrolling Interest**—Noncontrolling interest represents the portion of the following entities: Baptist Physicians' Surgery Center, Baptist Eastpoint Surgery Center, LLC (through September 30, 2019), and Cumberland Valley Surgery Center, LLC, that Baptist does not own. Losses attributable to the noncontrolling interest are allocated to the noncontrolling interest even if the carrying amount of the noncontrolling interest is reduced below zero.

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

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

**Patient Accounts Receivable**—Baptist reports patient accounts receivable for services rendered at net realizable amounts from third-party payers and patients to which Baptist expects to be entitled in exchange for providing patient care. In evaluating the ability to collect accounts receivable, Baptist analyzes its history and identifies trends for each of its major payer sources of revenue to estimate the appropriate provisions and allowances. Accounts placed with collection agencies are written off and excluded from patient accounts receivable. Management regularly reviews the adequacy of the implicit price concessions regarding these major payer sources of revenue in evaluating the sufficiency of the allowances.

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

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

Baptist invests in various securities including money market funds, U.S. Government securities, corporate debt instruments, corporate stocks, mutual funds, commingled funds and derivative instruments. The unrealized gains and losses of these securities are recognized as a component of net investment return in the consolidated statement of operations. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets and consolidated statements of operations.

**Property and Equipment**—Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each class of depreciable asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Land improvements are depreciated over a range of 5 to 25 years. Buildings are depreciated over a range of 15 to 40 years. Equipment is depreciated over a range of 3 to 20 years. Internal use software is depreciated over a range of 3 to 10 years. Useful lives are determined through consultation of the American Hospital Association's *Life of Depreciable Hospital Assets* and consideration of how Baptist intends to use the asset or has used similar assets in the past. Buildings and equipment under finance leases are amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Such amortization is included with depreciation and amortization in the consolidated financial statements.

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

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

**Long-Lived Asset Impairment**—Baptist evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate of future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. Fair value is determined utilizing market data such as estimated sales price or other income approaches. Baptist recorded an impairment of the long-lived assets of its Madisonville location of $73,284 during the year ended August 31, 2021. See Note 19 for additional discussion of subsequent events related to Madisonville. No asset impairment was recognized during the year ended August 31, 2020.

**Goodwill**—The following represents the amount of goodwill, including changes in carrying value for the years ending August 31, 2021 and 2020 included in other assets in the consolidated balance sheets:

| | 2021 | 2020 |
|---|---|---|
| Balance—beginning of year | $ 31,785 | $ 33,889 |
| Acquisitions of businesses | | 2,334 |
| Amortization | (3,647) | (4,438) |
| Impairment | (224) | - |
| Balance—end of year | $ 27,914 | $ 31,785 |

Effective, June 1, 2019, Baptist adopted the accounting alternative for goodwill and certain identifiable intangible assets. As a result, Baptist began amortizing goodwill on a straight-line basis over 10 years. Baptist made a policy election to test for impairment of goodwill at the entity level. Such testing would only occur if an event occurs or circumstances change indicating the fair value of the entity or reporting unit may be below its carrying amount.

The future amortization of goodwill at August 31, 2021, is as follows:

| | Amount |
|---|---|
| 2022 | $ 3,600 |
| 2023 | 3,600 |
| 2024 | 3,600 |
| 2025 | 3,600 |
| 2026 | 3,600 |
| Thereafter | 9,914 |
| Total | $ 27,914 |

During 2021 Baptist recorded an impairment loss of $224, related to the contribution of its Madisonville location to a joint venture subsequent to year end. See Note 19 for additional information. During 2020, Baptist determined that there were no events requiring an impairment review and as a result, no impairment was recorded.

**Contract Liability**—Contract liability represents amounts received for health care services not yet earned. As of August 31, 2021, Baptist has received Advanced and Accelerated Payments totaling $316,100 from the Centers for Medicare and Medicaid Services (CMS), of which $60,000 has been recouped, to assist with liquidity in conjunction with the COVID-19 pandemic. Effective October 1, 2020, the repayment terms of these advances were amended, such that repayment will not begin until one year from the date the payment was issued, and such advances will be repaid at a 25% to 50% rate over an approximately eighteen-month period, at which time interest will accrue on any unpaid balances. The total current liability was approximately $219,700 as of August 31, 2021. The long-term liability was approximately $36,400 as of August 31, 2021 and is included in other long-term liabilities in the consolidated balance sheet.

**Net Assets with Donor Restrictions**—Net assets with donor restrictions are those subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. These assets are generally restricted for funding a specific program, capital projects, and other purposes. Investment income from net assets with donor restrictions is included in net assets with donor restrictions when earned. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. These assets are generally restricted to provide ongoing income for a specific program.

**Net Patient Service Revenue**—Baptist has agreements with third-party payers that may provide for payments at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers for services rendered and includes estimated retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods, as final settlements are determined. As discussed in Note 4, Baptist's performance obligations are to provide health care services to patients.

**Charity Care**—Baptist provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Baptist also provides discounts from established rates to all uninsured patients. Because Baptist does not pursue collection of charity or uninsured discounts, such amounts are not reported as revenue. The cost of charity care is determined using patient level cost accounting information applied to those patients who received charity care. Total unreimbursed costs of charity and discounts to the uninsured were approximately $35,831 and $36,074 for the years ended August 31, 2021 and 2020, respectively.

**Other Revenue**—Other operating revenue includes retail and specialty pharmacy revenue, cafeteria revenue, rental revenue, grant revenue, Coronavirus Aid, Relief, and Economic Security (CARES) Act funding, a Medicaid settlement, certain contributions released from restriction, and other non-patient care revenue.

During fiscal year 2020, Baptist received $50,800 in Medicaid settlement for inpatient claims from 2007-2015.

**Provider Tax and Assessment Fees**—

**Kentucky**:

Since July 1993, Kentucky has imposed various taxes on health care providers to help fund the state of Kentucky's portion of the Medicaid program. The law imposes a tax of 2.5% on the gross receipts of hospitals and 2% on nursing facility services, intermediate care facility services, services for the mentally handicapped, home health care services and health maintenance organization. Hospital provider taxes were capped in 2008 by Kentucky statute at the level paid in state fiscal year 2005–2006. Baptist recognized an expense for such provider taxes of approximately $28,152 and $24,813 in 2021 and 2020, respectively. No assurance can be given that the Kentucky General Assembly will not remove the cap on hospital provider taxes.

On November 6, 2019, the CMS approved a Hospital Rate Improvement Program (HRIP), to enhance reimbursement for Medicaid patients covered by managed care organizations in Kentucky for year ended June 30, 2020. This approval was retroactive to July 1, 2019. The estimated funding in the first year, known as an Upper Payment Limit (UPL) gap, was based upon the estimated variation between what Kentucky Medicaid reimburses for inpatient hospital care versus what would have been paid at 95% of the Medicare inpatient base rate. The CMS reapproved the program for the year ending June 2021 on May 27, 2020.

The HRIP is largely funded by CMS with a portion funded by participating hospitals through an additional provider tax. The provider tax is allocated based on the ratio of a provider's total discharges to total discharges in Kentucky as reported on the Medicare cost report. For the years ended August 31, 2021 and August 31, 2020 Baptist recognized Medicaid UPL provider tax of $1,950 and $4,541, while recognizing Medicaid reimbursement of $9,779 and $20,135 in net patient service revenue, respectively.

In October 2020, the Kentucky Cabinet for Health and Family Services filed an amendment to the plan proposing to change the UPL gap calculation based on the variation between what Kentucky Medicaid reimburses for inpatient hospital care versus what would have been paid at 90% of the statewide Average Commercial Rate (ACR). The CMS approved this Hospital Rate Improvement Program (HRIP) on January 14, 2021 retroactive to July 1, 2020.

The ACR HRIP is available to all non-university hospitals in Kentucky and will be paid for all inpatient acute care services provided to patients covered by Medicaid managed care contracts, administered through Medicaid Managed Care Organizations (MCOs). The ACR HRIP will pay a fixed add-on amount for each Medicaid managed care inpatient discharge and applies to inpatient discharges during the state fiscal year 2021 (July 1, 2020 – June 30, 2021).

In addition to the provider tax, the participating hospitals also fund the administration fees to cover the additional processing and accounting costs. The tax is allocated based on the ratio of a provider's total discharges to total discharges in Kentucky as reported on the Medicare cost report. Baptist recognized Medicaid ACR HRIP provider tax of $33,160, administration fees of $1,689 and payments of $140,234 for the year ended August 31, 2021. The Medicaid ACR HRIP payments are included in net patient service revenue in the consolidated statements of operations.

**Indiana:**

During 2012, the state of Indiana enacted the Hospital Assessment Fee (HAF) program, which is designed to increase Medicaid payments to hospitals. The program was approved by the federal Centers for Medicare & Medicaid Services (CMS) through June 30, 2017 and subsequently extended through June 30, 2019. Under HAF, Indiana hospitals receive additional federal Medicaid funds for the state's health care system, administered by the Indiana Family and Social Services Administration. HAF includes both a payment to the hospitals from the state and an assessment against the hospitals, which is paid to the state in the same year. Baptist Health Floyd recognized payments totaling $46,808 and $22,687 and assessments of $21,636 and $21,314 during 2021 and 2020, respectively. HAF payments to Baptist Health Floyd are included in net patient service revenue in the consolidated statements of operations and HAF assessments from Baptist Health Floyd are included in provider taxes and assessment fees in the consolidated statements of operations.

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

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

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

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

Baptist's federal net operating losses carry forward was $65,074 at August 31, 2021. A full valuation allowance was recorded related to the federal net operating loss carry forwards that were not considered realizable in future periods. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment.

Baptist evaluates its uncertain tax positions on an annual basis. A tax benefit from an uncertain position may be recognized when it is more likely than not that the position will be sustained upon examination, include resolution of any related appeals or litigation processes, based on the technical merit of the position. Baptist has determined that it has no uncertain tax positions that are required to be recorded as of August 31, 2021. Tax years that are open include the years from 2016 to 2020.

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

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

**Self-Insurance**—Baptist is self-insured for certain costs related to employee health, medical malpractice and workers' compensation programs. Costs resulting from noninsured losses are charged to income when incurred. Baptist purchases insurance that limits its exposure for individual claims. See Note 13 for additional information related to medical malpractice and workers' compensation programs. At August 31, 2021 and 2020, Baptist had $19,191 and $16,527 in self-insured employee health reserves recorded in the consolidated balance sheets in accrued expenses.

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

**Recently Adopted Accounting Pronouncements**—In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases* (Topic 842). This guidance introduces a lessee model that brings substantially all leases onto the consolidated balance sheet. The main difference between the guidance in ASU No. 2016-02 and current GAAP is the recognition of leased assets and liabilities by lessees for those leases classified as operating leases under current GAAP. Baptist recognized right-of-use lease assets and lease liabilities of $97,334 upon adoption of the ASU on September 1, 2019. The standard did not have a material impact on Baptist's consolidated statement of operations or cash flows. See Footnote 15, "Leases and Installment Payable" for further disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *"Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement."* This guidance adds, modifies, and removes certain disclosure requirements on fair value measurements. On September 1, 2020, Baptist adopted ASU No. 2018-13. The adoption of this guidance had no impact on the consolidated financial statements of Baptist but did result in minor changes to fair value measurement footnote disclosures.

**Forthcoming Accounting Pronouncements**—In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General*, which amends ASC 715 to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. Early adoption is permitted; however, all provisions of ASU 2018-14 must be adopted if early adoption is elected. A retrospective transition method is required. This guidance is effective for Baptist beginning September 1, 2021. The standard did not have a material impact on Baptist's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *"Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract."* This guidance 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. This guidance is effective for Baptist beginning September 1, 2021. The standard did not have a material impact on Baptist's consolidated financial statements.

On June 16, 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*, which amends the Board's guidance on the impairment of financial instruments. The ASU adds to U.S. GAAP an impairment model (known as the CECL model) that is based on expected losses rather than incurred losses. In November 2019, ASU 2019-10 amended the effective date for ASU 2016-13 and will be effective for Baptist for the year ended August 31, 2022. Baptist is still evaluating the impact this guidance will have on its consolidated financial statements.

## 3. BAPTIST ACQUISITIONS

Effective September 1, 2020, Baptist acquired the assets and liabilities of Hardin County, Kentucky d/b/a Hardin Memorial Hospital ("HMH"), now called Baptist Health Hardin (BH HAR), for an aggregate purchase price of $110,000 . Baptist committed to invest $150,000 in the first five years and $85,000 in the subsequent five years in capital projects as defined in the Asset Purchase Agreement ("APA"). The acquisition was funded through $60,000 in operating cash during the year ended August 31, 2020 and a note with Hardin County of $50,000 that will be paid over 25 years at a fixed interest rate of 2.5%. As of August 31, 2020, Baptist had advanced funded $60,000 in conjunction with the APA which was recorded in prepaids and other in the accompanying consolidated balance sheet."

Effective February 1, 2020, Baptist acquired Medical Heights Surgery Center, Inc. Baptist acquired 100% of the membership interests. The purchase price of Medical Heights Surgery Center, Inc. was $5,346. The entity was renamed Baptist Health Surgery Center, LLC (BHSC).

Effective October 1, 2019, Baptist purchased the remaining ownership interest in Baptist Eastpoint Surgery Center, LLC, and now owns 100% of this entity. The purchase price of Baptist Eastpoint Surgery Center, LLC was $558. The entity was renamed Baptist Health Surgery Center Eastpoint (BHSCE) and is a dba of Baptist Healthcare System, Inc.

These business combinations were accounted for using the purchase method of accounting in accordance with ASC 958-805, Acquisition by a Not-for-Profit Entity. The following table shows the allocation of the purchase price for these acquisitions to the acquired identifiable assets and liabilities:

| | **BH HAR** | **BHSC** | **BHSCE** |
|---|---|---|---|
| Cash and cash equivalents | $ 46,632 | $ - | $ - |
| Current assets | 53,057 | 317 | 128 |
| Investments | 41,019 | - | - |
| Property and equipment | 107,037 | 354 | 124 |
| Certificate of Need (CON) | - | 3,438 | |
| Goodwill | - | 1,595 | 491 |
| Other assets | 46,735 | - | - |
| Assets acquired | 294,480 | 5,704 | 743 |
| Current liabilities | (74,873) | (358) | (185) |
| Other liabilities | (62,386) | - | - |
| Inherent contribution for Hardin | (47,221) | - | - |
| Total purchase price | $ 110,000 | $ 5,346 | $ 558 |

The financial position of BH HAR is included in the consolidated financial statements as of August 31, 2021, and the results of operations and cash flows are included for the period from September 1, 2020 to August 31, 2021. For the period September 1, 2020 to August 31, 2021, the operations of BH HAR contributed $423,100 of operating revenue, $10,655 of operating income and $9,970 in excess of revenue over expenses to the consolidated results of operations.

On an unaudited pro forma basis, if Baptist had owned the Hardin and the surgery centers at the beginning of the year ended August 31, 2020 (September 1, 2019), operating revenue and excess of revenue over expenses in fiscal 2020 would have been as indicated in the table below.

| | **As reported** | **Acquisition** | **Pro forma** |
|---|---|---|---|
| Operating revenue | $ 2,994,641 | $ 373,076 | $ 3,367,717 |
| Excess (deficit) of revenue over expenses | $ 199,397 | $ (1,448) | $ 197,949 |

However, unaudited pro forma information is not necessarily indicative of the historical results that would have been obtained had the transaction actually occurred on those dates, or of future results.

Effective December 1, 2019, Baptist purchased Physicians' Medical Center, LLC, which owned and operated two urgent care centers. The purchase price of Physicians' Medical Center, LLC was $448. The purchase price included $23 in property and equipment, $248 in goodwill and $177 in other current assets.

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

## 4. NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at the amount that reflects the consideration to which Baptist expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs), and others and includes variable consideration for retroactive revenue and adjustments due to settlement of audits, reviews, and investigations.

Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by Baptist. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred to date in relation to total expected charges. Baptist believes that this method provides a reasonable valuation of services to be provided over the term of the performance obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. Baptist measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation. Outpatient services are performance obligations satisfied at a point in time, and revenue is recognized when goods or services are provided, and Baptist does not believe it is required to provide additional goods or services.

Because all of its performance obligations relate to contracts with a duration of less than one year, Baptist has elected to apply the optional exemption provided in FASB ASC 606, Revenue from Contracts with Customers, section 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above 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.

Baptist has elected to use the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. Baptist accounts for the contracts within each portfolio as a collective group, rather than recognizing net patient service revenue on an individual contract basis, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payer classes for inpatient net patient service revenue and outpatient net patient service revenue. Based on the historical collection trends and other analysis, Baptist believes that net patient service revenue recognized by utilizing the portfolio approach approximates the net patient service revenue that would have been recognized if an individual contract approach were used.

Baptist determines the transaction price based on gross charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with Baptist's policies, and implicit price concessions provided primarily to uninsured patients. Baptist determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience using the portfolio approach. Baptist determines its estimate of implicit price concessions based on its historical collection experience with classes of patients.

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

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

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change.

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

***Patient Liability***—Baptist recognizes patient deductible and co-payment revenue for patients who have third-party insurance. Baptist estimates implicit price concessions for patient liability based on the difference between amounts billed to patients and the amount Baptist expects to collect based on past experience with those patients.

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

***Uninsured Patients***—Baptist provides a significant discount from standard charges to all uninsured patients who receive medically necessary care. An uninsured discount and implicit price concessions are recorded in the period of service. The amount for which the patient is responsible is recognized as net patient service revenue. Baptist estimates implicit price concessions for patient liability based on the difference between amounts billed to patients and the amount Baptist expects to collect based on past experience with those patients.

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

The composition of net patient care service revenue by payer for the years ended August 31, 2021 and 2020 is as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Patient service revenue: | | | | |
| Medicare | $ 1,307,278 | 36 % | $ 1,016,075 | 38 % |
| Medicaid | 653,731 | 18 | 395,592 | 15 |
| Other third-party payers | 1,549,444 | 42 | 1,192,194 | 43 |
| Patients | 137,595 | 4 | 105,672 | 4 |
| Total net patient service revenue by payer | $ 3,648,048 | 100 % | $ 2,709,533 | 100 % |

## 5. FUNCTIONAL EXPENSES

Baptist provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services. Approximately 84% and 83% of Baptist's expenses relate to health care services for the years ended August 31, 2021 and 2020, respectively and 16% and 17% of Baptist's expenses relate to support services expenses for the years ended August 31, 2021 and 2020, respectively. Functional expenses consist of the following for the years ended August 31, 2021 and 2020:

| | Health Care Services | | | | Support Services | | |
|---|---|---|---|---|---|---|---|
| **Year Ended August 31, 2021** | **Hospitals** | **Physician Practices** | **Value Based** | **Other** | **General and Administrative** | **Fundraising** | **Total** |
| Expenses: | | | | | | | |
| Salaries and benefits | $1,059,952 | $638,104 | $3,402 | $41,836 | $314,476 | $3,966 | $2,061,736 |
| Supplies | 794,898 | 28,960 | 14 | 15,660 | 7,680 | 137 | 847,349 |
| Purchased services | 202,895 | 9,741 | 148 | 4,133 | 106,816 | 433 | 324,166 |
| Utilities | 28,577 | 4,974 | 27 | 873 | 8,170 | 10 | 42,631 |
| Interest | 470 | 3 | - | 14 | 38,575 | - | 39,062 |
| Depreciation and amortization | 98,587 | 3,987 | - | 1,914 | 42,518 | - | 147,006 |
| Administration and other | 31,517 | 21,295 | 855 | 5,291 | 58,608 | 2,113 | 119,679 |
| Asset impairment | 73,508 | - | - | - | - | - | 73,508 |
| Provider tax | 84,112 | - | - | 786 | - | - | 84,898 |
| Total operating expenses | $2,374,516 | $707,064 | $4,446 | $70,507 | $576,843 | $6,659 | $3,740,035 |
| **Year Ended August 31, 2020** | | | | | | | |
| Expenses: | | | | | | | |
| Salaries and benefits | $ 854,666 | $476,048 | $3,242 | $38,604 | $258,392 | $2,483 | $1,633,435 |
| Supplies | 589,244 | 22,597 | 22 | 11,594 | 11,645 | 87 | 635,189 |
| Purchased services | 162,975 | 9,194 | 192 | 3,258 | 91,631 | 292 | 267,542 |
| Utilities | 25,153 | 4,023 | 18 | 825 | 5,923 | 10 | 35,952 |
| Interest | 459 | 6 | - | 35 | 34,680 | - | 35,180 |
| Depreciation and amortization | 90,206 | 3,898 | - | 2,058 | 43,780 | - | 139,942 |
| Administration and other | 33,380 | 19,428 | 353 | 4,328 | 46,129 | 2,246 | 105,864 |
| Provider tax | 49,284 | - | - | 1,384 | - | - | 50,668 |
| Total operating expenses | $1,805,367 | $535,194 | $3,827 | $62,086 | $492,180 | $5,118 | $2,903,772 |

Support services include administration, finance and accounting, revenue cycle, information technology, public relations, human resources, legal, supply chain, risk management, compliance and other functions. Certain expenses require allocation on a reasonable basis that is consistently applied. Expenses are directly assigned to healthcare services and support services based on the functional department for which they are incurred or allocated based on activities respective to each function.

## 6. SUPPLEMENTAL CASH FLOW INFORMATION

The following table presents supplemental cash flow information at August 31:

| | 2021 | 2020 |
|---|---|---|
| Interest paid—net of capitalized amount of $2,616 in 2021 and $88 in 2020 | $ 37,894 | $ 36,557 |
| Income taxes paid | $ 50 | $ 25 |
| Purchases of property and equipment in accounts payable | $ 29,232 | $ 7,699 |
| Acquisition of property and equipment through financing lease | $ 3,030 | $ 10,071 |
| Acquisition of property and equipment through operating lease | $ 17,580 | $ 7,776 |
| Note payable related to acquistion of HMH | $ 50,000 | $ - |

## 7. CONCENTRATION OF CREDIT RISK

**Accounts Receivable—**

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

| | 2021 | 2020 |
|---|---|---|
| Net patient accounts receivable: | | |
| Medicare | 26.6 % | 25.4 % |
| Medicaid | 9.7 | 11.8 |
| Other third-party payers | 47.0 | 46.6 |
| Patients | 16.7 | 16.2 |
| Patient accounts receivable | 100.0 % | 100.0 % |

## 8. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of August 31, 2021 and 2020 the System had working capital, which is current assets less current liabilities, of $1,204,570 and $702,207, respectively.

Financial assets available for general expenditure, such as operating expenses, scheduled principal payments on debt and capital expenditures not financed with debt within one year of the consolidated balance sheet date, consist of the following:

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | $ 531,340 | $ 725,608 |
| Investments | 609,848 | 53,605 |
| Patient accounts receivable | 574,532 | 416,188 |
| Other accounts receivable, included in prepaids and other current assets in the consolidated balance sheets | 43,133 | 25,894 |
| Assets limited as to use by the board or management for capital improvements or other purposes (less Limited Partnership interests with reduced liquidity of $45,512 and $0 for August 31, 2021 and 2020, respectively) | 1,270,171 | 1,096,580 |
| Total financial assets available | $ 3,029,024 | $ 2,317,875 |

Cash and cash equivalents are highly liquid investments that are neither internally or externally restricted. Assets are considered highly-liquid when they are readily convertible to cash and not subject to risk due to changes in interest rates. The balance of highly-liquid investments is managed as part of the Baptist investment policy, considering short term needs for operations and strategic investments.

Baptist utilizes an externally managed investment fund to meet cash needs for general expenditures of the organization from investments and assets whose use is limited by board or management for capital improvements or other purposes. On a daily basis, either (i) excess funds generated from Baptist's operations are transferred to the externally managed investment fund, or (ii) liquidity needs for general expenditures are sourced from the investment fund. The level of cash kept in the fund is based on management's determination of future working capital needs, debt service requirements, fixed capital needs and other cash outflows of the organization.

On a periodic basis, Baptist calculates the amount of its unrestricted cash and investments available within certain time frames. As of August 31, 2021, the majority of Baptist's unrestricted cash and short-term investments are available in three days or less. Of the remainder, availability to received proceeds ranges from one month to less than a year.

## 9. INVESTMENTS, ASSETS LIMITED AS TO USE OR WITH DONOR RESTRICTIONS AND INVESTMENT RETURN

Investments and assets limited as to use or with donor restrictions consists of the following as of August 31, 2021 and 2020:

***Investments***

| | 2021 | 2020 |
|---|---|---|
| Investments | $609,848 | $ 53,605 |

***Assets Limited as to Use or With Donor Restrictions***

| | 2021 | 2020 |
|---|---|---|
| Designated by board or management for capital improvements or other purposes | $ 1,315,682 | $ 1,096,580 |
| Designated by board for endowment | 3,549 | 2,000 |
| Held by trustee or with donor restrictions: | | |
| With donor restrictions | 8,172 | 6,317 |
| Under medical malpractice self-insurance funding arrangement | 103,716 | 99,622 |
| Under workers' compensation self-insurance funding arrangement | 32,333 | 27,744 |
| In perpetual trust | 28,104 | 23,184 |
| Total held by trustee | 172,325 | 156,867 |
| Total assets limited as to use or restricted | 1,491,556 | 1,255,447 |
| Less amount required for current obligations | (18,271) | (16,779) |
| Assets limited as to use or restricted | $ 1,473,285 | $ 1,238,668 |

***Investment Return***—Total investment return for assets whose use is limited and investments is reflected in the consolidated statements of operations and is comprised of the following for the years ended August 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Other income: | | |
| Interest and dividend income, net | 21,455 | 21,944 |
| Realized gains on sale of securities | 190,102 | 24,947 |
| Change in net unrealized gains | (16,789) | 64,170 |
| Total investment return | $ 194,768 | $ 111,061 |

Interest, dividend income and realized gains with all unrealized gains are reported in other income (loss) in the accompanying consolidated statements of operations.

In the normal course of operations and within the Baptist investment policy guidelines, Baptist's investment managers may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options, forward contracts and swaps. Gains or losses, and changes in the fair value of these investments, which were immaterial for the years ended August 31, 2021 and 2020, respectively, are included in total investment return within the consolidated statements of operations.

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

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

At August 31, 2021 and 2020, the gross notional amount of derivative investments in an asset position was 579,237,087 and 858,070,513, respectively and the gross notional amount of derivative investments in a liability position was 318,832,174 and 1,263,831,026, respectively primarily composed of offsetting foreign currency forwards related to the Canadian dollar, Australian dollar, Japanese YEN and Euros. Futures and interest rate swaps are cash settled on a daily basis and, accordingly, have a $0 value for asset and liability positions for the periods presented. The net notional and related fair value of positions offset within the consolidated balance sheets at August 31, 2021 and 2020 include the following:

| **2021** | **Notional** | **Asset** | **Liability** |
|---|---|---|---|
| Foreign currency forwards | $ 119,304,913 | $ 361 | $ (102) |
| Swaps | - | 18 | (23) |
| Futures | 106,100,000 | - | - |
| Mortgage forwards | 42,000,000 | 22,101 | (22,087) |
| Options | (7,000,000) | - | (4) |
| Total | $ 260,404,913 | $ 22,480 | $ (22,216) |

| **2020** | **Notional** | **Asset** | **Liability** |
|---|---|---|---|
| Foreign currency forwards | $(595,820,513) | $ 209 | $ (584) |
| Swaps | (21,390,000) | - | (1,490) |
| Futures | 217,250,000 | - | - |
| Mortgage forwards | 4,000,000 | 12,575 | (12,278) |
| Options | (9,800,000) | - | (20) |
| Total | $(405,760,513) | $ 12,784 | $ (14,372) |

Baptist also has certain futures contracts that are not subject to a master netting agreement and therefore are not presented net within the consolidated balance sheets. At August 31, 2020, the gross notional amount of these futures in an asset position was 231,733,181 and the gross notional amount of these futures in a liability position was 65,770,634. The fair value of these positions was $447 as of August 31, 2020. The majority of the positions cash-settle on a daily basis.

At August 31, 2021 and 2020, Baptist had pending trade receivables of $376 and $1,333 reported in prepaids and other current assets and pending trade payables of $3,890 and $34,421, respectively, reported in other current liabilities.

## 10. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

Baptist is an income beneficiary of several perpetual trusts controlled by unrelated third-party trustees. The beneficial interests in the assets of these trusts are included in Baptist's consolidated financial statements as net assets with donor restrictions. Trust income is distributed in accordance with the individual trust documents and is included in investment return. The fair value of assets of $28,104 and $23,184 is based on the fair value of the underlying perpetual trust assets at August 31, 2021 and 2020, respectively. Trust income distributed to Baptist for the year ended August 31, 2021 and 2020, was $1,001 and $1,129, respectively.

## 11. FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

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

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

There were no significant transfers between Levels 1 and 2 during the years ended August 31, 2021 and 2020.

**Recurring Measurements**—The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2021 and 2020.

***Investments***

| 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Mutual funds—equity | $ - | $ - | $ - | $ - |
| Mutual funds—fixed income | - | 292,697 | - | 292,697 |
| U.S. Treasury and agency obligations | - | 9,958 | - | 9,958 |
| U.S. and foreign common and preferred stock | 3,068 | - | - | 3,068 |
| U.S. and foreign corporate bonds | - | 304,125 | - | 304,125 |
| Investments | $ 3,068 | $606,780 | $ - | $ 609,848 |

| 2020 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Mutual funds—equity | $ 210 | $ - | $ - | $ 210 |
| Mutual funds—fixed income | - | 577 | - | 577 |
| U.S. Treasury and agency obligations | - | 6 | - | 6 |
| U.S. and foreign common and preferred stock | 1,326 | - | - | 1,326 |
| U.S. and foreign corporate bonds | - | 51,486 | - | 51,486 |
| Investments | $ 1,536 | $ 52,069 | $ - | $ 53,605 |

### *Assets Limited as to Use or Restricted*

| 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash equivalents | $ 13,648 | $ - | $ - | $ 13,648 |
| Exchange traded/mutual funds: | | | | |
| Equity | 357,209 | - | - | 357,209 |
| Fixed income | 107,417 | - | - | 107,417 |
| U.S. Treasury and agency obligations | - | 87,739 | - | 87,739 |
| U.S. common and preferred stocks | 135,405 | - | - | 135,405 |
| U.S. corporate bonds | - | 226,859 | - | 226,859 |
| Derivative investments—net | - | 264 | - | 264 |
| Perpetual trust | - | 28,104 | - | 28,104 |
| Assets limited as to use or restricted at fair value | $ 613,679 | $ 342,966 | $ - | 956,645 |
| Investments measured at net asset value: | | | | |
| Commingled funds: | | | | |
| Fixed income | | | | 140,100 |
| US equities | | | | 141,867 |
| International equities | | | | 174,932 |
| LLC, and LP interests | | | | 78,012 |
| Assets limited as to use or restricted | | | | $ 1,491,556 |

| 2020 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash equivalents | $ 106,459 | $ - | $ - | $ 106,459 |
| Exchange traded/mutual funds: | | | | |
| Equity | 124,517 | - | - | 124,517 |
| Fixed income | 25,421 | - | - | 25,421 |
| U.S. Treasury and agency obligations | - | 152,355 | - | 152,355 |
| U.S. common and preferred stocks | 237,755 | - | - | 237,755 |
| U.S. corporate bonds | - | 373,504 | - | 373,504 |
| Derivative investments—net | - | (1,141) | - | (1,141) |
| Perpetual trust | - | 23,184 | - | 23,184 |
| Assets limited as to use or restricted at fair value | $ 494,152 | $ 547,902 | $ - | 1,042,054 |
| Commingled fund - US equities at net asset value | | | | 213,393 |
| Assets limited as to use or restricted | | | | $ 1,255,447 |

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended August 31, 2021 and 2020.

**Cash Equivalents**—The carrying amount is fair value.

**Commingled Funds**—The commingled funds are developed for investment by institutional investors only and therefore does not require registration with the Securities and Exchange Commission. The commingled funds are valued at net asset value of the underlying investments. The net asset value, as provided by the trustee, is used as a practical expedient to estimate fair value. The commingled funds include investments in fixed income, U.S. and international equities. There are no unfunded commitments.

**Limited Liability Companies (LLC), and Limited Partnerships (LP) Interests** - LLC, and LP interests are valued using net asset values, which approximate fair value, as determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth and other business and market sector fundamentals.

**Exchange Traded/Mutual Funds**—Exchange traded funds are valued at the closing price reported on the applicable exchange on which the fund is traded, or estimated using quoted market prices for similar securities. Mutual funds are valued using the net asset value based on the value of the underlying assets owned by the fund, minus liabilities, divided by the number of shares outstanding, and multiplied by the number of shares owned. Accordingly, exchange traded funds and mutual funds are classified as Level 1 investments.

**U.S. and Foreign Common and Preferred Stock**—U.S. and foreign common and preferred stock is valued at the closing price reported on the applicable exchange on which the security is traded. Accordingly, U.S. and foreign common and preferred stock is classified as Level 1 investments.

**U.S. Treasury and Agency Obligations and U.S. and Foreign Corporate Bonds**—U.S. treasury and agency obligations and U.S. and foreign corporate bonds are valued using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. As these models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. Accordingly, U.S. treasury and agency obligations and U.S. and foreign corporate bonds are classified as Level 2 investments.

**Derivative Investments**—Derivative investments include derivative assets and derivative liabilities, whose fair value is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates. Accordingly, derivative investments are classified as Level 2 investments.

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

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

The commingled funds, limited liability companies (LLCs) and limited partnerships (LPs) interests are redeemable at net asset value under the original terms of the agreements. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Assets recorded at net asset value at August 31, 2021 and 2020, are as follows:

| | Fair Value | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|
| **2021** | | | |
| Commingled funds [a] | $ 456,899 | Daily, semi-monthly, monthly | 0-6 days |
| LLC and LP interests [b] | 78,012 | Quarterly, manager discretion | 45-60 days |
| | $ 534,911 | | |
| **2020** | | | |
| Commingled fund [a] | $ 213,393 | Daily, semi-monthly, monthly | 0-6 days |

[a] This category includes investments in commingled funds that primarily invest in financial instruments of US and non-US entities, bonds, notes, bills.

[b] This category includes investments in certain limited liability companies and limited partnerships interests that invest in the following:

- Limited liability companies—ownership interests in routinely traded stocks with companies invested in high-quality properties in major metropolitan areas.
- Limited partnership interests—ownership interests in primary or secondary funds that are not subject to SEC offering regulations. Liquidity related to the ability to purchase or sell interests are at the sole discretion of the fund manager/general partner.

As of August 31, 2021, the Baptist had commitments totaling approximately $51,000 in primary and secondary limited partnership funds, of which $5,500 was invested.

**Fair Value of Other Financial Instruments**—The following table presents estimated fair values of Baptist's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2021 and 2020:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **2021** | **Carrying Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Long-term debt | $ 1,318,325 | $ - | $ 1,478,586 | $ - |
| **2020** | | | | |
| Long-term debt | $ 949,010 | $ - | $ 1,029,269 | $ - |

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

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

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**—Assets and liabilities recognized or disclosed at fair value on a nonrecurring basis include items such as property, plant and equipment and goodwill. These assets are measured at fair value if determined to be impaired. Baptist recorded an impairment of the long-lived assets of its Madisonville location which reduced the fair value of the long-lived assets to $4,338 during the year ended August 31, 2021 and was considered a Level 2 fair value measurement. See Note 19 for additional discussion of subsequent events related to Madisonville. Impairment of goodwill is included at Note 2, Summary of Significant Accounting Policies. Goodwill has been determined to be a Level 3 fair value measurement.

## 12. PROPERTY AND EQUIPMENT—NET

| | 2021 | 2020 |
|---|---|---|
| Land and land improvements | $ 165,210 | $ 159,922 |
| Buildings and leasehold improvements | 1,520,448 | 1,424,251 |
| Equipment | 1,054,097 | 1,088,276 |
| Construction in progress | 97,704 | 60,490 |
| Total | 2,837,459 | 2,732,939 |
| Less accumulated depreciation | 1,469,948 | 1,460,874 |
| Property and equipment—net | $ 1,367,511 | $ 1,272,065 |

Internal use software is included in equipment in the table above. Original cost and accumulated depreciation, respectively, were $139,824 and $79,253 as of August 31, 2021 and $141,436 and $68,965 as of August 31, 2020.

As of August 31, 2021, Baptist entered into non-cancellable contractual agreements for the purchase of equipment and the construction of hospital facilities for approximately $166,597.

## 13. COMMITMENTS AND CONTINGENCIES

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

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

Effective June 1, 2019, Baptist's self-insured limits are $6,000 per occurrence and not to exceed $22,000 in the aggregate for all Baptist hospitals. Prior to June 1, 2019, Baptist's self-insured limits are $4,000 per occurrence and not to exceed $16,000 in the aggregate for all Baptist hospitals. Baptist is self-insured for the first $1,000 up to $3,000 in the aggregate for the majority of its physician practices. Baptist participates in the American Excess Insurance Exchange (AEIX), Risk Retention Group, a Vermont-chartered "captive" insurance company organized as a reciprocal for coverage above the self-insurance limits. Baptist currently has an 8.22% ownership in AEIX, the value of which is reported using the equity method of accounting and which is not material to the accompanying consolidated financial statements.

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

Related to the Baptist Health Floyd operations, the Indiana Malpractice Act (Act) limits professional liability for claims prior to July 1, 1999, to a maximum recovery of $750 per occurrence ($3,000 annual aggregate), $100 of which would be paid through malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund (Fund). For claims on or after July 1, 1999 through June 30, 2017, the maximum recovery is $1,250 per occurrence ($7,500 annual aggregate), $250 of which would be paid through self-insurance coverage and the remainder by the Fund. From June 1, 2017 through June 30, 2019, the maximum recovery $1,650 per occurrence ($12,000 annual aggregate), $400 of which would be paid through self-insurance coverage and the remainder by the Fund. From July 1, 2019 forward, the maximum recovery $1,800 per occurrence ($15,000 annual aggregate), $500 of which would be paid through self-insurance coverage and the remainder by the Fund.

The total undiscounted current liability for medical malpractice claims reported and claims incurred but not reported was approximately $12,200 and $11,400 at August 31, 2021 and 2020, respectively. The total undiscounted long-term liability for medical malpractice claims reported and claims incurred but not reported was approximately $132,852 and $137,161 at August 31, 2021 and 2020, respectively, and is included in other long-term liabilities in the consolidated balance sheets. Net malpractice expense recognized was approximately $4,951 and $3,096 for the years ended August 31, 2021 and 2020, respectively. Earnings on investments of the malpractice self-insurance trust funds amounted to approximately $9,508 and $5,010 for the years ended August 31, 2021 and 2020, respectively.

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

The total current liability for incurred and incurred but not reported workers' compensation claims and related costs of settlement was approximately $6,071 and $5,379 at August 31, 2021 and 2020, respectively. The total long-term liability for incurred and incurred but not reported workers' compensation claims and related costs of settlement was approximately $21,218 and $18,000 at August 31, 2021 and 2020, respectively, and is included in other long-term liabilities in the consolidated financial statements. Net workers' compensation expense recognized was approximately $8,611 and $7,582 for the years ended August 31, 2021 and 2020, respectively.

## 14. LONG-TERM DEBT

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

| | | Interest Rates | Maturity Dates | 2021 | 2020 |
|---|---|---|---|---|---|
| Revenue Bonds Series 2009B | Variable | 0.62%–0.67% | August 15, 2038 | $ 284,435 | $284,435 |
| Revenue Bonds, Series 2011 | Fixed | 5.00%–5.25% | August 15, 2046 | - | 140,000 |
| Revenue Bonds, Series 2015A | Variable | 0.66% | August 15, 2024 | 7,060 | 9,345 |
| Revenue Bonds, Series 2016A | Variable | 0.76% | March 1, 2036 | 37,535 | 38,935 |
| County Note, 2020 (A) | Fixed | 2.50% | August 31, 2025 | 48,000 | - |
| Revenue Bonds, Series 2017A | Fixed | 5.00% | August 9, 2051 | 84,410 | 84,410 |
| Revenue Bonds, Series 2017B | Fixed | 3.50%–5.00% | August 15, 2046 | 217,905 | 217,905 |
| Revenue Bonds, Series 2018A | Fixed | 5.08% | August 15, 2048 | 128,980 | 128,980 |
| Taxable Notes, 2020A | Variable | 2.20% | February 15, 2021 | - | 45,000 |
| Taxable Bonds, 2020B (B) | Fixed | 3.54% | August 31, 2050 | 510,000 | - |
| Total debt | | | | 1,318,325 | 949,010 |
| Less current installments of long-term debt | | | | (5,169) | (48,685) |
| Plus unamortized premium | | | | 16,328 | 16,490 |
| Less unamortized debt issuance costs | | | | (7,151) | (6,976) |
| Total long-term debt | | | | $1,322,333 | $909,839 |

(A) On September 1, 2020 in conjunction with the acquisition of Baptist Health Hardin, Baptist entered into a $50,000 note with Hardin County that will be paid over 25 years at a fixed interest rate of 2.5%.

(B) On October 21, 2020, Baptist Health issued its Baptist Healthcare System Obligated Group Taxable Bonds, Series 2020B in an aggregate principal amount of $510,000,000 (the "Series 2020B Bonds") for the purposes of (a) refunding the Series 2011 Revenue bonds and the 2020A Taxable Notes, (b) financing the costs of issuance of the Series 2020B Bonds, and (c) financing other corporate purposes.

The aggregate amount at August 31, 2021, of required funding for principal payments of long-term debt is as follows:

| | Amount |
|---|---|
| 2022 | $ 5,169 |
| 2023 | 5,601 |
| 2024 | 5,974 |
| 2025 | 3,745 |
| 2026 | 3,888 |
| Thereafter | 1,293,948 |
| Total | $ 1,318,325 |

## 15. LEASES AND INSTALLMENT PAYABLE

Baptist determines if an arrangement is a lease at inception of the contract. The right-of-use assets represents the right to use the underlying assets for the lease term and lease liabilities represent the obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Baptist uses the implicit rate noted within the contract, when available. Otherwise, Baptist uses its incremental borrowing rate estimated using recent secured debt issuances that correspond to various lease terms, information obtained from banking advisors, and its secured debt fair value. Baptist does not recognize leases with an initial term of 12 months or less (“short-terms leases”) on the consolidated balance sheet, and the lease expense for these short-term leases is recognized on a straight-line basis over the lease term within administration and other expense.

Baptist elected certain practical expedients, including the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs. Baptist also elected the accounting policy election for short-term leases. Consequently, short-term leases will be recorded as an expense on a straight-line basis over the lease term. Baptist did not elect the hindsight practical expedient.

Baptist’s operating leases are primarily for real estate, vehicles, medical and office equipment. Real estate leases include outpatient, medical office, ground, and corporate administrative office space. Baptist’s finance leases are primarily for real estate and the lease agreements typically have an initial term of three to 10 years. Baptist’s equipment lease agreements typically have an initial term of 1 to 6 years. The real estate leases may include one or more options to renew, with renewals that can extend the lease term from five to 10 years. The exercise of lease renewal options is at Baptist’s sole discretion. Options to extend or terminate the lease are included in the lease term when it is reasonably certain that the option will be exercised. Certain of the Baptist’s lease agreements for real estate include payments based on actual common area maintenance expenses and others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in administration and other expense but are not included in the right-of- use asset or liability balances when they can be separately identified in the contract. Baptist’s lease agreements do not contain any material residual value guarantees, restrictions or covenants.

The following table presents the components of Baptist’s right-of-use assets and liabilities related to leases and their classification in the consolidated balance sheets as of August 31, 2021 and 2020:

| Component of Lease Balances | Classification in Consolidated Balance Sheet | August 31, 2021 | August 31, 2020 |
|---|---|---|---|
| Assets: | | | |
| Operating lease right-of-use asset | Other assets | $ 131,775 | $ 88,878 |
| Finance lease | Property, plant & equipment | 31,756 | 27,813 |
| Liabilities: | | | |
| Current portion for operating lease liabilities | Separately stated | 20,335 | 13,826 |
| Current portion of finance lease liability | Other current liabilities | 5,029 | 5,433 |
| Long-term portion for operating lease liabiliti | Separately stated | 113,049 | 76,456 |
| Long-term portion of finance lease liability | Other liabilities | 11,540 | 12,635 |

The components of lease expense included in administration and other expense for the years ended August 31, 2021 and August 31, 2020 were as follows (in thousands):

| | | |
|---|---|---|
| Operating lease expense | $24,795 | $18,266 |
| Finance lease expense: | | |
| Amortization | 5,185 | 4,092 |
| Interest on lease liabilities | 500 | 495 |
| Total finance lease expense | 5,685 | 4,587 |
| Short-term lease expense | 11,141 | 6,663 |
| Total lease expense | $41,621 | $29,516 |

The weighted average remaining lease term and weighted average discount rate as of and for the year ended August 31, 2021, were as follows:

| | Weighted-Average Remaining Lease Term (Years) | Weighted-Average Discount Rate |
|---|---|---|
| Operating leases | 9.26 | 2.56 % |
| Finance leases | 3.55 | 2.55 |

Supplemental cash flow information related to leases for the year ended August 31, 2021 was as follows (in thousands):

| | |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash outflows from operating leases | $24,116 |
| Operating cash outflows from finance leases | 397 |
| Financing cash outflows from finance leases | 5,739 |

Future maturities of lease liabilities as of August 31, 2021 are presented in the following table (in thousands):

| | Operating Leases | Finance Leases | Total |
|---|---|---|---|
| 2022 | $ 23,464 | $ 5,434 | $ 28,898 |
| 2023 | 21,483 | 4,632 | 26,115 |
| 2024 | 19,244 | 3,999 | 23,243 |
| 2025 | 15,516 | 2,185 | 17,701 |
| 2026 | 12,173 | 542 | 12,715 |
| Thereafter | 58,776 | 802 | 59,578 |
| Total lease payments | 150,656 | 17,594 | 168,250 |
| Less imputed interest | 17,272 | 1,025 | 18,297 |
| Total lease obligations | 133,384 | 16,569 | 149,953 |
| Less current obligations | 20,335 | 5,029 | 25,364 |
| Long-term lease obligation | $113,049 | $11,540 | $124,589 |

## 16. EMPLOYEE BENEFIT AND RETIREMENT PLANS

Baptist employees who meet eligibility requirements are covered by a Retirement Accumulation Plan (RAP), which includes a defined contribution plan funded entirely by Baptist and a 401(k) plan to which the employees of BHP are the only participants permitted to make 401(k) deferrals. The finance committee of the board of directors of Baptist controls and manages the operation of the RAP. Participants are immediately fully vested in participant contributions and related earnings and are fully vested in Baptist contributions after five years of service, or after reaching age 65, whichever occurs first. Contributions by Baptist to the RAP were approximately $0 and $11 for the years ended August 31, 2021 and 2020, respectively.

Baptist offers a Thrift 403(b) Plan to which employees may defer up to 10% of their earnings on a pre-tax basis. Baptist matches fifty cents on each dollar for the first 6% of the employees' contributions. Employees are immediately vested in their contributions and related earnings. Employee vesting in employer contributions is graduated with full vesting after five years. Employer contributions by Baptist to the Thrift were approximately $30,166 and $21,442 for the years ended August 31, 2021 and 2020, respectively.

Baptist Health Richmond has a noncontributory defined benefit pension plan covering substantially all of its employees employed prior to 2005 (the "Pension"). Baptist Health Richmond's funding policy is to make the minimum annual contribution that is required by applicable regulations. Effective December 31, 2004, the defined benefit pension plan was frozen and does not allow any new participants. Effective December 31, 2007, Baptist Health Richmond resolved to freeze the accrued benefits of the defined benefit plan as part of its plan to restructure employee benefits of its employees. Baptist expects to contribute approximately $1,335 to the Pension in 2022.

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

The Post-Retirement medical benefits plan is contributory, with retiree contributions adjusted annually. Funding by Baptist is on a cash basis as benefits are paid. Baptist contributed approximately $3,669 and $2,532 for the years ended August 31, 2021 and 2020, respectively. Baptist expects to contribute approximately $3,250 to the plan in 2022.

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

**Change in Accumulated Benefit Obligation**

| | Pension | | Post Retirement | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Accumulated benefit obligation—beginning of year | $ 25,114 | $ 24,185 | $ 36,503 | $ 33,993 |
| Service cost | - | - | 1,463 | 1,056 |
| Interest cost | 632 | 707 | 1,306 | 1,045 |
| Amortization of loss | - | - | 2,341 | 1,408 |
| Net periodic benefit cost | 632 | 707 | 5,110 | 3,509 |
| Employer contributions | - | - | (3,669) | (2,532) |
| Net plan expense | 632 | 707 | 1,441 | 977 |
| Amortization of loss | - | - | (2,341) | (1,408) |
| Net (gain) loss arising during the period | - | - | 10,945 | 2,941 |
| Change in unrestricted net assets | - | - | 8,604 | 1,533 |
| Actuarial loss (gain) | (121) | 1,252 | - | - |
| Benefits paid | (1,073) | (1,030) | - | - |
| Accumulated benefit obligation—end of year | $ 24,552 | $ 25,114 | $ 46,548 | $ 36,503 |

**Changes in Plan Assets**

| | Pension | | Post Retirement | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Fair value—beginning of year | $ 16,612 | $ 16,152 | $ - | $ - |
| Actual return on plan assets | 848 | 711 | - | - |
| Employer contributions | 486 | 779 | 3,669 | 2,532 |
| Benefits paid | (1,073) | (1,030) | (3,669) | (2,532) |
| Fair value—end of year | $ 16,873 | $ 16,612 | $ - | $ - |

**Plan Obligations and Funded Status**

| | Pension | | Post Retirement | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Benefit obligation | $ (24,552) | $ (25,114) | $ (46,549) | $ (36,503) |
| Fair value of plan assets | 16,873 | 16,612 | - | - |
| Funded status | $ (7,679) | $ (8,502) | $ (46,549) | $ (36,503) |

**Liabilities Recognized in the Consolidated Balance Sheets**

| | Pension | | Post Retirement | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Accrued expenses—current | $ - | $ - | $ 3,250 | $ 2,135 |
| Other liabilities—noncurrent | 7,679 | 8,502 | 43,299 | 34,368 |
| Total liabilities | $ 7,679 | $ 8,502 | $ 46,549 | $ 36,503 |

**Amounts Recognized in Unrestricted Net Assets**

| | Pension | | Post Retirement | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Net gain (loss) | $ (3,058) | $ (3,653) | $ (29,106) | $ (20,501) |
| Accumulated contributions in deficit of net periodic benefit cost | (4,621) | (4,849) | - | - |
| Net amount recognized in unrestricted net assets | $ (7,679) | $ (8,502) | $ (29,106) | $ (20,501) |

**Amounts Recognized as Components of Net Periodic Benefit Cost Consist of**

| | Pension | | Post Retirement | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Service cost | $ - | $ - | $ 1,463 | $ 1,056 |
| Interest cost | 632 | 707 | 1,306 | 1,045 |
| Amortization of loss | 150 | 3 | 2,341 | 1,408 |
| Expected return on plan assets | (524) | (671) | - | - |
| Net periodic benefit cost | $ 258 | $ 39 | $ 5,110 | $ 3,509 |

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

**Significant Assumptions Include**

| | Pension 2021 | Pension 2020 | Post Retirement 2021 | Post Retirement 2020 |
|---|---|---|---|---|
| Weighted-average assumptions to determine benefit obligation—discount rate | 2.60 % | 2.59 % | 2.77 % | 2.89 % |
| Assumptions to determine net cost: | | | | |
| Discount rate | 2.59 % | 3.01 % | 2.89 % | 3.15 % |
| Expected return on plan assets | 3.25 | 4.25 | - | - |

For measurement purposes, a 5.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended August 31, 2021. The rate was assumed to decrease gradually to 4.50% by the year 2037 and remain at that level thereafter.

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

| | Post Retirement 2021 | Post Retirement 2020 |
|---|---|---|
| Effect on total of service cost and interest cost | $ 40 | $ 9 |
| Effect on post-retirement benefit obligation | 686 | 435 |

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

| | Post Retirement 2021 | Post Retirement 2020 |
|---|---|---|
| Effect on total of service cost and interest cost | $ (34) | $ (9) |
| Effect on post-retirement benefit obligation | (609) | (401) |

**Pension Plan Assets**—Valuation technologies maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy. There have been no changes in the methodologies used at August 31, 2021 and 2020.

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

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

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

We evaluate the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. There were no transfers between levels for the years ended August 31, 2021 and 2020.

The following tables set forth by level, within the fair value hierarchy, the pension plan's assets at fair value as of August 31, 2021 and 2020:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **2021**<br>**Asset Class** | **Total**<br>**Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Mutual funds [(A)] | $ 98 | $ 98 | $ - | $ - |
| Immediate participation guarantee contract at contract value | 16,775 | | | |
| Total assets | $ 16,873 | | | |

[(A)] 99% invested in common stock and 1% invested in fixed income.

| 2020 Asset Class | Total Fair Value | Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Mutual funds (A) | $ 1,404 | $ 1,404 | $ - | $ - |
| Immediate participation guarantee contract at contract value | 15,208 | | | |
| Total assets | $ 16,612 | | | |

(A) 88% invested in common stock and 12% invested in fixed income.

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

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

| | Pension | Post Retirement |
|---|---|---|
| 2022 | $ 1,335 | $ 3,250 |
| 2023 | 1,366 | 2,858 |
| 2024 | 1,394 | 2,507 |
| 2025 | 1,404 | 2,191 |
| 2026 | 1,416 | 1,870 |
| 2027–2031 | 6,976 | 6,822 |

## 17. NET ASSETS WITH DONOR RESTRICTIONS

| | 2021 | 2020 |
|---|---|---|
| Health care services: | | |
| Capital purchases | $ 5,139 | $ 9,364 |
| Indigent care | 1,286 | 1,306 |
| Health research and education | 791 | 1,098 |
| Other | 8,905 | 8,018 |
| Perpetual trusts | 28,104 | 23,184 |
| Endowments | 3,785 | 1,121 |
| Total | $ 48,010 | $ 44,091 |

## 18. COVID-19 PANDEMIC

An order was issued by the Department of Health effective March 18, 2020, that required all non-essential or elective surgeries and procedures that utilized personal protective equipment ("PPE") be cancelled. As a result of this order, Baptist Health experienced a decline in patient volumes which significantly affected financial results for fiscal year 2020. This order was rescinded effective May 13, 2020. Baptist Health began its recovery plan, which included the rescheduling of previously cancelled procedures and reopening outpatient clinics in a gradual, thoughtful and safe manner. Baptist Health experienced a significant decline in inpatient days, outpatient visits and surgical cases during the period the order was in effect. Despite a partial recovery during the summer of 2020, Baptist, like most of the nation, experienced additional surges of COVID-19 leading to additional declines in elective procedures and services during the year ended, August 31, 2021. The financial impact of these declines are reflected in the Consolidated Statement of Operations and Changes in Net Assets for the years ended August 31, 2021 and 2020.

Baptist Health received $31,700 and $109,500 in relief funds from the Department of Health and Human Services which is recorded as other revenue in the Consolidated Statements of Operations and Changes in Net Assets for the years ended August 31, 2021 and 2020, respectively.

## 19. SUBSEQUENT EVENTS

Baptist and Deaconess Health System, Inc. (“Deaconess”) entered into a Contribution Agreement dated June 30, 2021 which established a new 50-50 joint venture holding company, Baptist Health Deaconess, LLC. Baptist and Deaconess will jointly operate the hospital, medical group, and outpatient facilities previously owned by Baptist in the Madisonville area. In conjunction with the Contribution Agreement the membership interest and related assets ($56,642) and assumed liabilities ($46,005) of BH Madisonville previously owned by Baptist and a cash contribution ($19,363) were transferred to Baptist Health Deaconess, LLC effective September 1, 2021.

In November 2021, Baptist Health received additional funding of $49,300 in Provider Relief Fund Phase 4 and American Rescue Plan Rural Payments from the Department of Health and Human Services.

On December 4, 2021, CMS approved the extension of the Hospital Rate Improvement Program (HRIP) retroactive to July 1, 2021 through December 31, 2021. The impact of the extension of $19,870 is not reflected in the consolidated financial statements.

Subsequent events have been evaluated through December 7, 2021, the date the consolidated financial statements were available to be issued.

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