Baptist Healthcare System, Inc. and Affiliates

Consolidated Financial Statements as of and for the Years Ended August 31, 2019 and 2018, and Independent Auditors' Report

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Baptist Healthcare System, Inc. and Affiliates ("Baptist"), which comprise the consolidated balance sheets as of August 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Baptist's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Baptist's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Baptist as of August 31, 2019 and 2018, and the results of its operations and its 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 10, 2019

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF AUGUST 31, 2019 AND 2018
(Amounts in thousands)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 162,560	$ 167,958
Investments	215,568	193,340
Assets limited as to use or restricted—required for current obligations	24,499	22,881
Patient accounts receivable, net of allowance for uncollectible accounts of $72,943 in 2018	420,210	401,864
Inventories	49,851	46,923
Estimated third-party settlement receivable`	7,867	5,512
Prepaids and other	85,931	69,995
Total current assets	966,486	908,473
ASSETS LIMITED AS TO USE OR RESTRICTED	1,190,254	1,091,994
PROPERTY AND EQUIPMENT—Net	1,222,062	1,232,506
OTHER ASSETS	98,626	92,004
TOTAL ASSETS	$3,477,428	$3,324,977
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 95,798	$ 100,614
Accrued expenses	154,465	149,142
Accrued interest payable	2,842	2,742
Estimated third-party settlement payable	7,941	10,830
Current installments of long-term debt	46,275	9,625
Current portion for medical malpractice and workers' compensation	24,499	22,881
Other	60,534	50,811
Total current liabilities	392,354	346,645
LONG-TERM DEBT	913,960	960,198
OTHER LIABILITIES	201,073	170,113
Total liabilities	1,507,387	1,476,956
NET ASSETS:		
Without donor restrictions:		
Baptist net assets without donor restrictions	1,926,629	1,805,002
Noncontrolling interest in subsidiaries	5,405	5,452
Total net assets without donor restrictions	1,932,034	1,810,454
With donor restrictions	38,007	37,567
Total net assets	1,970,041	1,848,021
TOTAL LIABILITIES AND NET ASSETS	$3,477,428	$3,324,977

See notes to consolidated financial statements.

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018
(In thousands)

	2019	2018
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:		
Net patient service revenue before provision for doubtful accounts		$ 2,656,869
Less provision for doubtful accounts		81,357
Net patient service revenue	$ 2,764,189	2,575,512
Premium revenue	10	56,507
Other	112,322	91,345
Net assets released from restrictions used for operations	2,132	1,780
Total revenues, gains, and other support	2,878,653	2,725,144
EXPENSES:		
Salaries and benefits	1,539,892	1,480,953
Supplies	610,692	550,870
Purchased services	247,021	218,221
Utilities	33,124	34,374
Administration and other	144,466	165,803
Depreciation and amortization	136,633	133,111
Provider tax and assessment fees	47,308	41,567
Interest	38,217	35,563
Total expenses	2,797,353	2,660,462
OPERATING INCOME	81,300	64,682
OTHER INCOME (LOSS):		
Investment return	48,191	79,543
Other income (loss)	1,609	(6,727)
Total other income	49,800	72,816
EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES BEFORE PROVISION FROM INCOME TAX	131,100	137,498
PROVISION FOR INCOME TAX	507	247
EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	130,593	137,251
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTEREST	(1,457)	(1,377)
EXCESS OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES ATTRIBUTABLE TO BAPTIST—Net of noncontrolling interest	$ 129,136	$ 135,874

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, 2019 AND 2018
(In thousands)

	2019	2018
NET ASSETS WITHOUT RESTRICTIONS ATTRIBUTABLE TO BAPTIST:		
Excess of revenues, gains, and other support over expenses attributable to Baptist—net of noncontrolling interest	$ 129,136	$ 135,874
Net change in defined benefit pension related items	(3,145)	1,275
Net change in post-retirement benefit plan related items	(6,210)	2,888
Net assets released from restrictions used for capital	1,397	4,255
Other	449	-
Increase in net assets without donor restrictions attributable to Baptist	121,627	144,292
NET ASSETS WITHOUT DONOR RESTRICTIONS ATTRIBUTABLE TO NONCONTROLLING INTEREST:		
Excess of revenues over expenses	1,457	1,377
Contributions from noncontrolling interest	65	4,514
Distributions to noncontrolling interest	(1,569)	(1,314)
(Decrease) increase in net assets without donor restrictions attributable to noncontrolling interest	(47)	4,577
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	121,580	148,869
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions, interest income, and other	5,645	4,706
Net assets released from restrictions used for capital	(1,397)	(4,255)
Net assets released from restrictions used for operations	(2,132)	(1,780)
Change in beneficial interest in perpetual trust	(1,676)	2,384
Increase in net assets with donor restrictions	440	1,055
CHANGE IN NET ASSETS	122,020	149,924
NET ASSETS—Beginning of year	1,848,021	1,698,097
NET ASSETS—End of year	$ 1,970,041	$ 1,848,021

See notes to consolidated financial statements.

BAPTIST HEALTHCARE SYSTEM, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018
(In thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 122,020	$ 149,924
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for uncollectible accounts	-	81,357
Depreciation and amortization	136,633	133,111
Loss on extinguishment of debt	-	2,903
Net realized and unrealized gains on investments and assets limited as to use or restricted	(29,982)	(70,952)
Restricted contributions	(5,645)	(4,706)
Loss on sale or disposition of property and equipment	1,119	3,271
Net change in defined benefit pension related items	3,145	(1,275)
Net change in post-retirement benefit plan related items	6,210	(2,888)
Change in beneficial interest in perpetual trust	1,676	(2,384)
Other	2,889	(7,538)
Changes in:		
Patient accounts receivable—net	(18,346)	(102,210)
Inventories and prepaids and other	1,382	12,673
Other assets	(2,818)	(36,951)
Accounts payable, accrued expenses, and accrued interest payable	3,844	(13,774)
Estimated third-party payer settlements	(5,244)	1,532
Other current liabilities	(6,423)	14,775
Other liabilities	17,708	12,736
Net cash provided by operating activities	228,168	169,604
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(4,086,844)	(4,278,944)
Proceeds from disposition of investments	3,984,965	4,186,127
Purchases of property and equipment	(121,363)	(97,560)
Proceeds from sale of property and equipment	32	597
Acquisition of investments—net of cash acquired	-	(4,335)
Proceeds from sale of joint venture	1,400	4,306
Net cash used in investing activities	(221,810)	(189,809)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt and line of credit	-	194,225
Net costs of debt issuance	(102)	(2,023)
Principal payments on long-term debt	(9,625)	(211,360)
Capital lease and notes payable payments	(6,170)	(4,296)
Restricted contributions	5,645	4,706
Contributions from noncontrolling interest	65	349
Distributions to noncontrolling interest	(1,569)	(1,314)
Net cash used in financing activities	(11,756)	(19,713)
DECREASE IN CASH AND CASH EQUIVALENTS	(5,398)	(39,918)
CASH AND CASH EQUIVALENTS—Beginning of year	167,958	207,876
CASH AND CASH EQUIVALENTS—End of year	$ 162,560	$ 167,958
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid—net of capitalized amount of $478 in 2019 and $471 in 2018	$ 38,117	$ 35,569
Income taxes paid	$ 215	$ 112
Purchases of property and equipment in accounts payable	$ 8,966	$ 5,639
Acquisition of property and equipment through capital lease	$ 8,807	$ -

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 seven hospitals in the Commonwealth of Kentucky and one in the state of Indiana, along with the entities described below.

Baptist owns 54% of Baptist Physicians' Surgery Center, a for-profit limited liability corporation, 51% of Cumberland Valley Surgery Center, LLC, and 84% of Baptist Eastpoint 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.

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 will distribute its assets to Baptist Healthcare System, Inc. in accordance with the Voluntary Plan of Dissolution.

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. and Baptist Health Foundation, Richmond, Inc. and Baptist Health Foundation Paducah, Inc. are nonprofit, tax-exempt affiliate corporations.

Baptist Ventures, Inc. (BVI) is a Kentucky for-profit corporation that manages, operates, maintains, leases, or enters into joint ventures with hospitals, medical facilities or other entities that provide health care services. Effective October 19, 2018, BVI was dissolved and the ownership interests of the joint ventures were transferred to Baptist Healthcare System, Inc.

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—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, 2019 and 2018, 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, Cumberland Valley Surgery Center, LLC, and Baptist Health Performance Training, LLC, that Baptist does not own. Losses attributable to the noncontrolling interest are allocated to the noncontrolling interest even if the carrying amount of the noncontrolling interest is reduced below zero.

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

Investment 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 (during 2019) or the allowance for uncollectible accounts and contractual allowances (during 2018) regarding these major payer sources of revenue in evaluating the sufficiency of the allowances.

During 2018, the provision for uncollectible accounts was based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Throughout the year, management assessed the adequacy of the allowance for uncollectible accounts based on historical write-off experience by payor category. The results of this review were then used to make modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible accounts.

As a result of certain changes required by Accounting Standards Update (ASU) 2014-09, the majority of Baptist's provision for uncollectible accounts is recorded as a direct reduction to net patient service revenue instead of being presented as a separate line on the consolidated statements of operations. The adoption of ASU 2014-09 has no impact on Baptist's patient accounts receivable as it was historically recorded net of the allowance for uncollectible accounts and contractual adjustments on the consolidated balance sheets.

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

Assets Limited as to Use or Restricted—Assets limited as to use or restricted are recorded at fair value and include: (1) assets set aside by the board 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 capital lease are amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Such amortization is included with depreciation and amortization in the consolidated financial statements.

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

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

Long-Lived Asset Impairment—Baptist evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate of future cash flows is expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended August 31, 2019 and 2018.

(In thousands)

Goodwill—The following represents the amount of goodwill, including changes in carrying value for the years ending August 31, 2019 and 2018 included in other assets in the consolidated balance sheets:

	2019	2018
Balance—beginning of year	$ 32,125	$ 24,179
Acquisitions of businesses	2,672	8,029
Amortization	(908)	-
Impairment	-	(83)
Balance—end of year	$ 33,889	$ 32,125

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. During 2019, Baptist determined that there were no events requiring an impairment review and as a result, no impairment was recorded.

Prior to June 1, 2019, Goodwill was tested for impairment on an annual basis or when an event or change in circumstance indicates the value of a reporting unit may have changed. Testing was conducted at the reporting unit level. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss was recognized in an amount equal to that excess. Estimates of fair value are based on estimates of discounted future cash flows. During 2018, Baptist evaluated the goodwill associated with a practice in the Madisonville market and recorded a partial impairment of $83, which represents a partial impairment of the goodwill balance related to that reporting unit. The impairment charge was recorded in other loss in the 2018 consolidated statement of operations.

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 $35,376 and $37,134 for the years ended August 31, 2019 and 2018, respectively.

Other Revenue—Other operating revenue includes retail and specialty pharmacy revenue, cafeteria revenue, rental revenue, grant revenue, certain contributions released from restriction, and other non-patient care revenue.

Premium Revenue—Baptist, through BHP, entered into membership contracts with employer groups. The contracts contained varying terms subject to cancellation by the employer group or BHP upon 60 days' written notice. Premiums were due at the beginning of each month and were recognized as revenue during the period in which BHP is obligated to provide services to members. See Note 1, related to further disclosure of dissolution of BHP.

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

Estimated medical claims incurred but not reported are included in the consolidated balance sheets in accrued expenses and claims expense of $303 and $37,745 for the years ended August 31, 2019 and 2018, respectively, is reported in administrative and other expense in the consolidated statements of operations.

Provider Tax and Assessment Fees—Since July 1993, Kentucky has imposed various taxes on health care providers to help fund the state of Kentucky's portion of the Medicaid program. The law imposes a tax of 2.5% on the gross receipts of hospitals and 2% on nursing facility services, intermediate care facility services, services for the mentally handicapped, home health care services and health maintenance organization. Hospital provider taxes were capped in 2008 by Kentucky statute at the level paid in state fiscal year 2005–2006. Baptist recognized an expense for such provider taxes of approximately $25,242 and $24,902 in 2019 and 2018, respectively. No assurance can be given that the Kentucky General Assembly will not remove the cap on hospital provider taxes.

During 2012, the state of Indiana enacted the Hospital Assessment Fee (HAF) program, which is designed to increase Medicaid payments to hospitals. The program was approved by the federal Centers for Medicare & Medicaid Services (CMS) through June 30, 2017 and subsequently extended through June 30, 2019. Under HAF, Indiana hospitals receive additional federal Medicaid funds for the state's health care system, administered by the Indiana Family and Social Services Administration. HAF includes both a payment to the hospitals from the state and an assessment against the hospitals, which is paid to the state in the same year. Baptist Health Floyd recognized payments totaling $29,114 and $17,726 and assessments of $22,066 and $16,666 during 2019 and 2018, 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.

(In thousands)

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.

On December 22, 2017, President Trump signed H.R.1 (the "Tax Cuts and Jobs Act") that reduced the US corporate income tax rate to 21% for tax years after December 31, 2017. As a result of this decreased rate, the Company remeasured its deferred tax assets and liabilities as of December 22, 2017 in accordance with ASC 740. The provision for income taxes for the year ended August 31, 2018 included a decrease of $8,430 ($0 net impact after offset associated with deferred tax asset valuation allowance) related to the estimated impact of tax rate changes under the 2017 Tax Cuts and Jobs Act on our deferred tax assets and liabilities.

Total deferred tax assets and liabilities as of August 31, 2019 and 2018, are as follows:

	2019	2018
Deferred tax assets	$ 16,147	$ 17,648
Deferred tax liabilities	(145)	(345)
	16,002	17,303
Valuation allowance	(15,991)	(17,303)
Net deferred tax asset	$ 11	$ -

Baptist's federal net operating losses carry forward was $11,195 and $13,181 at August 31, 2019 and 2018, respectively. A valuation allowance was recorded related to certain assets that were not considered realizable in future periods. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment.

Baptist evaluates its uncertain tax positions on an annual basis. A tax benefit from an uncertain position may be recognized when it is more likely than not that the position will be sustained upon examination, include resolution of any related appeals or litigation processes, based on the technical merit of the position. Baptist has determined that it has no uncertain tax positions that are required to be recorded as of August 31, 2019. Tax years that are open include the years from 2015 to 2019.

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 12 for additional information related to medical malpractice and workers' compensation programs. At August 31, 2019 and 2018, Baptist had $10,803 and $13,240 in self-insured employee health reserves recorded in the consolidated balance sheets in accrued expenses.

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

Reclassification—Certain items in the 2018 consolidated statement of cash flows have been condensed to a single line item within cash flows from operating activities to conform with the current year presentation.

Recently Adopted Accounting Pronouncements—Effective September 1, 2018, Baptist adopted the ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" using a modified retrospective method of application to all contracts existing on September 1, 2018. The core principle of the guidance in ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For Baptist's health care operations, the adoption of ASU No. 2014-09 resulted in changes to the presentation for and disclosure of revenue related to uninsured and underinsured patients. Under ASU No. 2014-09, the estimated uncollectible amounts due from these patients are generally considered an implicit price concession and are a direct reduction to patient service revenue and, correspondingly result in a material reduction in the amounts presented separately as provision for bad debts. For the year ended August 31, 2019, Baptist recorded approximately $87,454 of implicit price concessions as a direct reduction of patient service revenue that would have been recorded as provision for bad debts prior to the adoption of ASU No. 2014-09. At August 31, 2019, Baptist recorded $77,260 as a direct reduction of accounts receivable that would have been reflected as allowance for doubtful accounts prior to the adoption of ASU No. 2014-09.

Other than these changes in presentation on the consolidated statement of operations and changes in net assets, consolidated balance sheet, and the statement of cash flows, the adoption of ASU No. 2014-09 did not have a material impact on the consolidated results of operations for the year ended August 31, 2019. The adoption of ASU No. 2014-09 also changed Baptist's operating revenue disclosures.

Effective September 1, 2018, Baptist adopted FASB ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). ASU 2016-14 changes certain financial statement requirements for not-for-profit entities in an effort to make the information more meaningful to users and reduce reporting complexity. Baptist adopted ASU 2016-14 in its consolidated financial statements effective August 31, 2019, applying it retrospectively to all periods presented. The impact of adoption changes the classification of net assets on the consolidated balance sheets and consolidated statements of operations and changes in net assets from three classes to two classes of net assets. Baptist also added additional disclosure for the liquidity and availability of financial assets at the balance sheet date to meet cash needs for general expenditures within one year and disaggregated functional expense classifications by their natural expense classification. The impact of adoption of ASU 2016-14 had no impact to revenues, excess of revenue over expenses, or total net assets.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments." This guidance adds and clarifies guidance on the classification of certain cash receipts and payments in the consolidated statement of cash flows. This guidance was adopted by Baptist effective September 1, 2018. The adoption of the guidance in ASU No. 2016-15 did not have a material impact on Baptist's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 "Restricted Cash," which adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents in the statement of cash flows. This guidance does not provide a definition of restricted cash. This guidance was adopted by Baptist effective September 1, 2018. The adoption of the guidance in ASU No. 2016-18 did not have a material impact on Baptist's consolidated statements of cash flows.

Effective September 1, 2018, Baptist adopted the FASB ASU No. 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). " The guidance in ASU No. 2018-08 assists entities in (1) evaluating whether grants and similar transactions should be accounted for as contributions (nonreciprocal) within the scope of Topic 958, or as exchanges (reciprocal) subject to guidance in Topic 606 and (2) determining whether a contribution is conditional. The adoption of the guidance in ASU No. 2018-08 did not have a material impact on Baptist's consolidated financial statements.

In May 2019, the FASB issued ASU No. 2019-06, "Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities (Topic 350 and Topic 805). " This amendment extends the accounting alternative for goodwill and certain identifiable intangible assets to not-for-profit entities. The accounting alternative permits not-for-profit entities to amortize goodwill on a straight-line basis over 10 years, or less than 10 years (if a lower useful life is appropriate). Upon adoption of the accounting alternative, the entity must make a policy election to test for impairment of goodwill at either the entity level or the reporting unit 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. Baptist did elect the accounting alternative effective June 1, 2019. See Note 2, Goodwill accounting policy footnote for impact of adoption.

Forthcoming Accounting Pronouncements—In February 2016, the 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. is. Baptist is adopting the optional transition method to apply the lease standard at the adoption date of September 1, 2019, and recognize a cumulative-effect adjustment to the opening balance of Baptist net assets without donor restrictions in the period of adoption. Baptist is still finalizing the impact this guidance will have on its consolidated financial statements. Given the material amount of future minimum lease payments under non-cancellable operating leases at August 31, 2019 discussed in Note 14, Baptist expects to recognize a material right-of-use lease asset and lease liability upon adoption of the ASU. The standard will not have a material impact on Baptist's consolidated statement of operations or cash flows, but will require significant incremental disclosures in the notes to the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which amends the requirements related to the presentation of the components of net periodic benefit cost in the statement of operations for an entity's sponsored defined benefit pension and other postretirement plans. This guidance is effective for Baptist beginning September 1, 2019. The adoption will not have a material impact on Baptist's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities." This guidance changes the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities; this guidance also simplifies the application of the hedge accounting guidance. This guidance is effective for Baptist beginning September 1, 2019. Baptist does not expect this guidance to have a material impact on its consolidated financial statements.

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. This guidance is effective for Baptist beginning September 1, 2020. This guidance allows for early adoption of only the disclosure modifications and disclosure eliminations. The adoption of additional disclosures required by ASU No. 2018-13 will have no impact on the consolidated financial statements of Baptist but will result in changes to footnote disclosures.

In August 2018, the FASB issued ASU 2018-14, 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. Baptist is still evaluating whether this guidance will have a material impact on its 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. Baptist is still evaluating the impact this guidance will have on its consolidated financial statements.

(In thousands)

On June 16, 2016, the FASB issued ASU 2016-13, 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, 2017, Baptist acquired Cumberland Valley Surgery Center, LLC. Baptist acquired 51% of the membership interests. This business combination was accounted for using the purchase method of accounting in accordance with ASC 958-805, Acquisition by a Not-for-Profit Entity. The purchase price for Cumberland Valley Surgery Center, LLC was $4,335.

The following table shows the allocation of the purchase price for Cumberland Valley Surgery Center, LLC to the acquired identifiable assets and liabilities:

Current assets	$ 373
Property and equipment	368
Goodwill	8,029
Assets acquired	8,770
Current liabilities	(270)
Non-controlling interest	(4,165)
Total purchase price	$ 4,335

On an unaudited pro forma basis, if Baptist had owned Cumberland Valley Surgery Center at the beginning of the year ended August 31, 2017 (September 1, 2016), Cumberland Valley Surgery Center would have contributed approximately $5,032 of operating revenue and approximately $339 of excess of revenue over expenses to fiscal 2017. 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.

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

(In thousands)

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 and service line for the year ended August 31, 2019 is as follows:

	2019	
	Amount	%
Patient service revenue:		
Medicare	$ 1,031,042	37%
Medicaid	362,109	13%
Other third-party payers	1,252,178	46%
Patients	118,860	4%
Total net patient service revenue by payer	$ 2,764,189	100%

(In thousands)

Under ASC 605, Baptist's revenue disclosure shows the sources of net patient service revenue before provision for uncollectible accounts for the year ended August 31, 2018:

		2018
Patient service revenue:		
Medicare	$	1,054,777
Medicaid		387,903
Other third-party payers		1,076,032
Patients		138,157
Patient service revenue	$	2,656,869

5. FUNCTIONAL EXPENSES

Baptist provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services. Approximately 83% and 87% of Baptist's expenses relate to health care services for the years ended August 31, 2019 and 2018, respectively, and 17% and 13% of Baptist's expenses relate to support services expenses for the years ended August 31, 2019 and 2018, respectively. Functional expenses consist of the following for the years ended August 31, 2019 and 2018:

	Health Care Services				Support Services		
	Hospitals	Physician Practices	Value Based	Other	General and Administrative	Fundraising	Total
Year Ended August 31, 2019							
Expenses:							
Salaries and benefits	$ 819,674	$ 442,582	$ 3,762	$ 36,872	$ 235,235	$ 1,767	$ 1,539,892
Supplies	573,676	22,276	27	11,302	3,170	241	610,692
Purchased services	149,838	8,630	381	1,998	85,912	262	247,021
Utilities	26,144	3,541	12	604	2,813	10	33,124
Interest	356	-	-	179	37,682	-	38,217
Depreciation and amortization	85,724	3,414	6	566	46,900	23	136,633
Administration and other	53,508	25,965	1,716	4,272	57,562	1,443	144,466
Provider tax	46,875	-	-	433	-	-	47,308
Total Operating Expenses	$ 1,755,795	$ 506,408	$ 5,904	$ 56,226	$ 469,274	$ 3,746	$ 2,797,353
Year Ended August 31, 2018							
Expenses:							
Salaries and benefits	$ 800,835	$ 420,241	$ 7,871	$ 37,130	$ 213,729	$ 1,147	$ 1,480,953
Supplies	522,122	20,057	69	11,554	(3,059)	127	550,870
Purchased services	129,369	8,603	3,315	2,170	74,631	133	218,221
Utilities	27,619	3,420	17	644	2,666	8	34,374
Interest	161	-	-	173	35,229	-	35,563
Depreciation and amortization	78,048	3,851	370	683	50,134	25	133,111
Administration and other	40,700	30,317	42,343	4,486	46,851	1,106	165,803
Provider tax	41,135	5	-	427	-	-	41,567
Total Operating Expenses	$ 1,639,989	$ 486,494	$ 53,985	$ 57,267	$ 420,181	$ 2,546	$ 2,660,462

Support services administrative 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.

(In thousands)

6. CONCENTRATION OF CREDIT RISK

Accounts Receivable—

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

	2019	2018
Net patient accounts receivable:		
Medicare	25.1 %	22.6 %
Medicaid	10.6	12.2
Other third-party payers	46.5	43.2
Patients	17.8	22.0
Patient accounts receivable	100.0 %	100.0 %

7. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of August 31, 2019 and 2018 the System had working capital, which is current assets less current liabilities, of $574,132 and $561,828, 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:

	2019	2018
Cash and cash equivalents	$ 162,560	$ 167,958
Investments	215,568	193,340
Patient accounts receivable	420,210	401,864
Other accounts receivable, included in prepaids and other current assets in the consolidated balance sheets	44,985	48,489
Assets limited as to use by the board or management for capital improvements or other purposes	1,066,095	981,764
Total financial assets available	$ 1,909,418	$ 1,793,415

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.

(In thousands)

On a periodic basis, Baptist calculates the amount of its unrestricted cash and investments available within certain time frames. As of August 31, 2019, 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.

8. 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, 2019 and 2018:

Investments

	2019	2018
Mutual funds	$ 6,818	$ 9,187
US treasury and agency obligations	7,269	2,095
US and foreign common and preferred stocks	3,956	4,389
US and foreign corporate bonds	197,525	177,669
Total investments	$ 215,568	$ 193,340

(In thousands)

Assets Limited as to Use or With Donor Restrictions

	2019	2018
Designated by board or management for capital improvements or other purposes	$ 1,066,095	$ 981,764
Designated by board for endowment	3,289	3,166
Held by trustee or with donor restrictions:		
Under bond indenture agreements	-	751
With donor restrictions	6,348	5,530
Under medical malpractice self-insurance funding arrangement	92,792	78,910
Under workers' compensation self-insurance funding arrangement	24,231	21,080
In perpetual trust	21,998	23,674
Total held by trustee	145,369	129,945
Total assets limited as to use or restricted	1,214,753	1,114,875
Less amount required for current obligations	(24,499)	(22,881)
Assets limited as to use or restricted	$ 1,190,254	$ 1,091,994

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, 2019 and 2018:

	2019	2018
Other operating revenue:		
Interest and dividend income of BHP	$ 333	$ 700
Realized gains on sale of securities of BHP	321	3,588
Net investment return reported in other revenue	654	4,288
Other income:		
Interest and dividend income, net	25,476	19,050
Realized gains on sale of securities	17,217	24,957
Change in net unrealized gains	5,498	35,536
Net investment return reported in other income	48,191	79,543
Total investment return	$ 48,845	$ 83,831

(In thousands)

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

Certain investments in debt and marketable equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at August 31, 2019 and 2018, was $207,970 and $319,757, which is approximately 15% and 24%, of the investment portfolio, respectively.

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, 2019 and 2018, 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.

Collateral as of August 31, 2019 and 2018 was $1,451 and $938, respectively, and is reported in assets whose use is limited or restricted.

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, 2019 and 2018, the gross notional amount of derivative investments in an asset position was 2,403,222,961 and 1,886,107,304, respectively and the gross notional amount of derivative investments in a liability position was 2,287,713,998 and 2,087,022,547, 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, 2019 and 2018 include the following:

2019	**Notional**	**Asset**	**Liability**
Foreign currency forwards	172,058,963	$ 54,996	$ (52,926)
Swaps	(10,700,000)	-	-
Futures	29,650,000	-	-
Mortgage forwards		150,234	(150,234)
Options	(75,500,000)	-	(14)
Total	115,508,963	$ 205,230	$ (203,174)

(In thousands)

2018	Notional	Asset	Liability
Foreign currency forwards	(939,815,244)	$ 24,126	$ (23,962)
Interest rate swaps	47,000,000	-	-
Futures	667,100,000	-	-
Mortgage forwards	8,200,000	8,145	(8,137)
Options	16,600,000	26	(28)
Total	(200,915,244)	$ 32,297	$ (32,127)

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, 2019 and 2018, the gross notional amount of these futures in an asset position was 232,884,255 and 584,923,232 and the gross notional amount of these futures in a liability position was 100,600,000 and 54,900,000. The fair value of these positions was $759 and $1,368 as of August 31, 2019 and 2018, respectively. The majority of the positions cash-settle on a daily basis.

At August 31, 2019 and 2018, Baptist had pending trade receivables of $20,545 and $299 reported in prepaids and other current assets and pending trade payables of $36,430 and $17,316, respectively, reported in other current liabilities.

9. 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 $21,998 and $23,674 is based on the fair value of the underlying perpetual trust assets at August 31, 2019 and 2018, respectively. Trust income distributed to Baptist for the year ended August 31, 2019 and 2018, was $959 and $925, respectively.

10. 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, 2019 and 2018.

(In thousands)

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, 2019 and 2018.

Investments

2019	Level 1	Level 2	Level 3	Total
Mutual funds—equity	$ 5,157	$ -	$ -	$ 5,157
Mutual funds—fixed income	-	1,661	-	1,661
U.S. Treasury and agency obligations	-	7,269	-	7,269
U.S. and foreign common and preferred stock	3,956	-	-	3,956
U.S. and foreign corporate bonds	-	197,525	-	197,525
Investments	$ 9,113	$ 206,455	$ -	$ 215,568

2018	Level 1	Level 2	Level 3	Total
Mutual funds—equity	$ 9,187	$ -	$ -	$ 9,187
U.S. Treasury and agency obligations	-	2,095	-	2,095
U.S. and foreign common and preferred stock	4,389	-	-	4,389
U.S. and foreign corporate bonds	-	177,669	-	177,669
Investments	$ 13,576	$ 179,764	$ -	$ 193,340

(In thousands)

Assets Limited as to Use or Restricted

2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$ 102,503	$ -	$ -	$ 102,503
Exchange traded/mutual funds:				
Balanced	43,770	-	-	43,770
Equity	77,116	-	-	77,116
Fixed income	10,294	-	-	10,294
U.S. Treasury and agency obligations		152,862	-	152,862
U.S. common and preferred stocks	188,998	-	-	188,998
Foreign common and preferred stock	10,989	-	-	10,989
U.S. corporate bonds	-	331,965	-	331,965
Foreign corporate bonds	-	96,307	-	96,307
Derivative investments—net	-	2,815	-	2,815
Perpetual trust	-	21,998	-	21,998
Assets limited as to use or restricted at fair value	$ 433,670	$ 605,947	$ -	1,039,617
Commingled fund at net asset value				175,136
Assets limited as to use or restricted				$ 1,214,753

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$ 123,746	$ -	$ -	$ 123,746
Exchange traded/mutual funds:				
Balanced	34,859	-	-	34,859
Equity	60,431	-	-	60,431
Fixed income	10,304	-	-	10,304
U.S. Treasury and agency obligations	-	128,653	-	128,653
U.S. common and preferred stocks	180,725	-	-	180,725
Foreign common and preferred stock	7,770	-	-	7,770
U.S. corporate bonds	-	292,516	-	292,516
Foreign corporate bonds	-	80,422	-	80,422
Derivative investments—net	-	1,538	-	1,538
Perpetual trust	-	23,674	-	23,674
Assets limited as to use or restricted at fair value	$ 417,835	$ 526,803	$ -	944,638
Commingled fund at net asset value				170,237
Assets limited as to use or restricted				$ 1,114,875

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, 2019 and 2018.

Cash Equivalents—The carrying amount is fair value.

Commingled Fund—The commingled fund is developed for investment by institutional investors only and therefore does not require registration with the Securities and Exchange Commission. The commingled fund is valued at net asset value of the underlying investments. The net asset value, as provided by the trustee, is used as a practical expedient to estimate fair value. There are no participant restrictions for these investments, and redemptions can be processed daily from the fund. There are no unfunded commitments.

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.

(In thousands)

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, 2019 and 2018:

		Fair Value Measurements Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2019				
Long-term debt	$ 950,285	$ -	$ 1,046,211	$ -
2018				
Long-term debt	$ 959,910	$ -	$ 990,326	$ -

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

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

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

11. PROPERTY AND EQUIPMENT—NET

	2019	2018
Land and land improvements	$ 157,089	$ 158,223
Buildings and leasehold improvements	1,369,310	1,345,066
Equipment	1,065,802	1,082,193
Construction in progress	56,718	42,859
Total	2,648,919	2,628,341
Less accumulated depreciation	1,426,857	1,395,835
Property and equipment—net	$ 1,222,062	$ 1,232,506

Internal use software is included in equipment in the table above. Original cost and accumulated depreciation, respectively, were $139,874 and $54,137 as of August 31, 2019 and $182,670 and $80,063 as of August 31, 2018.

As of August 31, 2019, Baptist entered into non-cancellable contractual agreements for the purchase of equipment and the construction of hospital facilities for approximately $35,219.

12. 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 current liability for medical malpractice claims reported and claims incurred but not reported was approximately $18,620 and $17,000 at August 31, 2019 and 2018, respectively. The total long-term liability for medical malpractice claims reported and claims incurred but not reported was approximately $136,418 and

(In thousands)

$119,570 at August 31, 2019 and 2018, respectively, and is included in other long-term liabilities in the consolidated balance sheets. Net malpractice expense recognized was approximately $30,556 and $34,969 for the years ended August 31, 2019 and 2018, respectively. Earnings on investments of the malpractice self-insurance trust funds amounted to approximately $3,329 and $3,418 for the years ended August 31, 2019 and 2018, respectively.

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

The total current liability for incurred and incurred but not reported workers' compensation claims and related costs of settlement was approximately $5,879 and $5,881 at August 31, 2019 and 2018, respectively. The total long-term liability for incurred and incurred but not reported workers' compensation claims and related costs of settlement was approximately $15,821 and $13,710 at August 31, 2019 and 2018, respectively, and is included in other long-term liabilities in the consolidated financial statements. Net workers' compensation expense recognized was approximately $7,431 and $6,395 for the years ended August 31, 2019 and 2018, respectively.

13. 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	2019	2018
Revenue Bonds Series 2009B	1.49%-1.52%	6/30/2025	$ 284,435	$ 284,435
Revenue Bonds, Series 2011	5.00%-5.25%	8/15/2046	140,000	140,000
Revenue Bonds, Series 2015A	1.31%-1.69%	8/15/2024	11,705	14,050
Revenue Bonds, Series 2016A	2.42%-2.76%	8/28/2036	40,150	41,330
Floyd County Note, 2016 [A]	3.16%	1/15/2020	42,700	48,800
Revenue Bonds, Series 2017A	5.00%	8/9/2051	84,410	84,410
Revenue Bonds, Series 2017B	3.75%-5.00%	8/15/2046	217,905	217,905
Revenue Bonds, Series 2018A	5.08%	8/15/2048	128,980	128,980
Total debt			950,285	959,910
Less current installments of long-term debt			(46,275)	(9,625)
Plus unamortized premium (less discount)			17,325	18,169
Less unamortized debt issuance costs			(7,375)	(8,256)
Total long-term debt			$ 913,960	$ 960,198

[A] On January 9, 2019 Floyd County exercised their right to call the bonds and accordingly the entire amount of the unpaid principal amount together with all accrued and unpaid interest and all other sums are due January 15, 2020. As a result the remaining balance on the note is classified as current portion as of August 31, 2019.

(In thousands)

The aggregate amount at August 31, 2019, of required funding for principal payments of long-term debt is as follows:

	Amount
2020	$ 46,275
2021	3,685
2022	3,685
2023	4,080
2024	4,775
Thereafter	887,785
Total	$ 950,285

14. LEASES AND INSTALLMENT PAYABLE

Baptist leases certain facilities and equipment under non-cancellable operating leases and capital leases. Both lease types have terms greater than one year. Rental expense under operating leases was $22,157 and $24,791 for the year ended August 31, 2019 and 2018 respectively.

As of August 31, 2019, future minimum rental payments under non-cancellable operating leases and minimum payments under capital leases are as follows:

	Operating Leases	Capital Leases
2020	$ 13,925	$ 3,417
2021	9,254	3,351
2022	6,931	1,675
2023	5,007	1,368
2024	4,088	1,225
Thereafter	5,758	1,055
Total	$ 44,963	$ 12,091

Baptist leases certain facilities and equipment under capital leases. The capital lease obligation is included in other long-term liabilities (less current portion included in other current liabilities) in the consolidated balance sheets.

Baptist purchased its electronic health record system through an installment payable. During 2019, the final payments totaling $2,925 were made and accordingly the installment payable was fully paid as of August 31, 2019.

15. 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 $55 and $140 for the years ended August 31, 2019 and 2018, 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. Contributions by Baptist to the Thrift were approximately $84,981 and $81,506 for the years ended August 31, 2019 and 2018, 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 $776 to the Pension in 2020.

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 $2,511 and $2,741 for the years ended August 31, 2019 and 2018, respectively. Baptist expects to contribute approximately $2,616 to the plan in 2020.

(In thousands)

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	
	2019	2018	2019	2018
Accumulated benefit obligation—beginning of year	$ 21,267	$ 22,449	$ 27,555	$ 30,060
Service cost			651	628
Interest cost	870	815	1,186	1,181
Amortization of loss	-	-	1,007	1,315
Net periodic benefit cost	870	815	2,844	3,124
Employer contributions	-	-	(2,616)	(2,741)
Net plan expense	870	815	228	383
Amortization of loss	-	-	(1,007)	(1,315)
Net (gain) loss arising during the period	-	-	7,217	(1,573)
Change in unrestricted net assets	-	-	6,210	(2,888)
Actuarial loss (gain)	3,016	(1,111)	-	-
Benefits paid	(968)	(886)	-	-
Accumulated benefit obligation—end of year	$ 24,185	$ 21,267	$ 33,993	$ 27,555

Changes in Plan Assets

	Pension		Post Retirement	
	2019	2018	2019	2018
Fair value—beginning of year	$ 15,609	$ 15,009	$ -	$ -
Actual return on plan assets	566	865	-	-
Employer contributions	946	621	2,616	2,741
Benefits paid	(968)	(886)	(2,616)	(2,741)
Fair value—end of year	$ 16,153	$ 15,609	$ -	$ -

(In thousands)

Plan Obligations and Funded Status

	Pension		Post Retirement	
	2019	2018	2019	2018
Benefit obligation	$ (24,185)	$ (21,267)	$ (33,993)	$ (27,555)
Fair value of plan assets	16,153	15,609	-	-
Funded status	$ (8,032)	$ (5,658)	$ (33,993)	$ (27,555)

Liabilities Recognized in the Consolidated Balance Sheets

	Pension		Post Retirement	
	2019	2018	2019	2018
Accrued expenses—current	$ -	$ -	$ 2,510	$ 2,421
Other liabilities—noncurrent	8,032	5,658	31,483	25,134
Total liabilities	$ 8,032	$ 5,658	$ 33,993	$ 27,555

Amounts Recognized in Unrestricted Net Assets

	Pension		Post Retirement	
	2019	2018	2019	2018
Net gain (loss)	$ (2,444)	$ 701	$ (18,969)	$ -
Accumulated contributions in excess of net periodic benefit cost	(5,588)	(6,359)	-	(12,759)
Net amount recognized in unrestricted net assets	$ (8,032)	$ (5,658)	$ (18,969)	$ (12,759)

Amounts Recognized as Components of Net Periodic Benefit Cost Consist of

	Pension		Post Retirement	
	2019	2018	2019	2018
Service cost	$ -	$ -	$ 651	$ 628
Interest cost	870	815	1,186	1,181
Amortization of loss	-	-	1,007	1,315
Expected return on plan assets	(694)	(701)	-	-
Net periodic benefit cost	$ 176	$ 114	$ 2,844	$ 3,124

(In thousands)

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		Post Retirement	
	2019	2018	2019	2018
Weighted-average assumptions to determine benefit obligation—discount rate	3.01 %	4.22 %	3.15 %	4.22 %
Assumptions to determine net cost:				
Discount rate	4.22 %	3.73 %	4.22 %	3.73 %

For measurement purposes, a 5.80% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended August 31, 2019. 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	
	2019	2018
Effect on total of service cost and interest cost	$ 33	$ 45
Effect on post-retirement benefit obligation	945	881

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	
	2019	2018
Effect on total of service cost and interest cost	$ (29)	$ (40)
Effect on post-retirement benefit obligation	(820)	(780)

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, 2019 and 2018.

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.

(In thousands)

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, 2019 and 2018.

The following tables set forth by level, within the fair value hierarchy, the pension plan's assets at fair value as of August 31, 2019 and 2018:

		Fair Value Measurements Using		
2019 Asset Class	**Total 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]	$ 1,265	$ 1,265	$ -	$ -
Immediate participation guarantee contract at contract value	14,888			
Total assets	$ 16,153			

[A] 87% invested in common stock and 13% invested in fixed income.

(In thousands)

		Fair Value Measurements Using		
2018 Asset Class	**Total 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]	$ 2,460	$ 2,460	$ -	$ -
Immediate participation guarantee contract at contract value	13,149			
Total assets	$ 15,609			

[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**
2020	$ 1,256	$ 2,511
2021	1,276	2,277
2022	1,296	2,215
2023	1,327	2,025
2024	1,355	1,724
2025–2029	6,926	6,094

16. NET ASSETS WITH DONOR RESTRICTIONS

	2019	**2018**
Health care services:		
Capital purchases	$ 6,088	$ 4,726
Indigent care	1,105	1,094
Health research and education	1,150	1,152
Other	7,659	6,914
Perpetual trusts	22,005	23,681
Total	$ 38,007	$ 37,567

17. SUBSEQUENT EVENTS

On May 23, 2018, Baptist and Hardin County, Kentucky d/b/a Hardin Memorial Hospital ("HMH") entered into an Asset Purchase Agreement (the "APA") for Baptist to acquire substantially all of the assets from HMH. Terms of the APA provide that at closing, Baptist will pay Hardin County $60,000. In addition, Baptist will pay $50,000 over 25 years (plus interest at a 2.5% fixed rate). Baptist committed to invest $150,000 in the first five years and $85,000 in the subsequent five years to invest in capital projects as defined in the APA. Hardin County and Baptist have negotiated an Amendment to the Asset Purchase Agreement which would include removing both parties rights to voluntarily terminate the APA and which would set a closing date on or before December 1, 2020. The Hardin Fiscal Court approved the Amendment on November 19, 2019. The Baptist Board of Directors approved the Amendment on December 10, 2019.

Subsequent events have been evaluated through December 10, 2019, the date the consolidated financial statements were available to be issued.

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