

INTERIM UNAUDITED CONSOLIDATED
FINANCIAL STATEMENTS

Baptist Health Care, Inc. and Subsidiaries
For the Six Months Ended March 31, 2023

Baptist Health Care, Inc. and Subsidiaries

Interim Unaudited Consolidated Financial Statements

Three and Six Months Ended March 31, 2023

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Baptist Health Care, Inc. and Subsidiaries

Consolidated Balance Sheets

	March 31,	
	2023	2022
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 52,258	\$ 55,986
Short-term investments	234,606	371,658
Accounts receivable, net	153,472	102,351
Current portion of investments limited as to use	244	480
Inventories	16,527	17,747
Prepaid expenses and other current assets	27,195	27,538
Assets held for sale	–	5,016
Total current assets	484,302	580,776
Investments limited as to use, less current portion	77,640	290,842
Net property, plant, and equipment	711,089	503,874
Operating lease right-of-use assets	8,659	10,635
Investments	15,000	15,000
Other assets	15,911	14,906
Total assets	\$ 1,312,601	\$ 1,416,033
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 72,165	\$ 72,722
Accrued compensation and benefits	34,499	31,040
Accrued interest	3,979	3,992
Estimated third party settlements	9,357	10,564
Current portion of long-term debt	4,698	4,468
Current portion of operating lease obligations	2,229	2,404
Contract liability	–	27,807
Other current liabilities	5,751	6,995
Liabilities held for sale	–	1,826
Total current liabilities	132,678	161,818
Long-term debt, less current portion	776,516	783,572
Operating lease obligations, less current portion	6,548	8,359
Other long-term liabilities	64,787	61,206
Total liabilities	980,529	1,014,955
Net assets:		
Without donor restrictions		
Controlling interest	310,803	376,349
Noncontrolling interests in subsidiaries	3,213	9,129
	314,016	385,478
With donor restrictions – controlling interest	18,056	15,600
Total net assets	332,072	401,078
Total liabilities and net assets	\$ 1,312,601	\$ 1,416,033

See accompanying notes.

Baptist Health Care, Inc. and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets

	Three Months Ended March 31,	
	2023	2022
	<i>(In Thousands)</i>	
Revenues and other support without donor restrictions:		
Net patient service revenue	\$ 189,030	\$ 179,073
Other	21,549	17,688
Net assets released from restrictions used for operations	596	202
Total revenues and other support without donor restrictions	211,175	196,963
Expenses:		
Salaries and benefits	99,637	109,108
Supplies	53,010	48,437
General, administrative, and other	25,176	21,125
Professional fees and purchased services	22,790	19,493
Depreciation and amortization	7,055	8,148
Interest	2,102	1,469
Total expenses	209,770	207,780
Income (loss) from operations before income from weather related events	1,405	(10,817)
Income from weather related events	60	—
Income (loss) from operations	1,465	(10,817)
Nonoperating gains (losses):		
Change in fair value of interest rate swap agreements	616	21
Net unrealized gains (losses) on trading securities	3,355	(6,146)
Investment income	4,144	(10,332)
Other, net	(1,553)	223
	6,562	(16,234)
Excess (deficiency) of revenues, other support and gains over expenses and losses	8,027	(27,051)
Less excess of revenues, other support and gains over expenses and losses attributable to noncontrolling interests	883	1,995
Excess (deficiency) of revenues, other support and gains over expenses and losses attributable to controlling interests	7,144	(29,046)

Continued on next page.

Baptist Health Care, Inc. and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets (continued)

	Three Months Ended March 31,	
	2023	2022
	<i>(In Thousands)</i>	
Net assets without donor restrictions:		
Excess (deficiency) of revenues, other support, and gains over expenses and losses attributable to controlling interest	\$ 7,144	\$ (29,046)
Excess of revenues, other support and gains over expenses and losses attributable to noncontrolling interests	883	1,995
Net unrealized gains (losses) on other-than-trading securities	318	(355)
Pension adjustment	546	(171)
Other	(1,766)	(3,891)
Increase (decrease) in net assets without donor restrictions before discontinued operations	7,125	(31,468)
Loss from discontinued operations	—	(1,236)
Increase in net assets without donor restrictions	7,125	(32,704)
Net assets with donor restrictions:		
Contributions	525	376
Net unrealized gains (losses) on other-than-trading securities	85	(183)
Net assets released from restrictions	(596)	(202)
Other	—	13
Increase in net assets with donor restrictions	14	4
Increase (decrease) in net assets	7,139	(32,700)
Net assets at beginning of period	324,933	433,778
Net assets at end of period	\$ 332,072	\$ 401,078

See accompanying notes.

Baptist Health Care, Inc. and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets

	Six Months Ended March 31,	
	2023	2022
	<i>(In Thousands)</i>	
Revenues and other support without donor restrictions:		
Net patient service revenue	\$ 366,412	\$ 350,193
Other	40,549	42,062
Net assets released from restrictions used for operations	758	376
Total revenues and other support without donor restrictions	407,719	392,631
Expenses:		
Salaries and benefits	198,023	207,177
Supplies	102,454	98,183
General, administrative, and other	46,250	42,103
Professional fees and purchased services	44,848	35,762
Depreciation and amortization	14,263	16,352
Interest	4,364	2,932
Total expenses	410,202	402,509
Loss from operations before income from weather related events	(2,483)	(9,878)
Income from weather related events	89	1,080
Loss from operations	(2,394)	(8,798)
Nonoperating gains (losses):		
Change in fair value of interest rate swap agreements	1,215	21
Net unrealized gains (losses) on trading securities	19,005	(6,859)
Investment income	1,849	(2,668)
Other, net	(2,439)	(1,455)
	19,630	(10,961)
Excess (deficiency) of revenues, other support and gains over expenses and losses	17,236	(19,759)
Less excess of revenues, other support and gains over expenses and losses attributable to noncontrolling interests	2,786	4,319
Excess (deficiency) of revenues, other support and gains over expenses and losses attributable to controlling interests	14,450	(24,078)

Continued on next page.

Baptist Health Care, Inc. and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets (continued)

	Six Months Ended March 31,	
	2023	2022
	<i>(In Thousands)</i>	
Net assets without donor restrictions:		
Excess (deficiency) of revenues, other support, and gains over expenses and losses attributable to controlling interest	\$ 14,450	\$ (24,078)
Excess of revenues, other support and gains over expenses and losses attributable to noncontrolling interests	2,786	4,319
Net unrealized gains (losses) on other-than-trading securities	631	(64)
Pension adjustment	1,091	(343)
Other	(5,450)	(6,163)
Increase (decrease) in net assets without donor restrictions before discontinued operations	13,508	(26,329)
Income (loss) from discontinued operations	25	(710)
Increase (decrease) in net assets without donor restrictions	13,533	(27,039)
Net assets with donor restrictions:		
Contributions	1,362	2,227
Net unrealized gains (losses) on other-than-trading securities	230	(110)
Net assets released from restrictions	(758)	(376)
Other	—	41
Increase in net assets with donor restrictions	834	1,782
Increase (decrease) in net assets	14,367	(25,257)
Net assets at beginning of period	317,705	426,335
Net assets at end of period	\$ 332,072	\$ 401,078

See accompanying notes.

Baptist Health Care Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Six Months Ended March 31,	
	2023	2022
	<i>(In Thousands)</i>	
Operating activities		
Increase (decrease) in net assets	\$ 14,367	\$ (25,257)
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Restricted contributions received	(1,362)	(2,227)
Depreciation and amortization	14,263	16,352
Change in fair value of interest rate swap agreements	(1,215)	(21)
Net unrealized (gains) losses on other-than-trading securities	(861)	174
Net unrealized (gains) losses on trading securities	(19,005)	6,859
Pension adjustment	(1,091)	343
Distribution to noncontrolling interests	7,206	15,466
Increase (decrease) in other long-term liabilities	6,246	(5,253)
Decrease in contract liability	(182)	(18,571)
Net decrease in components of working capital	(18,035)	(8,051)
Net cash provided by (used in) operating activities	331	(20,186)
Investing activities		
Purchase of investments	(184,954)	(532,281)
Proceeds from sale of investments	302,527	629,053
(Increase) decrease in other assets	(1,689)	4,494
Capital expenditures	(111,882)	(154,747)
Net cash provided by (used in) investing activities	4,002	(53,481)
Financing activities		
Repayments of long-term debt	(1,783)	(1,740)
Distributions to noncontrolling interests	(7,206)	(15,466)
Restricted contributions received	1,362	2,227
Net cash used in financing activities	(7,627)	(14,979)
Decrease in cash, cash equivalents, restricted cash, and restricted cash equivalents	(3,294)	(88,646)
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	57,562	148,384
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	\$ 54,268	\$ 59,738

See accompanying notes.

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

Six Months Ended March 31, 2023

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the note disclosures and information required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the six months ended March 31, 2023 are not necessarily indicative of the results to be expected for the year ended September 30, 2023. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended September 30, 2022.

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

2. Organization

Effective October 1, 2022, Baptist Health Care Corporation merged with and into Baptist Hospital, Inc. (Baptist), and Baptist became the sole member or shareholder of Ventures, Jay, and HCF. Baptist operates two acute care hospitals and a multi-specialty physician enterprise. Baptist also owns controlling interests in various joint venture arrangements, which are consolidated in its financial statements. Concurrent with the merger the organization's name became Baptist Health Care, Inc. (Parent). Parent is a tax-exempt holding company located in Pensacola, Florida, whose primary purpose is to direct the affairs of a multi-entity health care system (BHC) that includes the following subsidiaries:

- Baptist Health Ventures, Inc. (Ventures) – a taxable corporation that oversees the operations of various for-profit subsidiaries.
- Jay Hospital, Inc. (Jay) – a tax-exempt organization that operates an acute care hospital.
- Baptist Health Care Foundation (HCF) – a foundation with the primary purpose of raising funds to support the activities of the tax-exempt subsidiaries of BHC.

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

2. Organization (continued)

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

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

3. Recent Accounting Pronouncements

In March 2023, the FASB issued Accounting Standards Update (ASU) No. 2023-01, *Leases (Topic 842): Common Control Arrangements* (ASU 2023-01). ASU 2023-01 requires that entities determine whether a related party arrangement between entities under common control is a lease, and to classify and account for the lease on the same basis as an arrangement with an unrelated party. ASU 2023-01 also requires leasehold improvements associated with common control leases be amortized by the lessee over the useful life of the leasehold improvements as long as the lessee controls the use of the underlying asset through a lease. ASU 2023-01 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Management is currently evaluating the impact that adoption may have on BHC's consolidated financial statements.

In November 2021, the FASB issued ASU No. 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities* (ASU 2021-09). The amendments in ASU 2021-09 allow lessees that are not public business entities to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. An entity that makes the risk-free election is required to disclose which asset classes it has elected to apply a risk-free rate. The amendments require that when the rate implicit in the lease is readily determinable for any individual lease, the lessee use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election. ASU 2021-09 was adopted October 1, 2022 with no impact to BHC's consolidated financial statements.

In March 2021, the FASB issued ASU No. 2021-03, *Intangibles – Goodwill and Other (Topic 350) Accounting Alternative for Evaluating Triggering Events* (ASU 2021-03). The amendments in ASU 2021-03 allow an entity to elect not to monitor for goodwill impairment triggering events during the reporting period and, instead, to evaluate the facts and circumstances as of the end of the reporting period to determine whether it is more likely than not that goodwill is impaired. ASU 2021-03 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. ASU 2021-03 was adopted on September 30, 2021 with no impact to BHC's consolidated financial statements.

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

3. Recent Accounting Pronouncements (continued)

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU 2020-07). The amendments in ASU 2020-07 require contributed nonfinancial assets to be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, as well as disclosures to provide greater transparency on the contributed nonfinancial assets. ASU 2020-07 should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. ASU 2020-07 was adopted on October 1, 2021 with no impact to BHC's consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (ASU 2020-04). The amendments in ASU 2020-04 provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope* (ASU 2021-01), which clarifies and addresses specific issues in ASU 2020-04. ASU 2022-06, *Reference Rate Reform: Deferral of the Sunset Date of Topic 848*, was issued in December 2022, and defers the sunset date of Topic 848 from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. Management is currently evaluating the impact of ASU 2020-04, 2021-01 and 2022-06 on BHC's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, which changes how entities will account for credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The new standard replaces today's 'incurred loss' model with an 'expected credit loss' model that requires consideration of a broader range of information to estimate expected credit losses over the lifetime of the asset. The standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* (ASU 2019-04), which updates, clarifies, and improves various aspects of ASU 2016-13. In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses*, which clarifies and addresses specific issues about certain aspects of the amendments in ASU 2016-13. In March 2022, the FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures* (ASU 2022-02). The standard updates the accounting guidance for troubled debt restructurings, and requires disclosure of write-offs by year of origination for financing receivables. The effective dates for the amendments in ASU 2022-02

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

3. Recent Accounting Pronouncements (continued)

are the same as for ASU 2016-13. Management is currently evaluating the impact that adoption may have on BHC's consolidated financial statements.

4. Patient Service Revenue

BHC patient service revenues generally relate to contracts with patients in which the performance obligation is to provide health care services to the patient. Revenues are recorded during the period the obligation to provide health care services is satisfied. Performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. Performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payor and the transaction prices for the services provided are dependent upon the terms provided by or negotiated with the third-party payors. The payment arrangements with third-party payers for services provided to patients typically specify payments at amounts less than BHC standard charges. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in contractual terms resulting from contract negotiations and renewals.

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

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

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

4. Patient Service Revenue (continued)

	Three Months Ended March 31	
	2023	2022
Medicare	\$ 47,518	\$ 53,850
Medicare managed care	30,746	22,665
Medicaid	7,514	7,555
Managed care and insurers	84,744	79,864
Other	18,508	15,139
	\$ 189,030	\$ 179,073

	Six Months Ended March 31	
	2023	2022
Medicare	\$ 88,705	\$ 102,955
Medicare managed care	58,054	43,411
Medicaid	14,492	16,031
Managed care and insurers	170,520	159,740
Other	34,641	28,056
	\$ 366,412	\$ 350,193

Laws and regulations governing government programs, including Medicare and Medicaid, are complex and subject to interpretation. BHC is subject to retroactive revenue adjustments due to future audits, reviews and investigations. In addition, contracts BHC has with commercial payors also provide for retroactive audit and review of claims. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined.

Collection of outstanding receivables for Medicare, Medicaid, managed care payors, other third-party payors and patients is the primary source of cash for BHC. Collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility deductibles and copayments remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients, and are recorded for all uninsured accounts, regardless of the aging of

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

4. Patient Service Revenue (continued)

those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed.

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

5. Weather Events

In September 2020, BHC sustained property and equipment damage from the impact of Hurricane Sally. BHC carries both property damage and business interruption insurance, and has filed insurance claims as well as is pursuing reimbursement under Federal Emergency Management Agency (FEMA) disaster assistance programs. Estimated losses related to Hurricane Sally recorded during the year ended September 30, 2020 totaled \$2,250. Through March 31, 2023 and 2022, BHC has received \$89 and \$1,080, respectively, from insurers and FEMA related to the weather event claim.

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

6. Investments

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

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

7. Investments Limited As To Use

A summary of investments limited as to use is as follow:

	March 31,	
	2023	2022
Internally designated:		
For expansion	\$ 17,452	\$ 18,608
Malpractice trust funds	7,558	7,420
Other-restricted	11,035	7,246
Other	3,508	4,795
Held by trustee under bond indenture agreement:		
Capital projects	38,329	253,253
Capitalized interest	2	—
	<u>77,884</u>	<u>291,322</u>
Less amount to pay current liabilities	<u>244</u>	<u>480</u>
	<u>\$ 77,640</u>	<u>\$ 290,842</u>

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

8. Derivative Financial Instruments

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

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

The primary risk managed by using derivative financial instruments is interest rate risk. Interest rate swaps are entered into to manage interest rate risk associated with BHC's variable-rate borrowings. Interest rate swap agreements between BHC and third parties (counterparties) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and expose BHC to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for BHC's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap agreements contain collateral provisions applicable to both parties to mitigate credit risk. BHC does not anticipate nonperformance by its counterparties. BHC has not been requested to post collateral for any interest rate swap agreements in a negative position. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of BHC's derivative positions in the context of its blended cost of capital. At March 31, 2023 and 2022, the notional amount of BHC's interest rate swap agreements was \$141,495 and \$143,385, respectively.

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

8. Derivative Financial Instruments (continued)

Substantially all of BHC's derivative instruments contain provisions that require BHC to maintain an investment grade credit rating. If BHC's credit rating was to fall below investment grade, it would be in violation of such provisions, and the counterparties to the derivative instruments could request immediate payment on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2023 and 2022 was \$3,800 and \$0, respectively. If the credit-risk-related contingent features underlying these agreements had been triggered on March 31, 2023, BHC could have been required to settle the agreements with the counterparties, requiring cash or other liquid assets.

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

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value	
		March 31 2023	2022
Interest rate swap agreements	Prepaid expenses and other current assets	\$ 466	\$ 980
	Other long-term liabilities	\$ 3,800	\$ —

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in Excess of Revenues, Other Support and Gains over Expenses and Losses	Amount of Gain (Loss) on Derivatives Recognized in Excess of Revenues, Other Support and Gains over Expenses and Losses	
		Three Months Ended March 31 2023	2022
Interest rate swap agreements	Interest expense	\$ 825	\$ 1,509
	Change in fair value of interest rate swap agreements	616	21
	Nonoperating gains (losses):		
	Other, net	93	503
		\$ 1,534	\$ 2,033

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

8. Derivative Financial Instruments (continued)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in Excess of Revenues, Other Support and Gains over Expenses and Losses	Amount of Gain (Loss) on Derivatives Recognized in Excess of Revenues, Other Support and Gains over Expenses and Losses	
		Six Months Ended	
		March 31	
		2023	2022
Interest rate swap agreements	Interest expense	\$ 1,494	\$ 3,022
	Change in fair value of interest rate swap agreements	1,215	21
	Nonoperating gains (losses):		
	Other, net	210	503
		<u>\$ 2,919</u>	<u>\$ 3,546</u>

9. Fair Value Measurements

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

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

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

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

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

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

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

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was as follows:

	March 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 52,258	\$ —	\$ —	\$ 52,258
Investments				
U.S. corporate obligations	—	77,476	—	77,476
U.S. Treasury obligations	64,694	—	—	64,694
U.S. government agencies and sponsored entities	—	15,226	—	15,226
Collateralized debt obligations	—	6,371	—	6,371
Domestic equities	22,996	—	—	22,996
Foreign equities	21,457	—	—	21,457
Other	—	889	—	889
Total investments	109,147	99,962	—	209,109
Investments limited as to use				
Cash and cash equivalents	2,010	—	—	2,010
U.S. corporate obligations	—	8,167	—	8,167
U.S. government agencies and sponsored entities	—	39,931	—	39,931
Collateralized debt obligations	—	613	—	613
Domestic equities	9,340	—	—	9,340
Foreign equities	3,913	—	—	3,913
Other	7,144	107	—	7,251
Total investments limited as to use	22,407	48,818	—	71,225
	\$ 183,812	\$ 148,780	\$ —	\$ 332,592
Liabilities				
Interest rate swap agreements	\$ —	\$ 3,800	\$ —	\$ 3,800

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

	March 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 55,986	\$ —	\$ —	\$ 55,986
Investments				
U.S. corporate obligations	—	132,028	—	132,028
U.S. Treasury obligations	10,326	—	—	10,326
U.S. government agencies and sponsored entities	—	16,083	—	16,083
Collateralized debt obligations	—	40,114	—	40,114
Domestic equities	51,368	—	—	51,368
Foreign equities	56,572	—	—	56,572
Other	—	1,936	—	1,936
Total investments	118,266	190,161	—	308,427
Investments limited as to use				
Cash and cash equivalents	1,783	—	—	1,783
U.S. Treasury obligations	5,292	—	—	5,292
U.S. corporate obligations	—	117,076	—	117,076
U.S. government agencies and sponsored entities	—	138,324	—	138,324
Collateralized debt obligations	—	497	—	497
Domestic equities	10,240	—	—	10,240
Foreign equities	5,098	—	—	5,098
Other	7,009	148	—	7,157
Total investments limited as to use	29,422	256,045	—	285,467
	\$ 203,674	\$ 446,206	\$ —	\$ 649,880
Liabilities				
Interest rate swap agreements	\$ —	\$ —	\$ —	\$ —

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

Reconciliation to the Consolidated Balance Sheet

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

	March 31	
	2023	2022
Short-term investments, at fair value	\$ 209,109	\$ 308,427
Alternative investments accounted for under the equity method	40,497	78,231
Total investments	\$ 249,606	\$ 386,658
Investments limited as to use, at fair value	\$ 71,225	\$ 285,467
Alternative investments accounted for under the equity method	5,253	5,180
Other	1,406	675
Total investments limited as to use	\$ 77,884	\$ 291,322

See Note 8 for location of interest rate swap liabilities in the consolidated balance sheets.

Valuation Techniques and Inputs

The fair values of the securities included in Level 1 were determined through quoted market prices, while the fair values of Level 2 securities were determined as follows:

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

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

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

inputs, such as interest rate curves. In addition, credit valuation adjustments are included to reflect both BHC's nonperformance risk and the respective counterparty's nonperformance risk. BHC pays fixed rates ranging from 3.3% to 3.5% and receives cash flows based primarily on percentages of LIBOR, ranging from 67% to 74% of LIBOR. Additionally, BHC receives fixed rates ranging from 5.5% to 6.3% and pays cash flows based on: SIFMA Municipal Swap Index plus a spread between .75% and 1.25%, and the greater of the SIFMA Municipal Swap Index or zero plus 1.5%.

The carrying value of accounts receivable, accounts payable, and accrued liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The fair values of BHC's fixed-rate bonds are estimated using Level 2 inputs based on quoted market prices for the same or similar issues and approximate \$557,850 and \$628,300 as of March 31, 2023 and 2022, respectively. The carrying values of these fixed-rate bonds was \$729,990 and \$731,780 as of March 31, 2023 and 2022, respectively. The carrying amount approximates fair value for all other long-term debt.

10. Discontinued Operations

On September 30, 2021, Lakeview Center, Inc. (LCI) was divested from BHC with a member substitution agreement with an independent not-for-profit corporation (Purchaser), which allows both BHC and LCI to focus on their respective core missions. Cash and investments, with limited exceptions, remained with the Parent upon divestiture.

Baptist received and accepted an offer to purchase the enrolled membership of Lighthouse Health Plan (LHP), a provider of Medicaid Managed Care Program services for the state of Florida. The LHP sale of its membership was completed in February 2021, with wind down of operations through 2022.

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

10. Discontinued Operations (continued)

The components of assets and liabilities held for sale in the accompanying consolidated balance sheets are as follows:

	March 31	
	2023	2022
Cash and cash equivalents	\$ —	\$ 1,969
Prepaid expenses and other current assets	—	551
Investments limited as to use	—	2,496
Current assets held for sale	<u>\$ —</u>	<u>\$ 5,016</u>

	March 31	
	2023	2022
Accounts payable	\$ —	\$ 1,826
Current liabilities held for sale	<u>\$ —</u>	<u>\$ 1,826</u>

The operating income (loss) of LCI and LHP was reclassified to discontinued operations in the accompanying consolidated statements of operations and changes in net assets and totaled \$0 and \$(1,236) for the three months ended March 31, 2023 and 2022, respectively, and \$25 and \$(710) for the six months ended March 31, 2023 and 2022, respectively.

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

10. Discontinued Operations (continued)

The components of revenues and expenses presented in discontinued operations in the accompanying consolidated statements of operations and changes in net assets are as follows:

	Three Months Ended March 31	
	2023	2022
Revenues		
Premium revenue	\$ —	\$ 47
Total revenue	—	47
Expenses		
Salaries and benefits	—	243
General, administrative, and other	—	799
Medical claims expense	—	37
Professional fees and purchased services	—	205
Total expense	—	1,284
Income (loss) from operations	—	(1,237)
Investment income, unrealized activity, and gains	—	1
Income (loss) from discontinued operations	\$ —	\$ (1,236)

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

10. Discontinued Operations (continued)

	Six Months Ended March 31	
	2023	2022
Revenues		
Premium revenue	\$ 7	\$ (16)
Total revenue	7	(16)
Expenses		
Salaries and benefits	–	425
General, administrative, and other	(18)	807
Medical claims expense	(2)	(465)
Professional fees and purchased services	2	(72)
Total expense	(18)	695
Income (loss) from operations	25	(711)
Investment income, unrealized activity, and gains	–	1
Income (loss) from discontinued operations	\$ 25	\$ (710)

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

11. Pension Plan

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

The components of net periodic pension cost were as follows:

	Three Months Ended	
	March 31	
	2023	2022
Interest cost	\$ 1,395	\$ 1,001
Expected return on plan assets	(1,123)	(1,012)
Amortization of actuarial loss	325	621
Net periodic pension cost	<u>\$ 597</u>	<u>\$ 610</u>

	Six Months Ended	
	March 31	
	2023	2022
Interest cost	\$ 2,790	\$ 2,002
Expected return on plan assets	(2,246)	(2,024)
Amortization of actuarial loss	650	1,242
Net periodic pension cost	<u>\$ 1,194</u>	<u>\$ 1,220</u>

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

12. Changes in Consolidated Net Assets Without Donor Restrictions

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

	<u>Total</u>	<u>Controlling Interest</u>	<u>Noncontrolling Interests</u>
Balance October 1, 2022	\$ 300,483	\$ 292,850	\$ 7,633
Excess of revenues, other support and gains over expenses and losses	17,236	14,450	2,786
Distributions	(7,206)	—	(7,206)
Other activity	3,503	3,503	—
Change in net assets without donor restrictions	13,533	17,953	(4,420)
Balance March 31, 2023	<u>\$ 314,016</u>	<u>\$ 310,803</u>	<u>\$ 3,213</u>
	<u>Total</u>	<u>Controlling Interest</u>	<u>Noncontrolling Interests</u>
Balance January 1, 2022	\$ 306,891	\$ 302,855	\$ 4,036
Excess of revenues, other support and gains over expenses and losses	8,027	7,144	883
Distributions	(1,706)	—	(1,706)
Other activity	804	804	—
Change in net assets without donor restrictions	7,125	7,948	(823)
Balance March 31, 2023	<u>\$ 314,016</u>	<u>\$ 310,803</u>	<u>\$ 3,213</u>

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

12. Changes in Consolidated Net Assets Without Donor Restrictions (continued)

	<u>Total</u>	<u>Controlling Interest</u>	<u>Noncontrolling Interests</u>
Balance October 1, 2022	\$ 412,517	\$ 401,613	\$ 10,904
(Deficiency) excess of revenues, other support and gains over expenses and losses	(19,759)	(24,078)	4,319
Distributions	(15,466)	–	(15,466)
Other activity	8,186	(1,186)	9,372
Change in net assets without donor restrictions	(27,039)	(25,264)	(1,775)
Balance March 31, 2022	<u>\$ 385,478</u>	<u>\$ 376,349</u>	<u>\$ 9,129</u>

	<u>Total</u>	<u>Controlling Interest</u>	<u>Noncontrolling Interests</u>
Balance January 1, 2022	\$ 418,182	\$ 407,205	\$ 10,977
(Deficiency) excess of revenues, other support and gains over expenses and losses	(27,051)	(29,046)	1,995
Distributions	(13,215)	–	(13,215)
Other activity	7,562	(1,810)	9,372
Change in net assets without donor restrictions	(32,704)	(30,856)	(1,848)
Balance March 31, 2022	<u>\$ 385,478</u>	<u>\$ 376,349</u>	<u>\$ 9,129</u>

13. New Hospital Construction

During 2019, BHC announced plans for the construction of a new hospital facility to replace the Baptist downtown Pensacola hospital. Construction of the new facility began in 2020 and is scheduled to be completed in 2023, with total projected costs estimated to be \$660 million. At March 31, 2023 and 2022, the new hospital facility construction in progress totaled \$560,021 and \$318,124, respectively. Additions related to the project totaled \$92,617 and \$140,471 for the six months ended March 31, 2023 and 2022, respectively.

To finance the new hospital construction, as well as to reimburse BHC for eligible costs, provide funding to refund certain other debt, and to pay costs of issuance, in February 2020, Series 2020A and 2020B Bonds were issued totaling \$681,806.

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

13. New Hospital Construction (continued)

Operations of the current Baptist downtown Pensacola campus will continue uninterrupted through completion of the new facility. Upon transition to the new facility, the existing downtown campus, including certain campus property, plant and equipment, will be disposed. Based on this, in September 2022, property, plant and equipment with a carrying value of \$37,500 was adjusted to its estimated fair value of \$9,100 with a loss from impairment of \$28,400. Fair value was based on expected future cash flows, adjusted for expected costs to ready the property for sale. It is reasonably possible that the estimate of expected future cash flows may change with additional information and changing market conditions resulting in the need to modify the expected fair value in future periods.

14. Coronavirus Disease 2019

Due to the global viral outbreak caused by Coronavirus Disease 2019 (COVID-19) in 2020, there have been resulting effects that have negatively impacted BHC's financial condition, including: significant stock market exchange volatility impacting investment holdings; mandated temporary cessation of elective procedures and other medical treatments leading to significant declines in operating revenues; and incurrence of additional costs to prepare for COVID-19 patient care activity. Various funding relief opportunities are being explored and evaluated by management. The ultimate impact of these matters to BHC and its financial condition is presently unknown.

For the six months ended March 31, 2023 and 2022, BHC has received \$0 and \$5.2 million, respectively, recorded as other income in the accompanying consolidated statements of operations and changes in net assets, from the CARES Act Provider Relief Fund, administered by the U.S. Department of Health and Human Services (HHS). The relief fund payment terms and conditions states that the payment is only to be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the recipient only for health care related expenses or lost revenues that are attributable to coronavirus.

BHC received \$63.7 million from the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advance Payment Program. The funds were provided to ensure hospitals and providers have the financial resources needed to combat the coronavirus pandemic. These payments were a cash advance that CMS applied claims payments against, beginning one year starting from the date the accelerated or advance payment was issued, and are reflected in the accompanying consolidated balance sheets as a contract liability. All of these funds have been recovered by CMS.

Baptist Health Care, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

15. Subsequent Events

BHC evaluated events and transactions occurring subsequent to March 31, 2023 through May 9, 2023, the date the consolidated financial statements were issued. During this period, there were no subsequent events that required recognition or disclosure in the consolidated financial statements.