

Baptist Memorial Health Care Corporation and Affiliates

Combined Financial Statements as of and for the
Years Ended September 30, 2022 and 2021, and
Independent Auditor's Report

BAPTIST MEMORIAL HEALTH CARE CORPORATION AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Baptist Memorial Health Care Corporation
Memphis, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying combined financial statements of Baptist Memorial Health Care Corporation (a Tennessee nonprofit corporation) and affiliates (collectively, BMHCC), all of which are under common ownership and common management, which comprise the combined balance sheets as of September 30, 2022 and 2021, and the related combined statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of BMHCC as of September 30, 2022 and 2021, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of BMHCC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about BMHCC's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- obtain an understanding of internal control relevant to the audit 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 BMHCC's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about BMHCC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

December 15, 2022

BAPTIST MEMORIAL HEALTH CARE CORPORATION AND AFFILIATES

COMBINED BALANCE SHEETS AS OF SEPTEMBER 30, 2022 AND 2021 (Amounts in thousands)

	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 212,086	\$ 606,227
Short-term investments	20,560	2,276
Patient accounts receivable—net	447,615	472,929
Other receivables—net	14,677	20,816
Inventory	72,262	68,565
Prepaid expenses	70,720	69,941
Other current assets	12,303	14,956
Estimated settlements with third parties	<u>14,310</u>	<u>13,330</u>
Total current assets	864,533	1,269,040
INVESTMENTS	913,425	1,151,627
ASSETS WHOSE USE IS LIMITED	48,656	67,622
RIGHT-OF-USE ASSET—Operating	164,078	150,756
RIGHT-OF-USE ASSET—Financing	12,219	12,772
PROPERTY AND EQUIPMENT—Net	1,299,763	1,338,899
GOODWILL	10,615	10,615
OTHER INTANGIBLE ASSETS	8,000	8,162
OTHER LONG-TERM ASSETS	<u>67,770</u>	<u>78,537</u>
TOTAL	<u>\$3,389,059</u>	<u>\$4,088,030</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 46,100	\$ 47,619
Current portion of lease liability—operating	34,050	32,379
Current portion of lease liability—financing	4,013	4,408
Accounts payable	80,655	75,588
Accrued expenses and other	270,363	274,761
Medicare accelerated payments	1,917	331,331
Estimated settlements with third parties	<u>29,505</u>	<u>23,761</u>
Total current liabilities	466,603	789,847
LONG-TERM DEBT	<u>826,657</u>	<u>850,114</u>
LONG-TERM PORTION OF LEASE LIABILITY—Operating	<u>134,027</u>	<u>121,756</u>
LONG-TERM PORTION OF LEASE LIABILITY—Financing	<u>13,304</u>	<u>13,692</u>
OTHER LONG-TERM LIABILITIES	<u>196,140</u>	<u>235,886</u>
COMMITMENTS AND CONTINGENCIES (Note 20)		
NET ASSETS:		
Without donor restrictions	1,575,337	1,880,197
With donor restrictions	<u>176,991</u>	<u>196,538</u>
Total net assets	1,752,328	2,076,735
TOTAL	<u>\$3,389,059</u>	<u>\$4,088,030</u>

See notes to combined financial statements.

BAPTIST MEMORIAL HEALTH CARE CORPORATION AND AFFILIATES

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021 (Amounts in thousands)

	2022	2021
REVENUE AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS:		
Net patient service revenues	\$ 3,209,101	\$ 3,182,478
Other revenue	<u>191,589</u>	<u>219,046</u>
Total revenue and other support without donor restrictions	<u>3,400,690</u>	<u>3,401,524</u>
EXPENSES:		
Salaries and benefits	1,914,413	1,748,462
Supplies and drugs	846,176	800,048
Purchased services and other	502,114	507,702
Gain on sale of assets	(354)	(5,766)
Professional fees	188,749	166,677
Depreciation and amortization	137,933	141,524
Interest	<u>31,906</u>	<u>31,589</u>
Total expenses	<u>3,620,937</u>	<u>3,390,236</u>
(LOSS) INCOME FROM OPERATIONS	<u>(220,247)</u>	<u>11,288</u>
NONOPERATING (LOSS) INCOME:		
Interest and dividend income from investments	28,716	22,521
Net unrealized (loss) gain on investments—equity	(159,210)	100,128
Net realized gains on investments	44,431	31,614
Equity in investments	11,498	5,036
Gain from change in fair value of interest rate swap	14,633	7,633
Noncontrolling interest	(7,664)	(7,186)
Other	<u>12,478</u>	<u>14,966</u>
Total nonoperating (loss) income	<u>(55,118)</u>	<u>174,712</u>
(EXPENSES IN EXCESS OF REVENUE)/REVENUE IN EXCESS OF EXPENSES	<u>(275,365)</u>	<u>186,000</u>

(Continued)

BAPTIST MEMORIAL HEALTH CARE CORPORATION AND AFFILIATES

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021 (Amounts in thousands)

	2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
(Expenses in excess of revenue) / revenue in excess of expenses	\$ (275,365)	\$ 186,000
Net unrealized (loss) gain on investments—debt	(35,157)	(6,609)
Postretirement—related changes	4,877	(3,173)
Other	782	(2,049)
	<u> </u>	<u> </u>
Change in net assets without donor restrictions	(304,863)	174,169
NET ASSETS WITH DONOR RESTRICTIONS:		
Net unrealized (loss) gain on investments	(43,389)	22,496
Contributions and other	35,242	25,940
Net assets released from restrictions	(11,397)	(8,948)
	<u> </u>	<u> </u>
Change in net assets with donor restrictions	(19,544)	39,488
CHANGE IN NET ASSETS	(324,407)	213,657
NET ASSETS—Beginning of year	<u>2,076,735</u>	<u>1,863,078</u>
NET ASSETS—End of year	<u>\$1,752,328</u>	<u>\$2,076,735</u>

See notes to combined financial statements.

(Concluded)

BAPTIST MEMORIAL HEALTH CARE CORPORATION AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021 (Amounts in thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES AND NONOPERATING INCOME:		
Change in net assets	\$(324,407)	\$ 213,657
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities and nonoperating income:		
Depreciation and amortization	137,933	141,524
Bond premium amortization	(3,826)	(4,115)
Change in fair value of interest rate swaps	(15,125)	(7,220)
ROU asset—operating amortization	37,669	38,007
Equity in earnings of investments in affiliates	(6,610)	(4,806)
Distributions from investments in affiliates	6,411	5,538
Net realized gain on sales of investments, fixed assets, and other	(66,565)	(46,771)
Net unrealized loss (gain) on investments	236,134	(116,015)
Changes in operating assets and liabilities:		
Net patient accounts receivable	(279,568)	(144,726)
Other receivable	6,139	(5,767)
Inventory	(3,697)	(6,346)
Prepaid expenses	(779)	582
Other current assets	3,495	(8,152)
Accounts payable, accrued expenses, and other liabilities	(32,652)	(271)
Deferred governmental grants	-	(79,129)
Other long-term liabilities	(26,087)	13,793
Net cash used in operating activities and nonoperating income	<u>(331,535)</u>	<u>(10,217)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(88,300)	(104,065)
Proceeds from sales of fixed assets	1,495	10,087
Purchases of long-term investments	(240,170)	(278,132)
Sales of long-term investments	328,516	120,738
Sales of short-term investments	2,276	17,584
Change in assets whose use is limited	(24,613)	7,671
Investment in affiliates	(2,557)	(2,177)
Proceeds from sale of joint ventures	16,318	-
Other	(5,079)	7,629
Net cash used in investing activities	<u>(12,114)</u>	<u>(220,665)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of medicare accelerated payments	(24,532)	-
Proceeds from issuance of debt	50,265	17,187
Principal payments on debt and capital lease obligations	(72,076)	(48,413)
Bond issuance costs	(275)	-
Premium on bonds	300	-
Principal payments on ROU liability—financing	(4,174)	(3,249)
Net cash used in financing activities	<u>(50,492)</u>	<u>(34,475)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(394,141)	(265,357)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>606,227</u>	<u>871,584</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 212,086</u>	<u>\$ 606,227</u>
CASH PAID FOR INTEREST DURING THE YEAR	<u>\$ 31,406</u>	<u>\$ 31,485</u>

See notes to combined financial statements.

BAPTIST MEMORIAL HEALTH CARE CORPORATION AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Affiliation and Combination—Baptist Memorial Health Care Corporation (the “Corporation”) is a nonprofit corporation. The accompanying combined financial statements include the financial statements of the Corporation and its affiliates under common ownership and common management (collectively, BMHCC). The Corporation is the member (parent) organization of most of the not-for-profit affiliates that comprise BMHCC. Such affiliates include hospitals offering both inpatient and outpatient services, as well as surgery centers, physician practices, and other ancillary businesses. All intercompany accounts and transactions have been eliminated. Investments in 50%- or less-owned companies and partnerships are generally accounted for using the equity method.

Estimates—The preparation of combined 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents—For purposes of the combined statements of cash flows, BMHCC considers certificates of deposit, overnight reverse repurchase agreements, and other highly liquid investments with original maturities of less than three months to be cash equivalents.

Revenues and Accounts Receivable—BMHCC reports revenues from patient services at its hospitals and affiliated facilities at the amounts that reflects the consideration to which BMHCC expects to be entitled in exchange for providing patient care. These amounts are due from patients, governmental programs and third-party payors such as Medicare, Medicaid, health maintenance organizations, preferred provider organizations, private insurers and others, and include variable consideration for retroactive revenue adjustments due to settlements of audits, reviews and investigations. Generally, BMHCC bills the patient and third-party payors several days after the services are performed or after the patient is discharged. Revenue is recognized as the performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by BMHCC. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges for services anticipated to be provided. BMHCC believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in BMHCC’s hospitals receiving inpatient acute care services. BMHCC 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. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and BMHCC does not believe it is required to provide additional goods or services to the patient.

BMHCC determines the transaction price based on standard billing rates for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients and patient responsibility after insurance in accordance with BMHCC's policy, and/or implicit price concessions provided to uninsured patients and patient responsibility after insurance. BMHCC determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. BMHCC determines its estimate of implicit price concessions based on its historical collection experience with this portfolio of patients.

Third-Party Payors—A summary of the payment arrangements with major third-party payors is as follows:

Medicare—Payment for inpatient services and most outpatient services is generally based on prospectively determined rates.

Arkansas Medicaid—Payment for inpatient services is generally based on prospectively determined daily rates subject to cost report settlements. Payment for outpatient services is generally based on prospectively determined rates.

Mississippi Medicaid—Payment for inpatient and outpatient services is generally based on prospectively determined rates.

TennCare—TennCare covers the medical needs of Tennessee's indigent and uninsured population and is administered by state-approved managed care organizations who enroll eligible participants and contract with Providers (both physicians and hospitals) for medical services. Payment for inpatient and outpatient services is based on prospectively determined rates.

Blue Cross—Inpatient services are reimbursed at prospectively determined daily rates.

BMHCC has also entered into payment agreements with numerous commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to BMHCC under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The final settlement of amounts to be paid to or from BMHCC by the Medicare program is subject to audit and adjustment by the respective programs. Estimated settlements to or from represent the difference between interim payments and tentative settlements received and estimated reimbursable costs.

During 2022 and 2021, BMHCC adjusted its estimates of settlement of prior years' cost reports and other revenue recognition estimates. The revised estimates reflect filings of the 2022 and 2021 cost reports, final settlement of previously filed cost reports, and reopening or appeal of past cost report filings, as well as other changes in revenue recognized for prior years' services. The net effect of these adjustments increased net patient service revenue by approximately \$3,699,000 and \$2,924,000 for the years ended September 30, 2022 and 2021, respectively.

Currently, each of the states in which BMHCC operates participates in supplemental reimbursement programs for the purpose of providing reimbursement to providers to offset a portion of the cost of providing care to Medicaid patients. These programs are designed with input from the Centers for Medicare and Medicaid Services (CMS) and are funded with a combination of state and federal resources, including, in certain instances, fees or taxes levied on the providers. BMHCC recognizes revenue and related expenses in the period in which amounts are estimable and collection is

reasonably assured. Reimbursement received via these programs, as reflected in net patient service revenues, was approximately \$164,919,000 and \$156,685,000 for the years ended September 30, 2022 and 2021, respectively. Fees and tax assessments relative to such programs were approximately \$68,021,000 and \$66,709,000 for the years ended September 30, 2022 and 2021, respectively, and are recorded as purchased services and other in the accompanying combined statements of operations and changes in net assets. As these programs are approved for a defined period of time (one year or multiple years), future receipts of reimbursement under such supplemental reimbursement programs are not guaranteed.

CARES Act—The Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”) authorized \$100 billion in funding to hospitals and other health care providers to be distributed through the Public Health and Social Services Emergency Fund (“Relief Funds”). Furthermore, the Paycheck Protection Program and Health Care Enhancement Act (“PPHCE Act”) enacted on April 24, 2020, provides an additional \$75 billion in emergency appropriations to eligible providers for COVID-19 response including distributions to safety net hospitals to compensate for lost revenues and qualified expenses, loan forgiveness and capacity expansion. The American Rescue Plan Act (“ARP Act”) enacted on March 10, 2021, provides \$7.6 billion for community health centers and community care to carry out vaccine related activities and an additional \$47.8 billion is dedicated to funding COVID-19 mitigation efforts such as testing, diagnosing, and tracing infections. The CARES Act, PPHCE Act, and ARP Act are collectively referred to herein as the Acts. Payments from Relief Funds are intended to compensate health care providers for lost revenues and qualified expenses incurred in response to the COVID-19 pandemic and are not required to be repaid; provided that the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using Relief Funds to reimburse expenses or losses that other sources are obligated to reimburse. BMHCC received \$75,966,000 and \$35,790,000 in payments under the Acts during the fiscal years ending September 30, 2022 and 2021, respectively. For the years ended September 30, 2022 and 2021, \$7,058,000 and \$4,502,000 were recorded as deferred revenue in the combined balance sheets. For the years ended September 30, 2022 and 2021, BMHCC recorded grants of \$73,410,000 and \$110,417,000, respectively, as other revenue under the Acts in the combined statements of operations and changes in net assets. (See Note 2).

Charity Care—BMHCC provides care to uninsured and indigent patients (those patients with a demonstrated inability to pay) at either no charge or at substantially reduced rates. For indigent patients, no effort is made to pursue collection of any amounts charged after the determination of indigency of the patient has been made. Discounts are granted to uninsured patients who do not meet the requirements for indigency. Since management does not expect payment for charity care, the charges forgone are excluded from net patient service revenue. The amount of charity care provided at BMHCC’s established rates, inclusive of discounts for uninsured patients based upon charges foregone, was approximately \$628,421,000 and \$548,384,000 in 2022 and 2021, respectively. BMHCC estimates the cost of charity care by calculating a ratio of cost to gross charges and applying that ratio to the gross uncompensated charges associated with providing care to patients who qualify for charity care. The estimated cost of charity care provided in 2022 and 2021 was approximately \$146,393,000 and \$123,022,000, respectively (see Note 3).

Investments—Investments classified as current assets are available to BMHCC entities for current working capital needs. Investments are managed under BMHCC’s investment policy and are reported at fair value. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on equity securities, interest, and dividends) is included in the excess of revenues over

expenses, unless the income or loss is restricted by donor or law. Unrealized gains and losses on debt securities are excluded from the excess of revenues over expenses and are reflected in changes in net assets.

Assets Whose Use is Limited—Assets whose use is limited include assets held by trustees under indenture and assets restricted as to use by the board of directors.

Financial Instruments and Hedging—BMHCC occasionally uses derivative financial instruments to manage movements in interest rates. Interest rate swaps are contractual agreements between two parties for the exchange of interest payments on a notional principal amount at agreed-upon fixed or floating rates for defined periods. BMHCC does not enter into derivative instruments for trading purposes. These financial instruments are not designated as hedges and are presented at estimated fair market value in the accompanying combined balance sheet. BMHCC recognizes changes in the fair values of derivatives as nonoperating gains or losses in the combined statements of operations and changes in net assets. The cash settlements resulting from these interest rate swaps are reported as interest expense in the combined statements of operations and changes in net assets.

Inventory—Inventory is stated at the lower of cost (weighted-average method) or net realizable value.

Property and Equipment—Property and equipment are recorded at cost when purchased or at fair market value when received by donation. Property and equipment are depreciated on a straight-line basis over their estimated useful life. Property and equipment held under capital leases are amortized evenly over the lesser of the lease term or their estimated useful life.

Property and equipment also consist of capitalized software costs, which are amortized on a straight-line basis over the estimated useful life of the software that ranges from three to eight years. As of September 30, 2022, capitalized software costs included in property and equipment are approximately \$93,807,000 and accumulated amortization on those costs is approximately \$89,516,000. As of September 30, 2021, capitalized software costs included in property and equipment are approximately \$92,975,000 and accumulated amortization on those costs is approximately \$88,439,000.

BMHCC capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of underlying assets and is amortized over the useful lives of the assets. There were no material amounts of interest capitalized in 2022 and 2021.

Right-of-Use Asset/Lease Liabilities—BMHCC adopted FASB ASU 2016-02, *Leases*, (Topic 842) effective October 1, 2019, which required BMHCC to recognize a lease liability for the obligation to make lease payments and a right-of-use (ROU) asset for the right to use the underlying asset for all leases with terms of more than twelve months. Expenses related to leases determined to be operating leases are recognized on a straight-line basis, while expenses related to leases determined to be financing leases are recognized based on an effective interest method in which interest and amortization are presented separately in the statement of operations and changes in net assets. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of BMHCC's leases do not provide an implicit rate, BMHCC uses an estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments. BMHCC uses the implicit rate when readily determinable. BMHCC recognized \$164,078,000 and \$150,756,000 of ROU assets and \$168,077,000 and \$154,135,000 of lease liabilities associated with operating leases as of September 30, 2022 and 2021, respectively. The accounting for finance leases or leases formerly classified as capital leases remained substantially unchanged.

Goodwill—Goodwill is included in the accompanying combined balance sheets and represents the excess of costs over the fair value of assets of businesses acquired. In accordance with Financial Accounting Standards Board (FASB) ASC Topic 958, *Not-for-Profit Entities*, BMHCC performs an annual impairment assessment of goodwill. BMHCC performs the impairment test at the reporting unit level at least annually or when events occur that require an evaluation to be performed at an interim date. If BMHCC determines the carrying value of goodwill is impaired, or if the carrying value of a business that is to be sold or otherwise disposed of exceeds its fair value, then management reduces the carrying value, including any allocated goodwill, to fair value. Estimates of fair value are based on appraisals, established market prices for comparative assets, or internal estimates of future net cash flows. BMHCC has selected June 30 as the date on which it will perform its annual impairment assessment. There was no impairment of goodwill during the years ended September 30, 2022 and 2021. There can be no assurance that future goodwill impairment tests will not result in a charge to operations.

Impairment of Long-Lived Assets—BMHCC evaluates the carrying value of its long-lived assets under the provisions of FASB ASC Topic 360, *Property, Plant, and Equipment*. Under FASB ASC Topic 360, when events, circumstances, or operating results indicate that the carrying value of property and equipment assets may be impaired, BMHCC prepares projections of the undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the projections identify impairment, BMHCC compares the assets' current carrying value to the assets' fair value. Fair value is based on current market values or discounted future cash flows. No impairment charge was recorded for the years ended 2022 and 2021.

Asset Retirement Obligations—BMHCC recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred if a reasonable estimate of the fair value of the obligation can be made. When a liability is initially recorded, BMHCC capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the combined statements of operations and changes in net assets. Asset retirement obligations of approximately \$1,615,000 and \$1,596,000 relating to a hospital in Mississippi are included in other long-term liabilities in the accompanying combined balance sheets as of September 30, 2022 and 2021, respectively.

Classification of Net Assets—Net assets are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

Net Assets without Donor Restrictions—Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

Net Assets with Donor Restrictions—Amounts subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the passage of time or purpose. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds to be maintained in perpetuity.

Net assets with donor restrictions as of September 30, 2022 and 2021, are restricted to the following (in thousands):

	2022	2021
Educational activities	\$ 95,211	\$ 104,398
Charitable and religious activities	56,346	62,918
Capital additions	17,484	17,110
Science and research	6,528	7,240
Charitable remainder trust	<u>1,422</u>	<u>4,872</u>
Total	<u>\$ 176,991</u>	<u>\$ 196,538</u>

Income Taxes—The majority of BMHCC is a nonprofit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Certain affiliates are subject to income taxes. Such activities and income taxes are not significant to the combined financial statements.

As of September 30, 2022, BMHCC had not identified any uncertain tax positions under FASB ASC Topic 740, *Income Taxes*, requiring adjustments to its combined financial statements. In the event BMHCC were to recognize interest and penalties related to uncertain tax positions, it would be recognized in the combined financial statements as interest expense. Generally, BMHCC is no longer subject to income tax examinations for tax years prior to 2018 (fiscal year ended September 30, 2019).

Business Combinations—BMHCC follows the authoritative guidance contained in ASC Topic 958-805, *Not-for-Profit Entities—Business Combinations*. This guidance establishes principles and requirements for how an acquirer: (a) recognizes and measures in its combined financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in a business combination, gain from a bargain purchase; or inherent contribution; and (c) determines what information to disclose to enable users of the combined financial statements to evaluate the nature and the financial effects of the business combination.

Fair Value Measurements—BMHCC follows the authoritative guidance contained in FASB ASC Topic 820, *Fair Value Measurements and Disclosures*. Fair value is generally defined as the exit price at which an asset or liability could be exchanged in a current transaction between willing unrelated parties, other than in a forced liquidation or sale. The guidance establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data, and requires disclosures for assets and liabilities measured at fair value based on their level in the hierarchy.

The fair value framework requires the categorization of assets and liabilities into a hierarchy of inputs based upon the assumptions used to value the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The hierarchy is defined as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2—Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3—Unobservable inputs reflecting management’s own assumption about the inputs used in pricing the asset or liability at the measurement date.

Net Asset Value (NAV)—For these assets, FASB Accounting Standard Update (ASU) No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, eliminated the requirement that investments for which fair value is measured at NAV per share (or its equivalent) using the practical expedient be categorized in the fair value hierarchy.

Most investments classified within the NAV category consist of the shares/units (or equivalent ownership interest in partner’s capital) in investment funds rather than direct ownership in the funds’ underlying assets.

Assets measured at fair value based on the fair value framework include investments, assets whose use is limited, long-lived assets acquired in a business combination, and goodwill.

Newly Adopted Accounting Pronouncements—In March 2020, FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. Subject to meeting certain criteria, the new guidance provides optional expedients and exceptions to applying contract modification accounting under existing U.S. GAAP, to address the expected phase out of the London Interbank Offered Rate (“LIBOR”). This ASU is effective for all entities upon issuance as of March 12, 2020 through December 31, 2022. In January 2021, the FASB also issued ASU 2021-01, *Reference Rate Reform (Topic 848)*, which provides additional optional expedients and exceptions applicable to all entities that have derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. This ASU is effective for all entities upon issuance as of January 7, 2021 through December 31, 2022 and can be applied prospectively. BMHCC adopted the standard during the current year. The adoption of this standard did not have a material impact to BMHCC’s financial statements or disclosures.

2. COVID-19 PANDEMIC

In January 2020, the Secretary of the U.S. Department of Health and Human Services (“HHS”) declared a national public health emergency due to a novel strain of coronavirus. In March 2020, the World Health Organization declared the outbreak of COVID-19, a disease caused by this coronavirus, a pandemic. The resulting measures to contain the spread and impact of COVID-19 and other developments related to COVID-19 have materially affected BMHCC’s results of operations during 2020. As a result of the COVID-19 pandemic, federal and state governments have passed legislation, promulgated regulations and taken other administrative actions intended to assist healthcare providers in providing care to COVID-19 and other patients during the public health emergency. Sources of relief include the CARES Act, which was enacted on March 27, 2020, the PPPHCE Act, which was enacted on April 24, 2020, and the ARP Act, which was enacted on March 10, 2021. Together, the CARES Act and the PPPHCE Act include \$175 billion in funding to be distributed to eligible providers through the Public Health and Social Services Emergency Fund (the “PHSSEF”). The ARP Act includes 55.4 billion to be distributed to eligible providers. In addition, the CARES Act provides for an expansion of the Medicare Accelerated and Advance Payment Program whereby inpatient acute care hospitals and other eligible providers may request accelerated payment of up to 100% of their Medicare payment amount for a six-month period to be repaid through withholding of future Medicare fee-for-service payments. Various other state and local programs also exist to provide relief, either independently or through distribution of monies received via the CARES Act. During the fiscal years ended September 30, 2022, 2021, and 2020, BMHCC was a beneficiary of these stimulus measures, including the Medicare Accelerated and Advance Payment Program. BMHCC’s accounting policies for the recognition of these stimulus monies is as follows:

CARES Act, PPPHCE Act, ARP Act Funds—During the years ended September 30, 2022, 2021 and 2020, BMHCC received payments through the PHSSEF, ARP Act, and various state and local programs. The recognition of amounts received is conditioned upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, certification that payment will be used to prevent, prepare for and respond to coronavirus; and reimburse BMHCC only for healthcare-related expenses or lost revenues, as defined by HHS, that are attributable to coronavirus, as well as receipt of the funds. Amounts are recognized as other operating revenue only to the extent BMHCC is reasonably assured that underlying conditions are met.

BMHCC’s assessment of whether the terms and conditions for amounts received have been met considers all frequently asked questions and other interpretive guidance issued by HHS.

On September 19, 2020, HHS issued a Post-Payment Notice of Reporting Requirements (the “September 19, 2020 Notice”) which indicates that providers may recognize reimbursement for healthcare-related expenses, as defined therein, attributable to coronavirus that another source has not reimbursed and is not obligated to reimburse. Additionally, amounts received from the PHSSEF that are not fully expended on eligible healthcare-related expenses may be recognized as reimbursement for lost revenues, represented as a negative change in year-over-year net patient care operating income. Providers may apply payments to lost revenues up to the amount of the 2019 net gain from healthcare-related sources or, for entities that reported a negative net operating loss in 2019, receipts from the PHSSEF may be recognized up to a net zero gain/loss in 2020.

On October 22, 2020, HHS issued an updated Post-Payment Notice of Reporting Requirements and a Reporting Requirements Policy Update (together, the “October 22, 2020 Notice”) which, among other changes, revised the definition of lost revenues to include a negative change in net patient service

revenue less COVID related expenses. In addition, on November 2, 2020, HHS issued another release which changed the definition again on lost revenues to be the negative change in net patient service revenue.

On January 15, 2021, HHS updated guidance that superseded the November 2, 2020 Notice. The primary change in the updated guidance addressed the definition of revenue loss and provided for three options that providers could choose to apply PRF payments toward lost revenues incurred from January 1, 2020 through June 30, 2021. These options are: 1) The change in actual patient care revenue from 2019 to 2020 and 2021 to 2019; 2) The change in actual 2020 patient care revenue to 2020 budgeted patient care revenue; and 3) Any reasonable method of estimating revenue loss. BMHCC elected to utilize a reasonable method of estimating revenue loss that utilizes components of both option one and option two to calculate the impact of COVID-19 on patient volumes and the resulting loss of net revenues, as compared to the budget and prior year period. On June 11, 2021, HHS updated guidance that superseded the January 15, 2021, guidelines. The primary change was the update of reporting time periods and reporting requirements.

Amounts received through the PHSSEF or state and local programs that had not yet been recognized as other operating revenues are reflected within deferred revenues in the combined balance sheets. Such unrecognized amounts may be recognized as other operating revenues in future periods if the underlying conditions for recognition are met.

Advanced Payment Programs

Medicare Accelerated Advanced Payments—The CARES Act provided for expansion of the Medicare Accelerated and Advanced Payment Program whereby inpatient acute care hospitals and other eligible providers could request accelerated payment of up to 100% of their Medicare payment amount for a six-month period to be repaid through withholding of future Medicare fee-for-service payments. Medicare advanced accelerated payments requested by BMHCC for its acute care hospitals and physician practices of approximately \$437,064,000 were received by BMHCC. Payments under the Medicare Accelerated and Advance Payment program are advances that must be repaid. As of September 30, 2020, the program required CMS to begin recouping payments 120 days after receipt by the provider, although no payments were recouped during the fiscal year ended September 30, 2020.

Effective October 1, 2020, the program was amended such that providers are required to repay accelerated payments beginning one year after the payment was issued. After such one-year period, Medicare payments owed to providers will be recouped according to the repayment terms. The repayment terms specify that for the first 11 months after repayment begins, repayment will occur through an automatic recoupment of 25% of Medicare payments otherwise owed to the provider. At the end of the eleven-month period, recoupment will increase to 50% for six months. At the end of the six months (29 months from the receipt of the initial accelerated payment), Medicare issued letters for full repayment of any remaining balance. For the years ended September 30, 2022 and 2021, there were approximately \$329,414,000 and \$105,733,000, respectively, recouped by or repaid to Medicare. This amount is treated as a noncash reduction in Medicare accelerated payments and net patient accounts receivable on the accompanying statements of cash flow. As of September 30, 2022 and 2021, approximately \$1,917,000 and \$331,331,000, respectively, are reflected within Medicare accelerated payments in the combined balance sheets. The remaining September 30, 2022, balance of \$1,917,000 was repaid in October and November 2022 to Medicare.

Arkansas Blue Cross Blue Shield Advanced Payments—In May 2020, Arkansas Blue Cross Blue Shield established a one-time discretionary cash advance payment program. Two Arkansas based hospitals received approximately \$2,727,000 from the program and are reflected within Medicare accelerated payments in the combined balance sheets. The advances were recouped by Arkansas Blue Cross over a six-month period, beginning on October 15, 2020 through and including March 15, 2021.

3. COMMUNITY BENEFIT

A summary of the costs (estimated using applicable cost-to-charge ratio) of certain of BMHCC's community services provided to the indigent and to the broader community for the years ended September 30, 2022 and 2021, is as follows (in thousands):

	2022	2021
Benefits for the indigent:		
Traditional charity care—at cost	\$ 146,393	\$ 123,022
Unpaid costs of Medicaid/TennCare programs	<u>45,233</u>	<u>20,003</u>
Total benefits for the indigent	<u>191,626</u>	<u>143,025</u>
Benefits for the broader community:		
Uncompensated care—uninsured and underinsured—at cost	65,563	58,645
Unpaid costs of Medicare programs	<u>254,374</u>	<u>137,630</u>
Total benefits for the broader community	<u>319,937</u>	<u>196,275</u>
Total	<u>\$ 511,563</u>	<u>\$ 339,300</u>

This summary of community services costs above does not include impact of assessment programs (see Note 1 for additional disclosures).

Benefits for the indigent include services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured. This includes the cost of providing traditional charity care and the unpaid costs of treating Medicaid/TennCare beneficiaries. Services provided to traditional charity care patients are not reported as patient revenue in the accompanying combined statements of operations and changes in net assets.

Benefits for the broader community include the cost of services provided for which a fee has been assessed but not collected or only a portion of the cost of the rendered service has been recovered and unpaid costs in excess of government payments for treating Medicare beneficiaries.

BMHCC provides many educational programs and activities, including professional and technical schools, a graduate medical education program, and numerous continuing education programs for doctors, nurses, and other staff. BMHCC also broadly participates in medical research activities.

BMHCC engages in numerous health promotion and other community service activities. It sponsors health fairs and screenings, including inner city health screenings for cancer detection and prevention, diabetes, and high blood pressure. It also works through other community organizations, such as United Way, Goals for Memphis, and charitable foundations, for medical research, such as the American Cancer Society, American Heart Association, and Kidney Foundation, among others.

The value of BMHCC's overall charitable, educational, health promotion, and community services is not readily determinable.

4. NET PATIENT SERVICE REVENUE

The following represents the components of net patient service revenue presented net of implicit and explicit price concessions (in thousands):

	2022	2021
Medicare	\$ 1,468,945	\$ 1,445,762
Medicaid	406,729	398,797
Blue Cross	658,004	675,350
Commercial and managed care	507,584	522,789
Other	<u>167,839</u>	<u>139,780</u>
Total	<u>\$ 3,209,101</u>	<u>\$ 3,182,478</u>

5. BUSINESS AND CREDIT CONCENTRATIONS

BMHCC provides health care services through both inpatient and outpatient care facilities in Tennessee, Mississippi, and Arkansas. The hospitals grant credit to patients, substantially all of whom are local area residents. The hospitals generally do not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits from Medicare, Medicaid, Blue Cross, health maintenance organizations, and commercial insurance policies or similar insurance programs or policies.

The mix of accounts receivable, net of implicit and explicit price concessions from patients and third-party payors, as of September 30, 2022 and 2021, is as follows:

	2022	2021
Medicare	19 %	17 %
Medicaid	9	9
Blue Cross	17	17
Other third-party payors	43	47
Patients (self-pay)	<u>12</u>	<u>10</u>
Total	<u>100 %</u>	<u>100 %</u>

6. INVESTMENTS

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the combined balance sheets.

The composition of investments as of September 30, 2022 and 2021, is as follows (in thousands):

	2022	2021
Cash and cash equivalents	\$ 113,025	\$ 83,685
US government debt obligations	7,314	10,464
Corporate obligations	193,198	248,040
Municipal obligations	29,943	29,969
Common stocks	481,275	624,764
Mutual funds	216,910	234,549
Private equity funds	4,152	4,853
Real estate funds	<u>1,193</u>	<u>1,264</u>
Total	1,047,010	1,237,588
Less cash	(113,025)	(83,685)
Less short-term investments	<u>(20,560)</u>	<u>(2,276)</u>
Total	<u>\$ 913,425</u>	<u>\$ 1,151,627</u>

The composition of net investment (loss) income for the marketable investment portfolio for the years ended September 30, 2022 and 2021, is as follows (in thousands):

	2022	2021
Without donor restrictions:		
Interest and dividend income	\$ 28,716	\$ 22,521
Unrealized gain (loss) on equity securities—net	(159,210)	100,128
Net realized gains on investments	<u>44,431</u>	<u>31,614</u>
Total	<u>\$ (86,063)</u>	<u>\$ 154,263</u>
With donor restrictions:		
Interest and dividend income	\$ 5,504	\$ 4,459
Unrealized gain (loss) on equity securities—net	(39,340)	22,942
Net realized gains on investments	<u>19,329</u>	<u>9,859</u>
Total	<u>\$ (14,507)</u>	<u>\$ 37,260</u>

There were no significant investments considered “under water” or other-than-temporary impaired as of September 30, 2022 and 2021.

Marketable Equity Securities—BMHCC believes the stocks owned represent financially sound companies and, over time, will experience growth in earnings and dividends resulting in long-term price appreciation. BMHCC intends to hold the remaining common stocks for a period of time sufficient to experience the recovery of fair value.

7. FAIR VALUE MEASUREMENTS

BMHCC's assets and liabilities by asset class and fair value hierarchy level as of September 30, 2022, are presented in the following table (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
Assets—investments:					
Cash and cash equivalents	\$ 113,025	\$ -	\$ -	\$ -	\$ 113,025
US government obligations	-	7,314	-	-	7,314
Corporate obligations	-	193,198	-	-	193,198
Municipal obligations	-	29,943	-	-	29,943
Common stocks	481,275	-	-	-	481,275
Mutual funds	216,910	-	-	-	216,910
Private equity funds	-	-	-	4,152	4,152
Real estate funds	-	-	-	1,193	1,193
Total assets—investments	<u>\$ 811,210</u>	<u>\$ 230,455</u>	<u>\$ -</u>	<u>\$ 5,345</u>	<u>\$ 1,047,010</u>
Other assets—interest rate swap	<u>\$ -</u>	<u>\$ 437</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 437</u>
Liabilities—interest rate swap	<u>\$ -</u>	<u>\$ (8,515)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,515)</u>

BMHCC's assets and liabilities by asset class and fair value hierarchy level as of September 30, 2021, are presented in the following table (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Total
Assets—investments:					
Cash and cash equivalents	\$ 83,685	\$ -	\$ -	\$ -	\$ 83,685
US government obligations	-	10,464	-	-	10,464
Corporate obligations	-	248,040	-	-	248,040
Municipal obligations	-	29,969	-	-	29,969
Common stocks	624,764	-	-	-	624,764
Mutual funds	234,549	-	-	-	234,549
Private equity funds	-	-	-	4,853	4,853
Real estate funds	-	-	-	1,264	1,264
Total assets—investments	<u>\$ 942,998</u>	<u>\$ 288,473</u>	<u>\$ -</u>	<u>\$ 6,117</u>	<u>\$ 1,237,588</u>
Other assets—interest rate swap	<u>\$ -</u>	<u>\$ 492</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 492</u>
Liabilities—interest rate swap	<u>\$ -</u>	<u>\$ (23,203)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (23,203)</u>

Common and preferred stock and mutual funds are valued using quoted prices in principal active markets for identical assets as if the valuation date were used (Level 1).

Certain government and corporate debt securities are valued using either the yields currently available on comparable securities of issuers with similar credit ratings or using a discounted cash flows approach that utilizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks (Level 2). The impact of such unobservable inputs is not significant to the overall fair value measurement.

BMHCC uses fund NAV as a practical expedient to estimate the fair value of all investments that (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in investment companies by major category (in thousands):

Category of Investment	Investment Strategy	Fair Value Determined Using NAV at September 30, 2022	Unfunded Commitments (Approximate)	Remaining Life	Redemption Frequency	Redemption Notice
Private equity funds ^(a)	Special situations	\$ 930	\$ 548	2 years	N/A	N/A
Private equity funds ^(b)	Fund of funds	3,222	1,215	2 years	N/A	N/A
Real estate funds ^(c)	Diversified	1,193	820	1 year	Monthly	N/A

Category of Investment	Investment Strategy	Fair Value Determined Using NAV at September 30, 2021	Unfunded Commitments (Approximate)	Remaining Life	Redemption Frequency	Redemption Notice
Private equity funds ^(a)	Special situations	\$1,566	\$ 553	2 years	N/A	N/A
Private equity funds ^(b)	Fund of funds	3,287	1,215	2 years	N/A	N/A
Real estate funds ^(c)	Diversified	1,264	820	1 year	Monthly	N/A

There is approximately \$5,344,000 across three funds that are undergoing full redemption.

(a) Includes investments in funds and private equity companies that invest in assets focused on real estate, energy, healthcare, industrial, financial services or retail/consumer, and other private equity-related investments.

(b) Includes investments in global and domestic closed-end private equity funds. These closed-end funds consist of those that are established to take advantage of investment opportunities arising from financial distress via purchase of distressed debt, and to build a diversified portfolio comprised primarily of investments in real estate and real estate-related debt.

(c) Includes real estate-related investments primarily consisting of debt instruments secured by real estate or issued by real estate-related entities and similar preferred equity instruments, which may include equity or equity derivatives, such as warrants, options, common stock or convertible debt, special or distressed investments, instruments, assets or liabilities.

The fair value of the interest rate swap agreement is primarily determined using valuation techniques consistent with the market approach. Significant observable inputs to the valuation model include interest rates, US Treasury yields, and credit spreads (Level 2).

The carrying amounts of cash and cash equivalents, accounts receivable, inventory, prepaids, other assets, accounts payable, and accrued expenses approximate fair value based on their short-term nature.

8. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2022
Financial assets at year-end:	
Cash and cash equivalent	\$ 212,086
Short-term investments	20,560
Patient receivable—net	447,615
Less cash used for Medicare accelerated payments (See Note 2)	<u>(1,917)</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 678,344</u>

During March 2020, BMHCC requested and received \$437,291,000 of cash advances from accelerated Medicare payment requests under the CARES Act and Arkansas Blue Cross Blue Shield advanced payments. During the fiscal year ended September 30, 2021, an additional \$2,500,000 was received. These amounts were recorded as cash and cash equivalents, and recorded within current liabilities as Medicare accelerated payments in the combined balance sheets as of September 30, 2022 and 2021 (See Note 2). As of September 30, 2022, approximately \$435,147,000 has been recouped in accordance with the terms of the program and the balance of \$1,917,000 is recorded as cash and cash equivalents, and current liabilities as Medicare accelerated payments in the combined balance sheets. The remaining balance of \$1,917,000 was repaid to Medicare in October and November 2022.

BMHCC manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. In addition, cash in excess of daily requirements are invested in short-term investments and money market funds. BMHCC holds \$933,985,000 of investments that can be sold to cover operational needs, if required.

9. ASSETS WHOSE USE IS LIMITED

These assets whose use is limited are invested as of September 30, 2022 and 2021, in the following (in thousands):

Description	September 30, 2022			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Baptist Memorial Foundation Scholarships:				
Corporate obligations	\$ -	\$ 129	\$ -	\$ 129
Municipal obligations	-	28	-	28
Common stocks	659	-	-	659
Mutual funds	<u>326</u>	<u>-</u>	<u>-</u>	<u>326</u>
Total Baptist Memorial Foundation Scholarships	985	157	-	1,142
Real estate property	-	-	672	672
Assets held by trustee for higher education requirement—cash and cash equivalents	40,794	-	-	40,794
Assets held by trustee for self-insurance funding—cash and cash equivalents	4,016	-	-	4,016
Assets held by trustee for acquisition—cash and cash equivalents	<u>2,032</u>	<u>-</u>	<u>-</u>	<u>2,032</u>
Total assets whose use is limited	<u>\$ 47,827</u>	<u>\$ 157</u>	<u>\$ 672</u>	<u>\$ 48,656</u>
Description	September 30, 2021			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Baptist Memorial Foundation Scholarships:				
Corporate obligations	\$ -	\$ 6,711	\$ -	\$ 6,711
Municipal obligations	-	1,023	-	1,023
Common stocks	26,087	-	-	26,087
Mutual funds	<u>11,319</u>	<u>-</u>	<u>-</u>	<u>11,319</u>
Total Baptist Memorial Foundation Scholarships	37,406	7,734	-	45,140
Real estate property	-	-	672	672
Assets held as collateral under interest rate swap agreement—cash and cash equivalents	15,099	-	-	15,099
Assets held by trustee for self-insurance funding—cash and cash equivalents	4,680	-	-	4,680
Assets held by trustee for acquisition—cash and cash equivalents	<u>2,031</u>	<u>-</u>	<u>-</u>	<u>2,031</u>
Total assets whose use is limited	<u>\$ 59,216</u>	<u>\$ 7,734</u>	<u>\$ 672</u>	<u>\$ 67,622</u>

10. PROPERTY AND EQUIPMENT

The composition of property and equipment as of September 30, 2022 and 2021, is as follows (in thousands):

	Useful Lives	2022	2021
Land and land improvements	3–25 years	\$ 271,838	\$ 271,179
Buildings and improvements	5–47 years	1,638,608	1,613,705
Equipment	2–25 years	1,350,409	1,325,709
Construction in progress		<u>31,786</u>	<u>28,072</u>
Total property and equipment		3,292,641	3,238,665
Less accumulated depreciation and amortization		<u>(1,992,878)</u>	<u>(1,899,766)</u>
Property and equipment—net		<u>\$ 1,299,763</u>	<u>\$ 1,338,899</u>

Depreciation expense for the years ended September 30, 2022 and 2021, was \$133,445,000 and \$139,428,000, respectively. BMHCC has property and equipment expenditures totaling \$2,076,000 and \$15,973,000 accrued in accounts payable in the accompanying consolidated balance sheets as of September 30, 2022 and 2021, respectively, and has excluded these amounts in determining cash flows.

11. GOODWILL

Information on changes in the carrying value of goodwill, which is included in the accompanying combined balance sheets, as of September 30, 2022 and 2021, is as follows (in thousands):

Balance—September 30, 2020	\$ 10,648
Other	<u>(33)</u>
Balance—September 30, 2021	10,615
Other	<u>-</u>
Balance—September 30, 2022	<u>\$ 10,615</u>

12. OTHER LONG-TERM ASSETS

The composition of other assets as of September 30, 2022 and 2021, is as follows (in thousands):

	2022	2021
Investments in affiliates	\$ 46,367	\$ 55,157
Land held for investment	14,991	10,433
Deferred compensation (Note 18)	1,087	1,659
Notes receivable	1,530	1,133
Interest rate swap receivable	437	-
Cash surrender value of life insurance	1,087	968
Deferred charges and other assets	<u>2,271</u>	<u>9,187</u>
Total	<u>\$ 67,770</u>	<u>\$ 78,537</u>

Included in Investments in affiliates, BMHCC has ownership interests between 20% and 50% in certain joint ventures, which generally are accounted for under the equity method.

In October 2021, Memphis Medical Center Air Ambulance, d/b/a Hospital Wing, sold the company to Med-Trans Corporation. BMHCC, having a 33% ownership in the company received a cash distribution in the amount of \$15,667,000. The cost of investment at the time of sale was \$10,800,000. The gain was recorded in nonoperating income (loss) other in the combined statements of operations and changes in net assets.

Included in the foregoing table are notes and bonds with a principal balance outstanding as of September 30, 2022 and 2021, of approximately \$827,647,000 and \$849,172,000, respectively, that are part of a system trust indenture dated as of September 1, 2004, with US Bank, as trustee, as amended and supplemented thereto, as of August 15, 2017 (System Trust Indenture). The System Trust Indenture permits BMHCC and certain hospitals and affiliated corporations (the "Obligated Group") to finance certain activities. All members of the Obligated Group are jointly and severally liable for obligations due under the System Trust Indenture.

Obligations under the System Trust Indenture are secured by pledge of the gross revenue of each member of the Obligated Group. The System Trust Indenture includes certain covenants and restrictions with which the Obligated Group must comply.

In July 2022, BMHCC issued Series 2022A revenue bonds for \$49,975,000. The proceeds were used to pay down Series 2015B3 revenue bonds and paid certain expenses incurred in connection with the issuance of the bonds. The bonds were issued with a premium of \$300,000.

At September 30, 2020, notes payable associated with the New Market Tax Credit program for Baptist Medical Center-Leake, Inc. totaled \$25,420,000. In November 2020, the compliance period associated with this program ended, and notes payable totaling \$17,187,000 were refinanced with Pinnacle Bank. BMHCC exercised its option to purchase the outstanding interest in Baptist Leake QEI, LLC, which held the remaining \$8,233,000 in outstanding debt. As a result of this transaction, BMHCC recorded a gain of \$8,233,000 in nonoperating income (loss) in the combined statements of operations and changes in net assets

In 2009, BMHCC established a \$150,000,000 commercial paper program ("Commercial Paper"). The Commercial Paper is available to be drawn for any corporate purpose. Each note issued from the Commercial Paper will mature on a business day not later than 270 days after the date of issuance of such note. Interest on a note is payable at maturity and the notes are not subject to redemption prior to their maturity date. The notes are general obligations of BMHCC and treated as short-term debt for accounting purposes. The outstanding balance under this program was \$25,726,000 for the years ended September 30, 2022 and 2021.

The scheduled maturities of long-term debt subsequent to September 30, 2022, are as follows (in thousands):

Years Ending September 30	Long-Term Debt
2023	\$ 46,100
2024	28,437
2025	60,631
2026	94,446
2027	64,883
Thereafter	<u>534,566</u>
Total	829,063
Plus net unamortized premium on bonds	49,136
Less deferred debt issuance costs	<u>(5,442)</u>
Total	<u>\$ 872,757</u>

14. LEASES

BMHCC enters into operating leases for real estate, including medical office buildings, corporate and other administrative offices, medical equipment and vehicle. BMHCC's finance leases consist primarily of administrative offices and medical equipment.

The following table provides summary of the components of lease costs (in thousands):

	Classification in Combined Statements of Operations and Changes in Net Assets	2022	2021
Operating lease costs:			
Operating lease cost		\$ 42,406	\$ 38,007
Variable lease cost		8,848	7,643
Short-term rent expense		<u>6,455</u>	<u>8,182</u>
Total operating lease costs	Purchased services and other	<u>\$ 57,709</u>	<u>\$ 53,832</u>
Finance lease costs:			
Amortization of right-of-use assets	Depreciation and amortization	\$ 4,968	\$ 3,365
Interest on lease liabilities	Interest	<u>261</u>	<u>224</u>
Total finance lease costs		<u>\$ 5,229</u>	<u>\$ 3,589</u>

The following table provides the weighted-average lease terms and discount rates used for BMHCC's operating and finance leases:

	2022	2021
Weighted-average remaining lease term (years):		
Operating leases	7.2	6.6
Finance leases	3.0	3.2
Weighted-average discount rate:		
Operating leases	2.9 %	2.4 %
Finance leases	2.9	2.8

The following table provides supplemental cash flow information related to leases (in thousands):

	2022	2021
Cash paid for amounts in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 38,563	\$ 34,953
Operating cash flows from finance leases	259	254
Financing cash flows from finance leases	3,764	3,425

The following table provides a summary of lease liability maturities for the next five years and thereafter (in thousands):

Years Ending September 30	Operating Leases	Finance Leases
2023	\$ 38,345	\$ 4,259
2024	31,319	9,921
2025	25,665	2,590
2026	20,737	1,380
2027	17,638	431
Thereafter	<u>53,723</u>	<u>-</u>
Total lease payments	187,427	18,581
Less imputed interest	<u>19,350</u>	<u>1,264</u>
Total lease obligations	168,077	17,317
Less current portion	<u>34,050</u>	<u>4,013</u>
Total long-term lease obligations	<u>\$ 134,027</u>	<u>\$ 13,304</u>

Certain affiliate hospitals are obligated to their respective counties under finance leases. The initial lease terms range from 30 to 35 years. As of September 30, 2022 and 2021, the balance for these leases is \$6,127,000 and \$5,673,000, respectively, and is recorded as lease liability-financing on the combined balance sheets.

15. DERIVATIVE FINANCIAL INSTRUMENTS

BMHCC has executed derivative financial instruments in the normal course of its business. As a component of the debt portfolio, BMHCC entered into interest rate swap and total return swap agreements that effectively convert certain fixed-rate debt to variable rates and variable-rate debt to fixed rates. BMHCC's derivatives are not designated as hedging instruments for the years ended September 30, 2022 and 2021.

The following table summarizes the general terms for each of BMHCC's interest rate and total return swap agreements as of September 30, 2022 (in thousands):

Effective Date	Notional Amount	BMHCC Pays	BMHCC Receives	Expiration Date
August 16, 2017 ^(a)	\$ 16,865	SIFMA, plus 0.65 %	5.00 %	January 25, 2027
August 16, 2017 ^(b)	39,190	SIFMA, plus 0.65 %	5.00 %	April 10, 2024
May 15, 2022 ^(c)	80,000	3.602 %	67% of one-month SOFR	August 15, 2036
July 1, 2022 ^(d)	49,975	SIFMA, plus 0.89%	5.88 %	July 1, 2029

In July 2022, BMHCC entered into the following transactions.

- (a) Amended the total return swap agreement related to Series 2007A revenue bonds to extend the maturity date from August 15, 2022 to January 25, 2027.
- (b) Amended the total return swap agreement related to Series 2007A revenue bonds to extend the maturity date from August 15, 2022 to April 10, 2024.
- (c) Novated the interest return swap agreement with Deutsche Bank to BNY Mellon using Secured Overnight Financing Rate (SOFR).
- (d) Entered into total return swap agreement in relation to the issuance of Series 2022A revenue bonds.

The following table summarizes BMHCC's derivatives as of September 30, 2022 and 2021 (in thousands):

Effective Date	2022		2021	
	Fair Value	Gain (Loss)	Fair Value	Gain (Loss)
May 24, 2001	\$ -	\$ -	\$ -	\$ 78
March 1, 2007	(8,515)	14,688	(23,203)	7,671
August 16, 2017	113	(49)	162	3
August 16, 2017	194	(136)	330	(41)
July 1, 2022	130	130	-	-
Total	<u>\$ (8,078)</u>	<u>\$ 14,633</u>	<u>\$ (22,711)</u>	<u>\$ 7,711</u>

BMHCC had a fair value swap agreement terminated during 2021. The swap with an effective date of May 24, 2001 was settled on its scheduled maturity date in May 2021. Accordingly, no gain or loss was recognized in the combined statements of operations and changes in net assets.

The fair value of BMHCC's interest rate and total return swaps is recorded in other assets in the combined balance sheet. The fair value of interest rate swap liabilities is recorded in other liabilities in the combined balance sheet. The gain (loss) on the interest rate swap effective May 24, 2001 is included in interest expense in the combined statements of operations and changes in net assets. The gain (loss) on the other total return swaps are included in nonoperating gain/(loss) in the combined statements of operations and changes in net assets.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position was approximately \$8,515,000 and \$23,203,000 as of September 30, 2022 and 2021, respectively. Under certain circumstances, the swaps are subject to termination prior to the scheduled termination date or BMHCC may be required to post collateral to secure obligations that would be owed to the counterparty under such transaction if terminated, regardless of whether such

transaction is actually terminated. BMHCC has complied with these provisions as required. As of September 30, 2022, BMHCC was not required to post collateral to secure the obligation. As of September 30, 2021, BMHCC has posted collateral of approximately \$15,099,000. BMHCC does not anticipate nonperformance by its counterparties.

16. ACCRUED EXPENSES AND OTHER

The composition of accrued expenses and other as of September 30, 2022 and 2021, is as follows (in thousands):

	2022	2021
Compensation and benefits	\$ 127,270	\$ 127,278
Health claims incurred but not reported	14,160	20,435
Deferred payroll taxes	21,408	21,408
Other	85,613	84,697
Other current liabilities	12,511	14,043
Deferred governmental grants	7,058	4,502
Current portion of postretirement health care benefits	<u>2,343</u>	<u>2,398</u>
Total	<u>\$ 270,363</u>	<u>\$ 274,761</u>

17. OTHER LONG-TERM LIABILITIES

The composition of other long-term liabilities as of September 30, 2022 and 2021, is as follows (in thousands):

	2022	2021
Reserve for self-insurance	\$ 123,964	\$ 122,918
Postretirement benefit obligations and supplemental retirement benefits	23,047	28,715
Interest rate swap liability	8,515	23,203
Noncontrolling interests	13,080	12,371
Liabilities under deferred compensation agreements	739	1,389
Asset retirement obligation	1,615	1,596
Deferred Payroll Taxes	-	21,408
Other	<u>25,180</u>	<u>24,286</u>
Total	<u>\$ 196,140</u>	<u>\$ 235,886</u>

18. EMPLOYEE RETIREMENT PLANS

Defined Contribution Plan—Certain BMHCC entities sponsor a Section 403(b) defined contribution employee benefit plan administered through Guidestone Financial Resources of the Southern Baptist Convention. For those entities, employees who are at least 21 years of age and have completed 1,000 hours of service during a 12-month period are eligible to participate. Participants may make matched tax-deferred contributions of 2% to 5% of eligible earnings, as defined. These contributions are then matched on a graduated scale based on years of service from 50% of eligible contributions up to 150% of eligible contributions by BMHCC, up to 5% of the participants' annual base salaries. Participants may also make unmatched tax-deferred contributions up to applicable Internal Revenue Service limitations. Participants vest in BMHCC's matching contributions 20% after two years of service,

with subsequent annual increases of 20% to 100% after six years of service. During 2022 and 2021, BMHCC's matching contribution approximated \$37,849,000 and \$36,225,000, respectively, and was recorded in salaries and benefits within the combined statements of operations and changes in net assets.

The BMHCC retirement program offers participants access to diversified investment lineups that typically include options such as a stable value/guaranteed account, bond, equity, and asset allocation funds. The BMHCC retirement plan utilizes institutional share classes in the retirement plans unless participants can receive access to a lower net cost by utilizing an alternative share class. If an investment share class is used that provides revenue sharing, BMHCC will have the record keeper credit all revenue sharing back to participants.

Deferred Compensation—Certain BMHCC entities and employees have entered into a deferred compensation agreement whereby employees may defer all or a portion of their compensation, up to the Internal Revenue Service statutory limits. BMHCC, directed by the employee, invests the deferred compensation amounts in various types of investments. These investments are reported at fair value as other assets in the accompanying combined balance sheets. Also, BMHCC may make discretionary contributions to the accounts under the plan described in the preceding paragraph. No significant amounts were expensed for the years ended September 30, 2022 and 2021. During the fiscal year ended September 30, 2021, MBHS changed their deferred compensation plan that reduced the plan asset and liability balance by \$10,425,000.

Postretirement Health Care Benefits—BMHCC provides medical and dental benefits to certain retirees of BMHCC. Employees are generally eligible for postretirement benefits upon retirement and completion of a specified number of years of credited service. Participation in this plan is currently frozen to those employees having met these requirements in prior years. The plan is contributory, with retiree payments based on the year of retirement, age at retirement, and years of employment. BMHCC does not prefund these benefits and has the right to modify or terminate the plan in the future.

Net periodic postretirement benefit cost for the years ended September 30, 2022 and 2021, includes the following components (in thousands):

	2022	2021
Service cost	\$ 511	\$ 539
Interest cost on accumulated postretirement benefit obligation	709	605
Net amortizations	7	9
Recognized actuarial loss	<u>199</u>	<u>-</u>
Total	<u>\$1,426</u>	<u>\$1,153</u>

The change in benefit obligation and reconciliation of funded status as of September 30, 2022 and 2021, is as follows (in thousands):

	2022	2021
Benefit obligation—beginning of year	\$ 30,146	\$ 28,371
Service cost	511	539
Interest cost	709	605
Plan participants' contributions	1,367	1,382
Actuarial (gain) loss	(4,671)	3,182
Benefits paid	(3,951)	(3,933)
Retiree drug subsidy reimbursement	192	-
	<u>24,303</u>	<u>30,146</u>
Benefit obligation—end of year	24,303	30,146
Plan assets	<u>-</u>	<u>-</u>
Funded status	<u>\$ (24,303)</u>	<u>\$ (30,146)</u>

Amounts recognized in the combined balance sheets as of September 30, 2022 and 2021, consist of the following (in thousands):

	2022	2021
Current liabilities	\$ 2,343	\$ 2,398
Noncurrent liabilities	21,959	27,748

Amounts recognized as changes in unrestricted net assets arising from a postretirement benefit plan, but not yet included in net periodic benefit cost as of September 30, 2022 and 2021, consist of the following (in thousands):

	2022	2021
Net gain	\$ (629)	\$ 4,241
Prior service cost	<u>-</u>	<u>7</u>
Total	<u>\$ (629)</u>	<u>\$ 4,248</u>

Other Changes in Plan Assets and Benefits—Obligations recognized in unrestricted net assets as of September 30, 2022 and 2021, are as follows (in thousands):

	2022	2021
Net (gain)/loss	\$ (4,671)	\$ 3,182
Recognized actuarial (gain)/loss	(199)	-
Amortization of prior service cost	<u>(7)</u>	<u>(9)</u>
Total recognized in unrestricted net assets	<u>\$ (4,877)</u>	<u>\$ 3,173</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ (3,451)</u>	<u>\$ 4,326</u>

The estimated prior-service cost for the postretirement benefit plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is not material to the combined financial statements.

Benefit payments, net of plan participants' contributions, are expected to be paid as of September 30, 2022, are as follows (in thousands):

**Years Ending
September 30**

2023	\$ 2,343
2024	2,335
2025	2,419
2026	2,475
2027	2,510
2028–2032	11,413

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2022 and 2021, consist of the following:

	2022	2021
Discount rate	<u>2.45 %</u>	<u>2.22 %</u>

Weighted-average assumptions used to determine benefit obligations as of September 30, 2022 and 2021, consist of the following:

	2022	2021
Discount rate	<u>5.16 %</u>	<u>2.45 %</u>

Assumed health care cost trend rates as of September 30, 2022 and 2021, consist of the following:

	2022	2021
Post-65 health care cost trend rate assumed for next year	6.00 %	5.70 %
Rate to which the cost trend rate is assumed to (the ultimate trend rate)	4.50	4.50
Year that the rate reaches the ultimate trend rate	2033	2032

BMHCC expects to contribute approximately \$2,343,000 to its postretirement benefit plan in 2022.

In 2006, eligible retirees of BMHCC had available to them the Medicare Part D prescription drug plan. BMHCC has chosen to continue to offer comparable prescription drug coverage, which the organization believes to be actuarially equivalent to the Medicare Part D coverage and, as a result, receives a direct subsidy of 28% of eligible plan expenses from the federal government.

19. ENDOWMENT FUNDS—WITH DONOR RESTRICTION

BMHCC's endowment consists of approximately 158 individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. There are no board-designated endowment funds.

Net assets associated with endowment funds, including funds designated by BMHCC’s board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. All permanently restricted net assets as of September 30, 2022 and 2021, are donor-restricted endowments.

Changes in endowment funds, for the years ended September 30, 2022 and 2021, consisted of the following (in thousands):

	2022	2021
Endowment net assets—beginning of year	\$ 89,889	\$ 71,697
Contributions and bequests	653	271
Transfers	267	1,499
Interest and dividends	31	24
Net realized and unrealized (loss) gain	<u>(10,499)</u>	<u>16,398</u>
Endowment net assets—end of year	<u>\$ 80,341</u>	<u>\$ 89,889</u>

20. COMMITMENTS AND CONTINGENCIES

COVID-19 Pandemic—In March 2020, the global COVID-19 pandemic began to significantly affect BMHCC’s patients, communities, employees and business operations. Patient volumes and the related revenue for most of BMHCC’s health care services were impacted from mid-March through September 2020, and fiscal years 2021 and 2022.

Early in the COVID-19 pandemic, various policies were implemented by federal, state and local governments that caused restrictions on nonessential medical services, travel bans, physical distancing and shelter-in-place orders. These policies forced BMHCC to reduce hours and temporarily close certain operations, as well as significantly reduce surgical procedures, outpatient diagnostic and treatment services, and physician patient visits. A significant reduction in emergency care visits was experienced as well. BMHCC’s response to the COVID-19 pandemic also required additional staff and supply resources. These circumstances had a material negative impact on operating results in fiscal year 2020, 2021 and 2022. In addition, even with appropriate protective measures, exposure to COVID-19 increases the risk that clinicians and others in BMHCC may contract the virus, which could further limit the ability to treat all patients who seek care. If more COVID-19 surges were to occur, BMHCC could experience workforce disruptions. Supply chain disruptions, including shortages, delays and significant price increases in medical supplies, pharmaceuticals and personal protective equipment, have impacted and are expected to continue to impact BMHCC’s operations. In addition, broad economic factors resulting from the COVID-19 pandemic, including increased continuing unemployment rates and reduced consumer spending, are impacting service mix, revenue mix and patient volumes.

Health Care Regulatory Environment—The health care industry is subject to numerous and complex laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, privacy, government health care program participation requirements and government reimbursement for patient services, fraud and abuse requirements, and requirements for tax-exempt organizations. The CARES Act’s, the PPPHCE Act’s and ARP Act’s terms and conditions require attestation to accept related funding. In addition, requirements to earn the funds are numerous and guidance as to the requirements have been continually updated, and continue to be updated, by the HHS. Laws and regulations concerning government programs, including Medicare, Medicaid, CARES Act, PPPHCE Act, and ARP Act are subject to varying

interpretation. Compliance with such laws and regulations is complex and can be subject to future government review and interpretation as well as significant regulatory enforcement actions, including fines, penalties and potential exclusion from government health care programs such as Medicare and Medicaid. There can be no assurance that regulatory authorities will not challenge BMHCC's compliance with these laws and regulations. In addition, the contracts BMHCC has with commercial payers also provide for retroactive audit and review of claims. The health care industry in general is experiencing an increase in these activities as federal and state governments increase their enforcement activities and institute new programs designed to identify potential irregularities in reimbursement or quality of patient care. Based on the information received to date, management does not believe the ultimate resolution of these matters will have a material adverse effect on BMHCC's future financial position or results of operations.

On October 1, 2016, BMHCC entered into a lease agreement with Calhoun County, Mississippi, to lease a hospital and nursing home located in Calhoun City, Mississippi. The leased assets will be used for the business of a critical access hospital and a nursing home and other health-related activities ancillary to the operation of those businesses. The initial lease term commenced on October 1, 2016, and will continue for 30 consecutive years, expiring on September 30, 2046 ("Primary Term"); however, BMHCC shall have the option to extend the lease for two consecutive 10-year terms. BMHCC has the right to terminate the lease if certain negative operating or financial conditions occur and a mutually acceptable modification cannot be made with the lessor. In lieu of rent for the leased assets, BMHCC shall make capital improvements to the hospital and nursing home totaling \$30,000,000 over the course of the Primary Term.

Liabilities for Self-Insurance—The entities comprising BMHCC participate in a pooled risk program managed by the Corporation. Premiums are assessed by the Corporation to BMHCC entities based on their claims history and other factors. Except as provided below, BMHCC is self-insured for general and professional liability, employee health and workers' compensation risks, and employment practices.

Professional and General Liability—BMHCC accrues an estimated liability for its uninsured exposure and self-insured retention based on historical loss patterns and actuarial projections. BMHCC's estimated liability for the self-insured portion of professional and general liability claims was approximately \$97,025,000 and \$97,000,000 as of September 30, 2022 and 2021, respectively. These estimated liabilities represent the present value of estimated future professional liability claims payments based on expected loss patterns using a weighted-average discount rate of 3.5% in both 2022 and 2021, respectively.

BMHCC has procured excess hospital and general liability insurance through three (3) insurance carrier placements to establish a total excess of \$24,000,000 on a claims-made basis. As of September 30, 2022 and 2021, BMHCC's deductible is the first \$6,000,000 per claim, including defense costs, for the Tennessee and Mississippi facilities. In Arkansas, the deductible is the first \$1,000,000 per claim. In excess of this deductible, Illinois Union Insurance Company provides excess coverage of \$4,000,000; National Fire and Marine provides a following form excess for the next \$10,000,000, followed by Pro Assurance Specialty providing the next \$10,000,000 layer, to equal the \$24,000,000 total.

On September 1, 2013, BMHCC obtained a fronted professional and general liability policy covering claims in the state of Arkansas. BMHCC is responsible for managing and paying all claims under the policy and effective June 1, 2019, the Iron Shore Letter of Credit for the Arkansas fronted policy was increased to \$5,000,000. This was due to the inclusion of the physician plan of self- insurance.

In addition, BMHCC and its other affiliates are defendants in various actions arising from their health care service activities. It is the opinion of management that the foregoing actions will not have a material adverse effect on BMHCC's combined financial position.

Physician Professional Liability—Effective June 1, 2019, BMHCC elected to self-insure its Physician Professional Liability exposure which was previously insured by State Volunteer Mutual Insurance Company (SVMIC). SVMIC provided individual and extender professional liability limits of \$1,000,000 each claim and \$3,000,000 aggregate. BMHCC is responsible for claims reported after June 1, 2019, and would also include incidents occurring prior to June 1, 2019, incurred but not reported (IBNR), or tail coverage. SVMIC will remain responsible for claims reported prior to June 1, 2019.

BMHCC also has approximately 120 physicians, all located in the state of Mississippi, who purchase first dollar professional liability insurance from Mutual Assurance Company of Mississippi (MACM) with minimum limits of \$1,000,000 each claim, \$3,000,000 aggregate.

BMHCC retains the “buffer limit” between the limit of liability provided by MACM in their \$6,000,000 per claim self-insured retention, which is then followed by their \$24,000,000 excess limit of liability provided by Illinois Union, National Fire and Marine and Pro Assurance.

Employee Health—BMHCC offers subsidized health insurance to its employees through a self-insured plan. Self-insurance reserves for the employee health program were approximately \$14,160,000 and \$20,435,000 as of September 30, 2022 and 2021, respectively. The estimated reserves for employee health claims are based on actual claims history.

Workers' Compensation—BMHCC is self-insured for workers' compensation liability for the first \$1,000,000 per accident in the states of Arkansas, Mississippi, and Tennessee, and has excess coverage up to applicable statutory limits for each state on a claims-made basis. The workers' compensation self-insurance reserves were approximately \$11,392,000 and \$12,792,000 as of September 30, 2022 and 2021, respectively.

Employment Practices Liability—BMHCC is self-insured for employment practices liability (EPL) for the first \$750,000 per claim and for \$1,000,000 per claim for our wage earners making over \$150,000 and physicians. The reserves were approximately \$6,772,000 and \$7,004,000 as of September 30, 2022 and 2021, respectively. BMHCC has EPL coverage as part of the directors' and officers' liability policy, which has a \$10,000,000 limit.

Physician Commitments—BMHCC has committed to provide certain financial assistance pursuant to recruiting agreements with various physicians practicing in the communities it serves. In consideration for a physician relocating to one of its communities and agreeing to engage in private practice for the benefit of the respective community, BMHCC may provide loans to those physicians, normally over a period of one year, to assist in the establishment of the physician's practice. The actual amount of such commitments to be advanced to physicians often depends upon the financial results of a physician's private practice during the term of the agreement. The maximum potential amount of future payments under these commitments were approximately \$2,221,000 and \$2,813,000 as of September 30, 2022 and 2021, respectively. A portion of such payments is recoverable by BMHCC from physicians who do not fulfill their commitment period, which varies by contract, to the respective community.

Other Industry Risks—The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters, such as licensure, accreditation, government health care program participation requirements,

reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for amounts previously received for patient services. BMHCC believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material impact on its combined financial position or results of operations. Compliance with these and other laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

21. FUNCTIONAL EXPENSES

BMHCC provides both inpatient and outpatient services, as well as surgery centers, physician practices, and other ancillary businesses. The cost of providing these services and supporting activities has been summarized on a functional basis in the table below. As summarized below, the expenses are directly attributable to a specific activity and only general and administrative expenses are allocated based on the time and effort spent in supporting the operations.

Expense Category	Method of Allocation
Nonphysician salaries and wages	Actual salaries and wages
Physician salaries and wages	Actual salaries and wages
Employee benefits	Actual cost of benefits
Supplies and drugs	Actual supplies and drugs
Purchased services and other	Actual purchased services and other
Professional fees	Actual professional fees
Depreciation and amortization	Actual depreciation and amortization
Interest	Actual interest
Gain (loss) on sale of assets	Actual gain loss on sale of assets

The functional expenses related to BMHCC's operations as of September 30, 2022 and 2021, are as follows (in thousands):

	For the Year Ended September 30, 2022						
	Health Care Services			Support Services			Total
	Hospital	Physician	Research	Administrative	Student Instruction	Fund-Raising	
Nonphysician salaries and wages	\$ 572,784	\$ 179,231	\$ 3,119	\$ 604,283	\$ 10,809	\$ 1,482	\$ 1,371,708
Physician salaries and wages	23,179	155,055	28	63,088	-	-	241,350
Employee benefits	118,026	51,440	688	128,411	2,437	353	301,355
Supplies and drugs	441,649	69,692	50	333,017	1,648	120	846,176
Purchased services and other	201,084	48,247	(272)	246,269	3,928	2,858	502,114
Professional fees	111,827	(22,958)	140	98,332	122	1,286	188,749
Depreciation and amortization	62,577	4,946	44	69,707	659	-	137,933
Interest	17,392	128	-	14,260	-	126	31,906
Gain (loss) on sale of assets	11	28	-	(393)	-	-	(354)
Total	\$ 1,548,529	\$ 485,809	\$ 3,797	\$ 1,556,974	\$ 19,603	\$ 6,225	\$ 3,620,937

For the Year Ended September 30, 2021

	Health Care Services			Support Services			Total
	Hospital	Physician	Research	Administrative	Student Instruction	Fund-Raising	
Nonphysician salaries and wages	\$ 485,092	\$180,416	\$2,744	\$ 549,798	\$ 9,465	\$1,999	\$1,229,514
Physician salaries and wages	23,199	146,982	16	52,086	-	-	222,283
Employee benefits	115,586	52,728	647	125,094	2,210	400	296,665
Supplies and drugs	427,922	57,450	46	313,046	1,463	121	800,048
Purchased services and other	207,779	46,510	(353)	247,927	3,009	2,830	507,702
Professional fees	104,102	(23,149)	124	84,492	70	1,038	166,677
Depreciation and amortization	60,639	4,331	22	75,972	560	-	141,524
Interest	17,254	96	-	14,084	-	155	31,589
Gain (loss) on sale of assets	(5,691)	(46)	-	(29)	-	-	(5,766)
Total	<u>\$1,435,882</u>	<u>\$465,318</u>	<u>\$3,246</u>	<u>\$1,462,470</u>	<u>\$16,777</u>	<u>\$6,543</u>	<u>\$3,390,236</u>

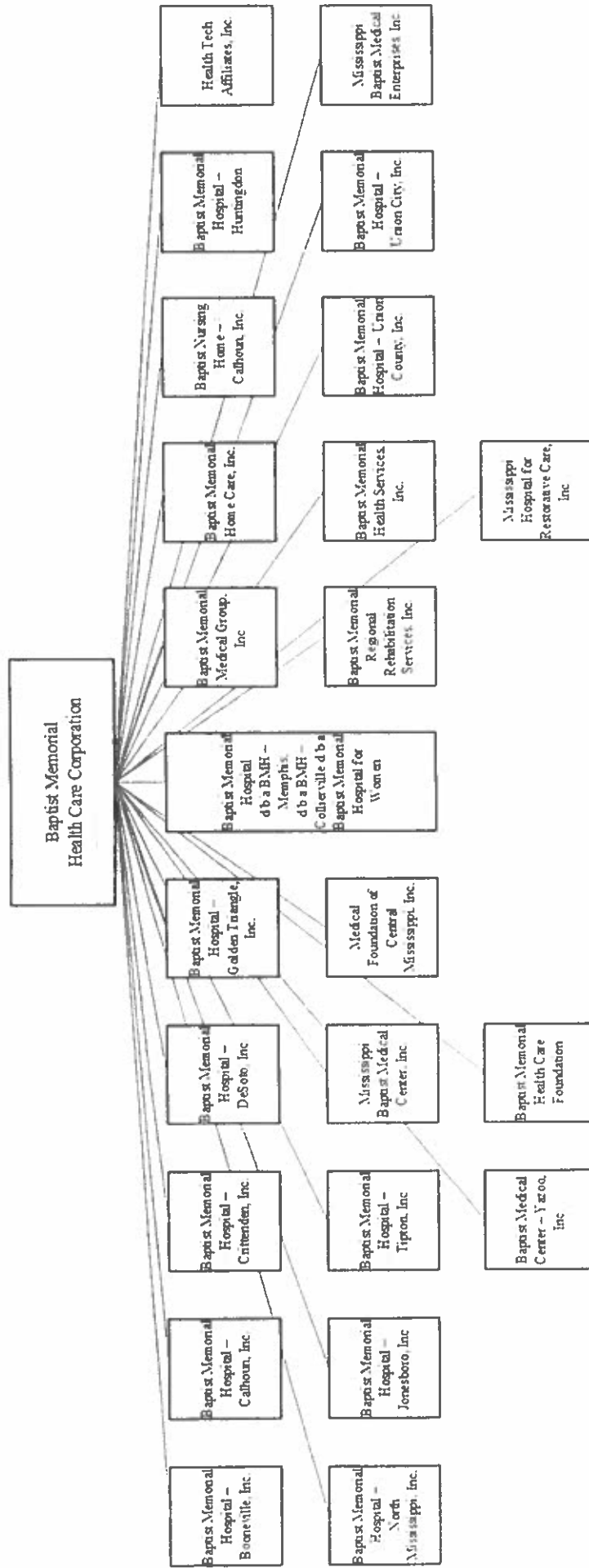
22. SUBSEQUENT EVENTS

Management has evaluated events and transactions that have occurred through December 15, 2022, which is the date that the combined financial statements were issued for possible recognition or disclosure in the combined financial statements.

* * * * *

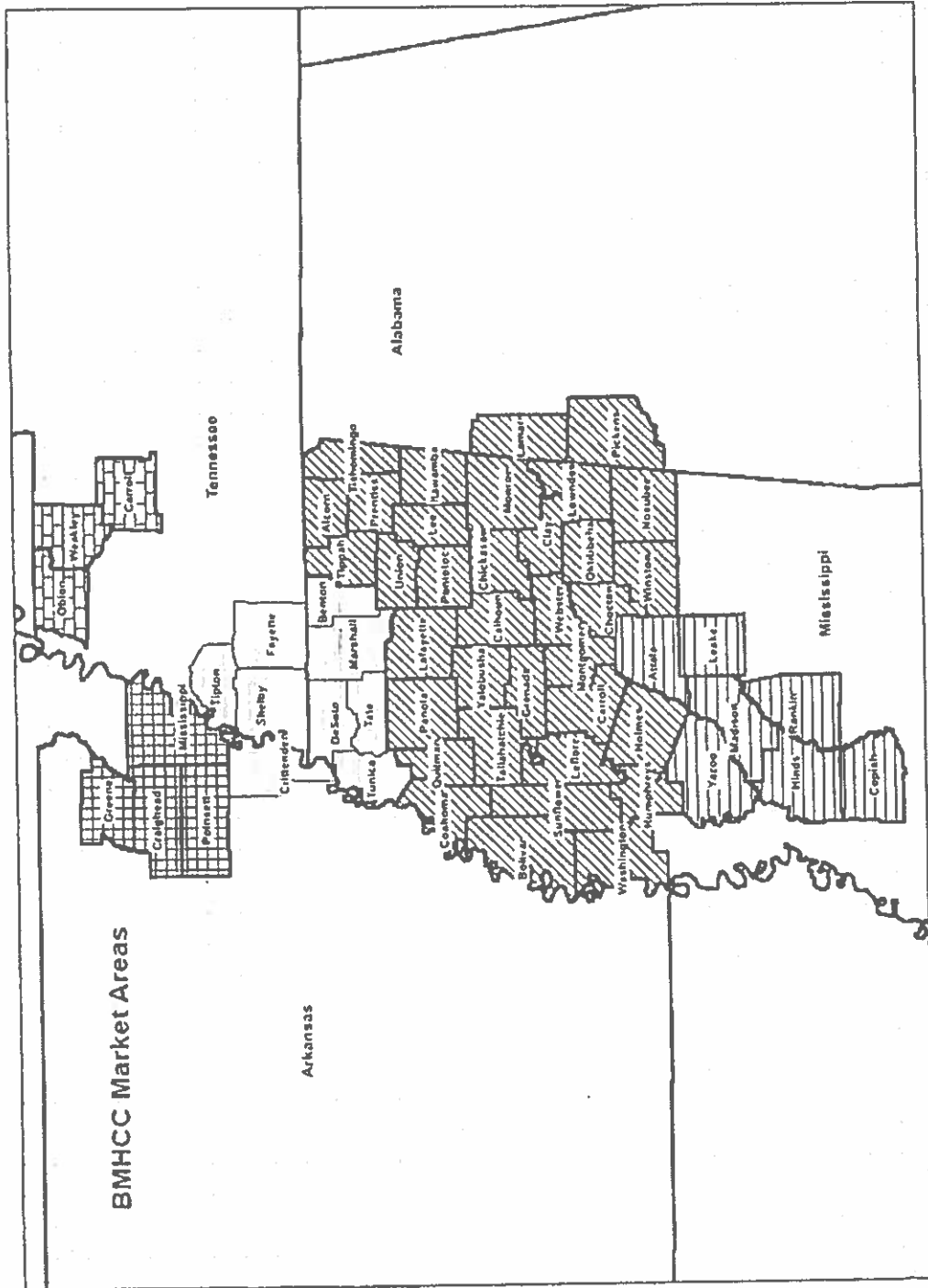
Table 1.
The Obligated Group

Baptist Entities Included in the Obligated Group



Memphis Metro Market Hospitals		Location	Staffed Beds	Owned/Leased
BMH-Memphis		Memphis, TN	599	Owned
BMH-Women		Memphis, TN	140	Owned
BMH-Collierville		Collierville, TN	81	Owned
BMH-DeSoto		Southaven, MS	339	Owned
BMH-Tipton		Covington, TN	38	Owned
BMH-Restorative		Memphis, TN	30	Owned
BMH-Rehabilitation		Germantown, TN	53	Owned
BMH-Crittenden		W. Memphis, AR	11	Leased
North Mississippi Market Hospitals		Location	Staffed Beds	Owned/Leased
BMH-North Mississippi		Oxford, MS	217	Owned
BMH-Union County		New Albany, MS	153	Leased
BMH-Booneville		Booneville, MS	114	Leased
BMH-Golden Triangle		Columbus, MS	315	Owned
BMH-Calhoun		Calhoun City, MS	25	Leased
Central Mississippi Market Hospitals		Location	Staffed Beds	Owned/Leased
BMH-Mississippi Baptist Medical Center		Jackson, MS	638	Owned
BMH-Attala		Kosciusko, MS	25	Leased
BMH-Leake		Carthage, MS	25	Owned
BMH-Yazoo		Yazoo City, MS	25	Leased
West Tennessee Market Hospitals		Location	Staffed Beds	Owned/Leased
BMH-Union City		Union City, TN	78	Owned
BMH-Carroll County		Huntingdon, TN	40	Owned
Eastern Arkansas Market Hospitals		Location	Staffed Beds	Owned/Leased
NEA Baptist Memorial		Jonesboro, AR	228	Owned
Total Staffed Beds			3,174	
Shared Ventures			53	Not included above
Kindred Healthcare			80	Not included above
Crestwyn				

Table 4.
 BMHCC Market Areas



2022 MARKETS	SYSTEM*	2018 FINAL DISCHARGES	2018 SHARE	2019 FINAL DISCHARGES	2019 SHARE	2020 FINAL DISCHARGES	2020 SHARE	2021 FINAL DISCHARGES	2021 SHARE
12/28/22	* - using current system configuration								
MEMPHIS, TN MSA	Baptist Memorial Health Care Corporation	51,206	35.03	52,901	35.52	48,827	36.03	50,044	37.36
	Community Health Systems	2	0.00	3	0.00	4	0.00	9	0.01
	Methodist-LeBonheur Healthcare	57,539	39.37	58,991	39.61	53,967	39.82	51,399	38.37
	North Mississippi Health Services	320	0.22	337	0.23	271	0.20	288	0.22
	St Dominic	0	0.00	0	0.00	0	0.00	0	0.00
	St. Bernards Medical Center	0	0.00	0	0.00	0	0.00	0	0.00
	Tenet Healthcare	19,348	13.24	20,347	13.66	17,439	12.87	16,208	12.10
	West Tennessee Health Care	221	0.15	227	0.15	281	0.21	512	0.38
	All Others	17,523	11.99	16,118	10.82	14,747	10.88	15,482	11.56
	Region Total	146,159	100.00	148,924	100.00	135,536	100.00	133,942	100.00
CENTRAL MISSISSIPPI									
	Baptist Memorial Health Care Corporation	16,173	23.60	16,582	24.33	15,209	24.32	15,508	25.27
	Community Health Systems	12,293	17.94	11,792	17.30	10,987	17.57	10,177	16.58
	Methodist-LeBonheur Healthcare	4	0.01	7	0.01	5	0.01	4	0.01
	North Mississippi Health Services	38	0.06	50	0.07	58	0.09	23	0.04
	St Dominic	18,337	26.75	18,449	27.07	17,100	27.35	15,872	25.87
	St. Bernards Medical Center	0	0.00	0	0.00	0	0.00	0	0.00
	Tenet Healthcare	1	0.00	0	0.00	0	0.00	0	0.00
	West Tennessee Health Care	0	0.00	0	0.00	0	0.00	0	0.00
	All Others	21,691	31.65	21,270	31.21	19,166	30.65	19,780	32.23
	Region Total	68,537	100.00	68,150	100.00	62,525	100.00	61,364	100.00
NORTH MISSISSIPPI									
	Baptist Memorial Health Care Corporation	25,761	23.06	27,600	24.83	26,338	26.03	27,728	29.06
	Community Health Systems	444	0.40	501	0.45	530	0.52	664	0.70
	Methodist-LeBonheur Healthcare	2,735	2.45	2,744	2.47	2,296	2.27	1,946	2.04
	North Mississippi Health Services	30,188	27.03	30,657	27.58	28,322	27.99	25,588	26.82
	St Dominic	1,304	1.17	1,321	1.19	1,066	1.05	875	0.92
	St. Bernards Medical Center	0	0.00	0	0.00	0	0.00	0	0.00
	Tenet Healthcare	394	0.35	402	0.36	301	0.30	188	0.20
	West Tennessee Health Care	0	0.00	0	0.00	0	0.00	0	0.00
	All Others	50,863	45.54	47,940	43.13	42,333	41.84	38,430	40.27
	Region Total	111,689	100.00	111,165	100.00	101,186	100.00	95,419	100.00
WEST TENNESSEE									
	Baptist Memorial Health Care Corporation	2,784	27.16	3,111	31.07	2,878	30.83	2,757	29.59
	Community Health Systems	0	0.00	0	0.00	0	0.00	0	0.00
	Methodist-LeBonheur Healthcare	259	2.53	240	2.40	172	1.84	216	2.32
	North Mississippi Health Services	2	0.02	0	0.00	1	0.01	0	0.00
	St Dominic	0	0.00	0	0.00	0	0.00	0	0.00
	St. Bernards Medical Center	0	0.00	0	0.00	0	0.00	0	0.00
	Tenet Healthcare	94	0.92	83	0.83	59	0.63	37	0.40
	West Tennessee Health Care	4,109	40.09	4,001	39.96	3,880	41.56	4,014	43.08
	All Others	3,002	29.29	2,577	25.74	2,345	25.12	2,293	24.61
	Region Total	10,250	100.00	10,012	100.00	9,335	100.00	9,317	100.00
NORTHEAST ARKANSAS									
	Baptist Memorial Health Care Corporation	9,408	31.39	10,037	32.05	8,498	30.72	8,297	28.84
	Community Health Systems	0	0.00	0	0.00	0	0.00	0	0.00
	Methodist-LeBonheur Healthcare	995	3.32	1,049	3.35	768	2.78	496	1.72
	North Mississippi Health Services	0	0.00	0	0.00	0	0.00	0	0.00
	St Dominic	0	0.00	0	0.00	0	0.00	0	0.00

2022 MARKETS 12/28/22	SYSTEM*	2018 FINAL DISCHARGES	2018 SHARE	2019 FINAL DISCHARGES	2019 SHARE	2020 FINAL DISCHARGES	2020 SHARE	2021 FINAL DISCHARGES	2021 SHARE
	* - using current system configuration								
	St. Bernard's Medical Center	12,270	40.94	13,201	42.16	12,881	46.56	13,822	48.04
	Tenet Healthcare	122	0.41	111	0.35	64	0.23	58	0.20
	West Tennessee Health Care	0	0.00	0	0.00	0	0.00	0	0.00
	All Others	7,179	23.95	6,916	22.09	5,456	19.72	6,097	21.19
	Region Total	29,974	100.00	31,314	100.00	27,667	100.00	28,770	100.00
ALL 5 MARKETS COMBINED									
	Baptist Memorial Health Care Corporation	105,332	28.73	110,231	29.83	101,750	30.26	104,334	31.73
	Community Health Systems	12,739	3.47	12,296	3.33	11,521	3.43	10,850	3.30
	Methodist-LeBonheur Healthcare	61,532	16.78	63,031	17.06	57,208	17.01	54,061	16.44
	North Mississippi Health Services	30,548	8.33	31,044	8.40	28,652	8.52	25,899	7.88
	St Dominic	19,641	5.36	19,770	5.35	18,166	5.40	16,747	5.09
	St. Bernard's Medical Center	12,270	3.35	13,201	3.57	12,881	3.83	13,822	4.20
	Tenet Healthcare	19,959	5.44	20,943	5.67	17,863	5.31	16,491	5.02
	West Tennessee Health Care	4,330	1.18	4,228	1.14	4,161	1.24	4,526	1.38
	All Others	100,258	27.35	94,821	25.66	84,047	25.00	82,082	24.96
	Region Total	366,609	100.00	369,565	100.00	336,249	100.00	328,812	100.00
Note 1 - Updating of market share is dependent on receipt of data from outside vendors and sources. Each external data source has its own timeline.									

Note (1): Days' cash on hand is unrestricted cash and investments plus designated cash and investments as of the end of the fiscal year, or twelve-month period, divided by cash operating expenses for that fiscal year, or twelve-month period, divided by 365.

<i>(in thousands)</i>	2017	2018	2019	2020	2021	2022
Unrestricted cash and investments	\$ 1,074,131	\$ 997,603	\$ 1,052,204	\$ 1,229,645	\$ 1,340,406	\$ 1,065,241
Plus: Designated cash and investments						
Total	\$ 1,074,131	\$ 997,603	\$ 1,052,204	\$ 1,229,645	\$ 1,340,406	\$ 1,065,241
Total expenses, per PL	2,412,575	2,855,183	3,020,969	3,138,169	3,390,236	3,620,938
Less: Depreciation and amortization	(140,159)	(155,098)	(153,072)	(146,452)	(141,524)	(137,933)
Cash operating expenses	2,272,416	2,700,085	2,867,897	2,991,717	3,248,712	3,483,005
Divided by # of days	365	365	365	365	365	365
	6,226	7,397	7,857	8,196	8,901	9,542
Days' cash on hand	173	135	134	150	151	112

Table 19
Utilization Statistics

	Fiscal Years Ended September 30		
	2020	2021	2022
Licensed Beds	3,541	3,565	3,565
Staffed Beds	3,121	3,006	3,071
Admissions	111,561	112,176	111,054
Patient Days	588,609	642,390	634,810
Deliveries	13,277	13,170	12,623
Psy, Behavior, Chem A&D	23,846	23,950	24,287
Rehab and Therapy Services	1,443,554	1,548,720	1,490,262
Skilled Nursing Services	3,928	3,484	-
Outpatient Visits	931,588	1,088,178	1,044,404
Inpatient Surgeries	25,926	24,347	23,677
Same Day Surgeries	36,704	41,153	42,392
Total ER Visits	494,072	497,030	517,350
Active Staff Physicians	4,625	3,855	3,681
FTEs	17,013	17,233	17,289
ALOS	5.28	5.73	5.72
% Occupancy	51.7%	58.5%	56.5%

Baptist Memorial Health Care Corporation and Affiliates

Sources of Revenue

For the Fiscal Years Ended September 30

(in thousands)

	2019	2019	2020	2020	2021	2021	2022	2022
Medicare	47%	\$ 1,313,285	46%	\$ 1,290,867	45%	\$ 1,445,762	46%	\$ 1,468,945
Medicaid	12%	331,557	13%	361,562	13%	398,797	13%	406,729
Blue Cross	23%	643,807	22%	625,766	21%	675,350	21%	658,004
Commercial and Managed Care	15%	425,209	15%	434,382	16%	522,789	16%	507,584
Other	4%	105,707	4%	112,213	4%	139,780	5%	167,839
System Total	100%	\$ 2,819,565	100%	\$ 2,824,790	100%	\$ 3,182,478	100%	\$ 3,209,101

Baptist Memorial Health Care Corporation and Affiliates
Composition of Investment Portfolio

As of and for the Fiscal Years Ended September 30
(in thousands)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Cash and Cash Equivalents	\$ 183,685	\$ 87,330	\$ 93,030	\$ 135,515	\$ 83,685	\$ 113,025
U.S Government Debt Obligations	39,796	25,111	14,847	2,324	10,464	7,314
Corporate Obligations	191,615	202,853	227,960	225,556	248,040	193,198
Municipal Obligations	37,368	34,606	32,843	24,061	29,969	29,943
Common Stock	429,055	488,490	492,610	428,864	624,764	481,275
Mutual Funds	86,236	126,395	150,390	178,470	234,549	216,910
Hedge Fund	8,704	-	-	-	-	-
Private Equity Funds	7,922	6,916	5,300	4,560	4,853	4,152
Real Estate Funds	22,449	4,243	2,741	2,006	1,264	1,193
TOTAL	\$ 1,006,830	\$ 975,944	\$ 1,019,721	\$ 1,001,356	\$ 1,237,588	\$ 1,047,010