

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL  
ASSISTANCE PROJECTS AND REPORTS REQUIRED BY  
CHAPTER 10.650, RULES OF THE AUDITOR  
GENERAL

Baptist Health System, Inc. and Subsidiaries  
Year Ended September 30, 2023  
With Report of Independent Auditors

Ernst & Young LLP



Baptist Health System, Inc. and Subsidiaries

Schedule of Expenditures of State Financial Assistance Projects and Reports  
Required by Chapter 10.650, Rules of the Auditor General

Year Ended September 30, 2023

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Baptist Health System, Inc. and Subsidiaries

Schedule of Expenditures of State Financial Assistance Projects

Year Ended September 30, 2023

State Agency/ State Project or Cluster Title/ Pass-Through Entity	CSFA Number	Contract/Grant Number/Pass-Through Entity Identifying Number	Expenditures
<b>State of Florida, Department of Health</b>			
Regional Genetics – Direct Award	64.015	COQCC	\$ 509,716
Statewide Public Health Support Services – Contracted Services – Direct Award	64.156	COHCQ	376,084
Trauma Center Financial Support – Direct Award	64.075	TRA36	8,898
Total State of Florida, Department of Health			<u>894,698</u>
Total Expenditures of State Financial Assistance Projects			<u>\$ 894,698</u>

*See accompanying notes.*

# Baptist Health System, Inc. and Subsidiaries

## Notes to Schedule of Expenditures of State Financial Assistance Projects

Year Ended September 30, 2023

### **1. Basis of Presentation**

The accompanying schedule of expenditures of state financial assistance projects (the Schedule) includes the state financial assistance project activity of Baptist Health System, Inc. and Subsidiaries (the System) under programs of the state government for the year ended September 30, 2023. The information in the Schedule is presented in accordance with the requirements of the Florida Single Audit Act (Section 215.97, *Florida Statutes*), and the State of Florida Department of Financial Services, Chapter 691-5, *Florida Administrative Code, State Financial Assistance*, and Chapter 10.650, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the System.

### **2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Chapter 10.650, Rules of the Auditor General.



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## Report of Independent Auditors on Compliance for Each Major State Program; Report on Internal Control Over Compliance Required by the Chapter 10.650, Rules of the Auditor General; and Report on Schedule of Expenditures of State Financial Assistance Projects

Management and the Board of Directors  
Baptist Health System, Inc. and Subsidiaries

### **Report of Independent Auditors on Compliance for Each Major State Program**

#### ***Opinion on Each Major State Program***

We have audited Baptist Health System, Inc. and Subsidiaries' (the System) compliance with the types of compliance requirements identified as subject to audit in the Florida Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of the System's major state programs for the year ended September 30, 2023.

The System's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended September 30, 2023.

#### ***Basis for Opinion on Each Major State Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and Chapter 10.650, *Rules of the Auditor General* (Chapter 10.650). Our responsibilities under those standards and Chapter 10.650 are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the System 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 on compliance for each major state program. Our audit does not provide a legal determination of the System's compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the System's state programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the System's compliance based on our audit. 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, *Government Auditing Standards*, and Chapter 10.650 will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the System's compliance with the requirements of each major state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and Chapter 10.650, *Rules of the Auditor General*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Chapter 10.650, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance related to CSFA number 64.015, Regional Genetics, related to the reporting requirement, described in the accompanying schedule of findings and questioned costs as Finding No. 2024-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on the System's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of State Financial Assistance Projects**

We have audited the financial statements of the System as of and for the year ended September 30, 2023, and have issued our report thereon dated January 19, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance projects is presented for purposes of additional analysis as required by the Chapter 10.650, Rules of the Auditor General, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance projects is fairly stated in all material respects in relation to the financial statements as a whole.

*Ernst + Young LLP*

June 25, 2024



Baptist Health System, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2023

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

       Yes        X   No

Significant deficiency(ies) identified?

       Yes        X   No

Noncompliance material to financial statements noted?

       Yes        X   No

**State Awards**

Internal control over major state programs:

Material weakness(es) identified?

       Yes        X   No

Significant deficiency(ies) identified?

  X   Yes             None reported

Type of auditor’s report issued on compliance for major state programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.650, Rules of the Auditor General?

  X   yes             No

Identification of major State programs:

**Assistance Listing number**

**Name of State program or cluster**

64.015

Regional Genetics

64.156

Statewide Public Health Support Services – Contracted Services

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Baptist Health System, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs (continued)

**Section II – Financial Statement Findings**

None noted

**Section III – State Award Findings and Questioned Costs**

**Finding No. 2024-001 – Reporting – Significant Deficiency in Internal Control Over Compliance**

*Identification of the program:*

**Grantor:** State of Florida Department of Health

**Assistance Listing No.:** 64.015 – Regional Genetics

**Pass-Through Award Numbers:** Not applicable

**Period of Performance:** 10/1/2022 – 9/30/2023

*Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):*

Florida code Section 216.011(1)(qq) states the following “The requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards are hereby incorporated by reference in this rule”

Section 200.303 of the Uniform Guidance states the following regarding internal control: “The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

*Condition:*

Pursuant to the grant agreement, Baptist is required to report quarterly on the number of patients served under the grant. During our testing, we noted several instances where patients served were included in the incorrect quarterly reporting period, including at the beginning and end of the System’s fiscal year. This did not impact funding as the System more than met the minimum required patients served necessary for funding.

Baptist Health System, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs (continued)

**Section III – State Award Findings and Questioned Costs (continued)**

*Cause:*

Controls are not in place to review the patient service dates included in such quarterly reports.

*Questioned costs:*

None.

*Context:*

During our testing of patient eligibility, we obtained a population list of patients served throughout the fiscal year. Based on review of this list, we noted 143 patient service dates out of 1586 patients served were outside of the System's fiscal year and therefore included in the incorrect quarterly report for the year. As a result, we expanded our testing around patient served data to include the first quarter of the subsequent fiscal year and also noted 162 patients out of 438 patients served were improperly excluded from the 2023 fiscal year. We noted this did not impact compliance or funding.

*Effect or potential effect:*

As a result of the above condition, inaccurate patient data is being reported to the state. This could result in potential inaccurate funding being received if the patient served data is significantly misstated.

*Identification as a repeat finding, if applicable:*

N/A

*Recommendation:*

Management should ensure that controls are implemented to review the accuracy of patient data, specifically service dates, to ensure patient information included in quarterly reports is accurate and complete.

*Views of responsible officials:*

Management concurs with this finding. See management's separate Corrective Action Plan.

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## Current Year Audit Findings Corrective Action Plan

September 30, 2023

### State Award Findings and Questioned Costs – For the Year Ended September 30, 2023

#### Finding 2024-001 (Reporting – Significant Deficiency in Internal Control Over Compliance)

*Information on the program:*

**Grantor:** State of Florida Department of Health  
**Assistance Listing No.:** 64.015 – Regional Genetics  
**Pass-Through Award Number:** Not Applicable  
**Award Period:** 10/1/2022-9/30/2023

*Views of responsible officials and planned corrective actions:*

Internal controls over the review of reporting of patients served will be reviewed to ensure that controls are designed effectively and that the patients included in each quarterly report were served during that period.

*Responsible Officials:* Thabata Ford, Vice President, Wolfson Children's Hospital; Allegra Jaros, President, Wolfson Children's Hospital

*Anticipated Completion Date:* July 31, 2024

AUDITED CONSOLIDATED FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION, AND REPORTS AND  
SCHEDULE REQUIRED BY THE UNIFORM GUIDANCE

Baptist Health System, Inc. and Subsidiaries  
Years Ended September 30, 2023 and 2022  
With Report of Independent Auditors

Ernst & Young LLP



Baptist Health System, Inc. and Subsidiaries

Audited Consolidated Financial Statements, Supplementary Information, and  
Reports and Schedule Required by the Uniform Guidance

Year Ended September 30, 2023 and 2022

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## Report of Independent Auditors

The Board of Directors  
Baptist Health System, Inc. and Subsidiaries

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the consolidated financial statements of Baptist Health System, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System at September 30, 2023 and 2022, and the changes in their net assets and their 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 audits 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 the System, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 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 financial statements that are free of material misstatement, whether due to fraud or error.



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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of 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 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 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 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 System'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

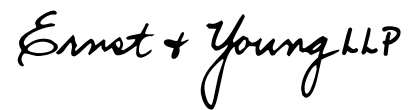
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to January 19, 2024. The *Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 19, 2024 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



January 19, 2024, except for our report  
on the Schedule of Expenditures of Federal  
Awards, for which the date is June 25, 2024

Baptist Health System, Inc. and Subsidiaries

Consolidated Balance Sheets  
(In Thousands)

	September 30	
	2023	2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 284,203	\$ 201,140
Accounts receivable, net	401,665	431,781
Inventories	36,691	36,763
Prepaid expenses and other current assets	165,132	121,541
Estimated third-party receivables	25,615	26,948
Current portion of assets limited as to use	20,724	17,070
Total current assets	<u>934,030</u>	<u>835,243</u>
Assets limited as to use:		
Internally designated for capital improvements, debt service and insurance reserves	1,827,248	1,643,252
Less amounts required to meet current obligations	20,724	17,070
	<u>1,806,524</u>	<u>1,626,182</u>
Property, plant, and equipment, net	1,880,493	1,819,237
Investments	295,921	272,167
Other assets	420,873	398,184
Total assets	<u>\$ 5,337,841</u>	<u>\$ 4,951,013</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Long-term debt subject to short-term remarketing agreements	\$ 163,095	\$ 172,495
Current portion of long-term debt	10,107	8,687
Accounts payable and accrued liabilities	480,885	501,148
Estimated third-party payables	35,977	18,228
Total current liabilities	<u>690,064</u>	<u>700,558</u>
Long-term debt, net of current portion	930,244	860,039
Other liabilities	331,397	341,831
Total liabilities	<u>1,951,705</u>	<u>1,902,428</u>
Net assets:		
Without restrictions	3,102,088	2,788,233
With donor restrictions	284,048	260,352
Total net assets	<u>3,386,136</u>	<u>3,048,585</u>
Total liabilities and net assets	<u>\$ 5,337,841</u>	<u>\$ 4,951,013</u>

See accompanying notes.

Baptist Health System, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets  
(In Thousands)

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Revenues without donor restrictions and other support:		
Net patient service revenues	<b>\$ 2,704,395</b>	\$ 2,366,608
Other	<b>85,264</b>	102,242
Net assets released from restrictions used for operations	<b>13,662</b>	11,514
Total revenues without donor restrictions and other support	<b>2,803,321</b>	2,480,364
Operating expenses:		
Salaries and benefits	<b>1,445,094</b>	1,361,859
Professional fees	<b>128,146</b>	159,989
Supplies	<b>526,954</b>	465,249
Interest	<b>33,840</b>	21,153
Depreciation and amortization	<b>174,701</b>	157,272
Other expenses	<b>409,985</b>	357,738
Total operating expenses	<b>2,718,720</b>	2,523,260
Income (loss) from operations	<b>84,601</b>	(42,896)
Nonoperating gains and losses:		
Investment income (loss), net	<b>187,678</b>	(200,347)
Other, net	<b>6,484</b>	587
Total nonoperating gains (losses)	<b>194,162</b>	(199,760)
Excess (deficiency) of revenues and gains over expenses and losses	<b>\$ 278,763</b>	\$ (242,656)

*Continued on next page*

Baptist Health System, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)  
(In Thousands)

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Net assets without donor restrictions:		
Excess (deficiency) of revenues and gains over expenses and losses	\$ 278,763	\$ (242,656)
Other changes in net assets without donor restrictions:		
Changes related to pension and executive compensation other than period costs	32,512	70,406
Contributions for the purchase of property, plant, and equipment	130	169
Net assets released from restrictions used for the purchase of property, plant, and equipment	6,014	18,237
Other, including net asset transfers from BHS to BHSF	(3,564)	(7,416)
Increase (decrease) in net assets without donor restrictions	<b>313,855</b>	(161,260)
Net assets with donor restrictions:		
Contributions	13,671	18,767
Investment gain (loss)	26,160	(33,375)
Net assets released from restrictions	(19,676)	(29,751)
Net asset transfers from BHS to BHSF for endowment matching program	3,541	7,418
Increase (decrease) in net assets with donor restrictions	<b>23,696</b>	(36,941)
Increase (decrease) in net assets	<b>337,551</b>	(198,201)
Net assets, beginning of year	<b>3,048,585</b>	3,246,786
Net assets, end of year	<b>\$ 3,386,136</b>	\$ 3,048,585

See accompanying notes.

## Baptist Health System, Inc. and Subsidiaries

### Consolidated Statements of Cash Flows (In Thousands)

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
<b>Operating activities</b>		
Change in net assets	\$ 337,551	\$ (198,201)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	174,701	157,272
Interest, dividends, and net (gains) losses on investments	(187,678)	200,347
Changes related to pension and executive compensation other than period costs	(32,512)	(70,406)
Gain on sale of equipment	(222)	(17)
Contributions for the purchase of property, plant, and equipment	(130)	(169)
Restricted contributions and investment (gains) losses received	(39,831)	14,608
Decrease (increase) in accounts receivable	30,116	(69,523)
Increase in inventories and other current assets	(43,519)	(22,325)
Decrease in accounts payable and accrued liabilities	(13,770)	(5,088)
Decrease (increase) in estimated third-party receivables	1,333	(22,503)
Increase in estimated third-party payables	17,749	7,753
(Decrease) increase in other liabilities	(2,363)	29,736
Net cash provided by operating activities	241,425	21,484
<b>Investing activities</b>		
Proceeds from sales and maturities of assets limited as to use classified as trading	434,331	422,266
Purchases of assets limited as to use classified as trading	(428,727)	(292,781)
Proceeds from sales and maturities of investments classified as trading	41,740	46,488
Purchases of investments classified as trading	(41,740)	(54,488)
Purchases of property, plant, and equipment	(219,661)	(296,159)
Increase in other assets	(36,108)	(98,528)
Net cash used in investing activities	(250,165)	(273,202)

*Continued on next page*

Baptist Health System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(In Thousands)

	September 30	
	2023	2022
<b>Financing activities</b>		
Proceeds from short-term borrowings	\$ 50,000	\$ –
Repayments of short-term borrowings	(50,000)	–
Issuance of long-term debt	82,000	77,000
Repayments of long-term debt	(18,087)	(18,149)
Payments of debt issuance costs	(136)	(472)
Contributions for the purchase of property, plant, and equipment	130	169
Restricted contributions and investment gains (losses) received	39,831	(14,608)
Net cash provided by financing activities	<u>103,738</u>	<u>43,940</u>
Net increase (decrease) in cash and cash equivalents, restricted cash, and restricted cash equivalents	94,998	(207,778)
Cash and cash equivalents, restricted cash, and restricted cash equivalents, beginning of year	373,187	580,965
Cash and cash equivalents, restricted cash, and restricted cash equivalents, end of year	<u>\$ 468,185</u>	<u>\$ 373,187</u>
<b>Supplemental disclosure of cash and cash equivalents, restricted cash, and restricted cash equivalents</b>		
Cash and cash equivalents	\$ 284,203	\$ 201,140
Assets limited as to use: cash and cash equivalents	183,982	172,047
	<u>\$ 468,185</u>	<u>\$ 373,187</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	<u>\$ 35,516</u>	<u>\$ 27,677</u>
Property, plant, and equipment purchases on account	<u>\$ 8,523</u>	<u>\$ 15,016</u>

See accompanying notes.

# Baptist Health System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Dollars in Thousands)

September 30, 2023

### 1. Organization and Mission

Baptist Health System, Inc. (BHS, Inc. or the Parent) is a tax-exempt parent holding company located in Jacksonville, Florida, whose primary purpose is to direct the affairs of a multi-entity health care system (BHS), which includes the following subsidiaries:

- Southern Baptist Hospital of Florida, Inc. (SBHF) – a tax-exempt organization that operates three acute care hospitals, Baptist Medical Center – Jacksonville (BMCJ), Baptist Medical Center – South (BMCS), and Baptist Medical Center – Clay (BMCC); one children’s hospital, Wolfson Children’s Hospital (WCH); and three emergency care centers, Baptist Emergency Center Town Center (BMTC), Baptist Emergency Center North (BECN) and Baptist Emergency Center Oakleaf (BECO). BMCC was a freestanding emergency center until it began providing inpatient services on December 19, 2022. The four hospitals have 513, 357, 102, and 257 licensed beds, respectively.
- Baptist Medical Center of the Beaches, Inc. (BMCB) – a tax-exempt, 146-bed acute care hospital
- Baptist Medical Center of Nassau, Inc. (BMCN) – a tax-exempt, 62-bed acute care hospital
- Baptist Health Properties, Inc. (BHP) – a tax-exempt real estate holding company
- Baptist Health Ambulatory Services, Inc. (ASI) – a tax-exempt entity that engages in healthcare research activities
- Pavilion Health Services, Inc. (PHS) – a taxable entity that provides various health care and related support services such as retail pharmaceutical services, home infusion services, and primary care services
- Baptist Physician Partners, LLC (BPP) – is a non-taxable, disregarded entity whose sole member is Baptist Health System, Inc., a tax-exempt parent organization. BPP operates a clinically-integrated network intended to achieve improvements in healthcare quality and efficiency in the Northeast Florida community
- Baptist Health System Foundation, Inc. (BHSF) – a public foundation with the primary purpose of raising funds to support the activities of the tax-exempt members of BHS



# Baptist Health System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **1. Organization and Mission (continued)**

SBHF, BMCB, and BMCN are collectively referred to as the Medical Centers. The Parent is the sole member or owner of each of the above affiliates and controls the multi-entity structure through appointment by the Board of Directors (the Board) and approval of all major transactions.

BHS and Southeast Georgia Health System formed a regional affiliation called Coastal Community Health, Inc. This affiliation is a strategic alliance for the future of these health care systems and will significantly benefit the surrounding communities. The entities operate independently under their respective brand names and, additionally, collaborate in substantial ways on initiatives that are designed to improve quality, enhance care, and gain efficiencies.

Effective May 1, 2015, BHS entered into an agreement with MD Anderson Physicians Network to replicate MD Anderson's proven model of care and develop a comprehensive cancer program, serving the Southeast region of the country. MD Anderson, based in Houston, Texas, is one of the world's largest cancer and research centers. The Baptist MD Anderson Cancer Center provides adult patients and their families with access to treatment protocols and treatment options offered by MD Anderson. MD Anderson provides Baptist with clinical support services including clinical guidelines, protocols, policies, plans, requirements, and procedures in compliance with MD Anderson standards and practices. MD Anderson also provides clinical oversight and management of the Program in accordance with MD Anderson standards and practices and in consultation with Baptist's physician oncology leadership.

### **Operating and Nonoperating Activities**

BHS's primary mission is to meet the health care needs in the region through an integrated network of affiliated organizations. BHS's affiliated organizations are committed to providing a broad range of general and specialized health care services, including inpatient primary care, outpatient services, and other health care services. Activities directly associated with the furtherance of this purpose are considered operating activities. Other activities that result in gains or losses unrelated to BHS's primary mission are considered nonoperating activities.

# Baptist Health System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 1. Organization and Mission (continued)

#### Charity Care

BHS accepts patients regardless of their ability to pay. A patient is classified as a charity patient in accordance with certain established policies of BHS. Because BHS does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. BHS maintains records to identify and monitor the level of charity care it provides. The records include the amount of charges forgone for services and supplies furnished under its charity care policy and the estimated cost incurred to provide those services and supplies. BHS estimates its cost of charity care using its cost accounting system to determine the cost-to-charge ratio for charity patients. The estimated cost of care provided to charity patients was \$39,541 and \$44,377 for the years ended September 30, 2023 and 2022, respectively.

### 2. Significant Accounting Policies

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Parent, SBHF, BMCB, BMCN, BHP, ASI, PHS, BPP, and BHSF. Transactions between entities have been eliminated.

#### Use of Estimates

Management has made estimates that affect the reported amounts of certain assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

Cash and cash equivalents include amounts deposited in operating accounts and cash invested in highly liquid instruments, with a maturity of three months or less when acquired.

#### Concentrations of Credit Risk

Financial instruments that potentially subject BHS to concentrations of credit risk consist principally of cash and cash equivalents and derivatives. BHS invests its cash in credit instruments of highly rated financial institutions. Four institutions hold 100% of the total cash and cash

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies (continued)**

equivalents as of September 30, 2023 and 2022. BHS maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. BHS has not experienced any issues in such accounts. BHS does not believe it is subject to any significant credit risks on cash and cash equivalents.

#### **Assets Limited as to Use**

Assets limited as to use primarily include assets held by a trustee which have been set aside by the Board for future capital improvements, debt service, and insurance reserves, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current malpractice and workers' compensation liabilities of BHS are reported as current assets.

#### **Investments and Investment Income**

Investment securities, excluding alternative investments accounted for under the equity method, are recorded at fair value. Investment income (including realized gains and losses on investments) is included in nonoperating gains (losses) unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in the excess of revenues and gains over expenses and losses.

As part of its investment strategy, BHS invests in alternative investments (real estate). The redemption ability of the alternative investments is quarterly with a 95-day pre-notification. BHS accounts for its ownership interest in the alternative investments under the equity method, which approximates fair value as determined by the net asset value (NAV). Accordingly, BHS's share of the investment's income or loss, both realized and unrealized, is recognized as investment return, which is a component of excess of revenue and gains over expenses and losses. Alternative investments accounted for using the equity method totaled \$210,502 and \$154,999 at September 30, 2023 and 2022, respectively. Of these amounts, \$163,154 and \$111,383 were classified as investments within the assets limited as to use category as of September 30, 2023 and 2022, respectively, and \$47,348 and \$43,616 were classified as long-term investments in the accompanying consolidated balance sheets as of September 30, 2023 and 2022, respectively.

# Baptist Health System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

### 2. Significant Accounting Policies (continued)

#### Property, Plant, and Equipment

Property, plant, and equipment are stated at cost or, if donated, at fair value at the date of the gift. Depreciation is determined on the straight-line method over the estimated useful lives of the related assets. As of September 30, 2023, BHS had open construction commitments totaling \$51,421.

#### Deferred Compensation

PHS participates in the Pavilion Health Services, Inc. Nonqualified Deferred Compensation Plan (the PHS Plan). The purpose of the PHS Plan is to retain quality personnel by allowing them to defer compensation to a later date or upon their death or disability. The PHS Plan assets are equal to the PHS Plan liabilities and were \$174,877 and \$152,292 at September 30, 2023 and 2022, respectively.

#### Excess of Revenues and Gains over Expenses and Losses

The accompanying consolidated statements of operations and changes in net assets include excess of revenues and gains over expenses and losses. Changes in net assets without donor restrictions, which are excluded from the excess of revenues and gains over expenses and losses, consistent with industry practice, include changes related to pension and executive compensation other than period costs, contributions of long-lived assets including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets, and matching contributions from the Parent for the endowment matching program.

#### Recent Accounting Pronouncements

In August 2023, the FASB issued ASU 2023-05, *Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*. The update requires an entity that qualifies as either a joint venture or a corporate joint venture as defined in the FASB Accounting Standards Codification (ASC) master glossary is required to apply a new basis of accounting upon the formation of the joint venture. Specifically, the ASU provides that a joint venture or a corporate joint venture must initially measure its assets and liabilities at fair value on the formation date. The amendments in this update are effective for joint ventures with a formation date on or after January 1, 2025, and joint ventures with a formation date prior to January 1, 2025, have an option to elect to apply the guidance retrospectively. BHS is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 2. Significant Accounting Policies (continued)

In June 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The amendments in this update clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments in this Update also require the following disclosures for equity securities subject to contractual sale restrictions: 1) the fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet, 2) The nature and remaining duration of the restriction(s) and 3) The circumstances that could cause a lapse in the restriction(s). For a not-for-profit entity that is a conduit bond obligor, the amendments in this update are effective for fiscal years beginning after December 15, 2024. BHS is currently evaluating the impact of adopting the remainder of the new guidance on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-03, *Codification Improvements to Financial Instruments*. The amendments in this update represent changes to clarify or improve the Codification. The amendments make the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. The seven issues addressed within this amendment are as follows: 1) Fair Value Option Disclosures, 2) Applicability of Portfolio Exception in Topic 820 to Nonfinancial Items, 3) Disclosures for Depository and Lending Institutions, 4) Cross-Reference to Line of Credit or Revolving Debt Arrangements Guidance in Subtopic 470-50, 5) Cross Reference to Net Asset Value Practical Expedient in Subtopic 820-10, 6) Interaction of Topic 842 and Topic 326, and 7) Interaction of Topic 326 and Subtopic 860-20. Issues 1, 2, 4, and 5 are conforming amendments effective upon issuance of this update, March 9, 2020. Issue 3 is a conforming amendment affecting guidance in ASU 2019-04. The effective date for the amendments in ASU 2019-04 is fiscal years beginning after December 15, 2019 including interim periods within those fiscal years. Issue 6 and 7 affect the guidance in the amendments of ASU 2016-13. The effective date for the amendments in ASU 2016-13 for a not-for-profit entity that is a conduit bond obligor is for fiscal years beginning after December 15, 2022. Adoption of issues 1, 2, 4, and 5 resulted in no material impact to BHS's consolidated financial statements. BHS is currently evaluating the impact of adopting the remainder of this new guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The objective of this update is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and

# Baptist Health System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **2. Significant Accounting Policies (continued)**

other financial assets in scope. For trade receivables, loans, and held-to-maturity debt securities, entities will be required to estimate lifetime expected credit losses, resulting in the earlier recognition of credit losses. For available-for-sale debt securities, entities will be required to recognize an allowance for credit losses rather than a reduction to the carrying value of the asset. In addition, entities will have to make significantly more disclosures, including disclosures by year of origination for certain financing receivables. In November 2019, the FASB issued 2019-10, which extended the effective date for ASU 2016-13. For a not-for-profit entity that is a conduit bond obligor, the amendments in this update are effective for fiscal years beginning after December 15, 2022. BHS is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

#### **Net Patient Service Revenue**

Net patient service revenue is reported at the amount that reflects the consideration to which BHS expects to be entitled in exchange for providing patient care. The transaction price, which involves significant estimates, is determined based on the BHS's standard charges for the goods and services provided, with a reduction recorded for contractual price concessions related to third party contractual arrangements as well as patient discounts and implicit patient price concessions. Patient service revenue includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations.

Patients and third-party payors for primary care, specialty physician visits and out-patient treatment are billed as services are performed, and upon discharge for in-patient treatment. Billing for home health care treatment is upon conclusion of treatment or at the end of each month for treatments in progress. The services BHS provide to the patients are comprised of a series of inputs or treatments to a single performance obligation and have a duration of less than one year. Because patient service performance obligations relate to contracts with a duration of less than one year, and the obligations to the patient are a series of treatments for a single performance obligation, BHS is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

Revenue is recognized as performance obligations are satisfied, which is generally at discharge for in-patient stays, or at the conclusion of a visit to an outpatient emergency facility, primary care facility or specialty physician. For in-patient treatment or home health care in progress at the end

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 2. Significant Accounting Policies (continued)

of any reporting period, revenue is recognized for performance obligations satisfied over time based on actual standard charges incurred and at the estimated collection rate based on the patient type, considering contractual adjustments, patient discounts and implicit price discounts. This method provides a measured depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligation.

The transaction price is determined based on standard gross charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to patients, and implicit price concessions provided primarily to uninsured patients. Estimates of contractual adjustments, discounts and implicit price concessions are based on contractual agreements, discount policies and historical collection experience within classes of patients having similar characteristics using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Historical collection rates are updated at least quarterly. The financial statement effects of using this portfolio approach practical expedient are not materially different from an individual contract approach. Estimates are based on historical collection information, revised periodically, therefore revenue is constrained to amounts expected to be collected.

The table below shows the sources of net patient service revenue:

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
Third-party payors, net of implicit and explicit price concessions	<b>\$ 2,675,007</b>	\$ 2,358,304
Self-pay patients, net of implicit and explicit price concessions	<b>29,388</b>	8,304
	<b><u>\$ 2,704,395</u></b>	<u>\$ 2,366,608</u>

#### Accounts Receivable and Estimated Net Third-Party Settlements

Patient accounts receivable, including billed accounts and unbilled accounts for which BHS has the unconditional right to payment, and estimated amounts due from third-party payors for retroactive adjustments, are receivables if our right to consideration is unconditional and only the passage of time is required before payment of that consideration is due.

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies (continued)**

Significant concentrations of patient accounts receivable due from payors, net of explicit price concessions at September 30, 2023 and 2022, respectively, include 26% and 29% from the Medicare program, 8% and 10% from state Medicaid programs, 64% and 60% in each year from contracts with other third parties, and 2% and 3% from self-pay patients. BHS grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

During the years ended September 30, 2023 and 2022, approximately 28% and 29% of net patient service revenues were received under the Medicare program, 11% and 9% under state Medicaid programs, 60% and 62% from contracts with other third parties, and less than 1% from self-pay patients, respectively. In addition, \$952,827 and \$889,308 of net patient service revenues were derived from two third-party payors during the years ended September 30, 2023 and 2022, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on BHS.

BHS is subject to retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis as to whether recorded revenue is constrained. Such amounts are adjusted in future periods as additional information is obtained, and as the periods become no longer subject to the audits, reviews and investigations. For the years ended September 30, 2023 and 2022, net patient service revenues increased by \$7,267 and \$36,653, respectively, due to changes in estimates in prior year estimates.

#### **Directed Payment Program**

BHS was approved to participate in Florida's Medicaid Directed Payment Program (DPP) for the years ended September 30, 2023 and 2022. The DPP program is designed to offset eligible hospitals' Medicaid uncompensated care. Under this program, local providers pay an assessment to a Local Provider Participation Fund (LPPF), a locally administered fund used to help fund the non-Federal share of supplemental payments for local providers. For the years ended



## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

#### **2. Significant Accounting Policies (continued)**

September 30, 2023 and 2022, BHS accrued the LPPF tax assessment totaling \$25,766 and \$15,013 in accounts payable and accrued liabilities. BHS recorded net patient service revenue totaling \$96,626 and \$46,723 for the increased reimbursements and the related receivables are included in prepaid expenses and other current assets as of September 30, 2023 and 2022.

#### **Trade Receivables**

Trade accounts receivable have both a contractual maturity of one year or less and arise from the sale of goods or services. Accounts are reviewed monthly and deemed uncollectible after 365 days and subsequently written off.

#### **Inventories**

Inventories are stated at lower of cost (principally determined by the weighted-average method) or market.

#### **Income Taxes**

The Parent, SBHF, BMCB, BMCN, BHP, ASI, and BHSF are not-for-profit corporations and are exempt from federal income taxes under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and are exempt from state income taxes pursuant to Florida Statute Chapter 220.13. PHS is a taxable corporation and files federal, Florida, Georgia, Alabama, and South Carolina income tax returns. Tax periods open to examination by taxing jurisdictions to which PHS is subject include fiscal years ended September 30, 2020 through September 30, 2022. Tax-related interest and penalties are included in other expenses on the accompanying consolidated statements of operations and changes in net assets. Income taxes related to PHS are not material to BHS.

With respect to its for-profit entity, as well as any unrelated business income generated at the tax-exempt entities, BHS records income taxes using the liability method, under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate expected to apply to taxable income in the period that the deferred tax asset or liability is expected to be realized or to be settled.

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies (continued)**

##### **Loan Issue Costs**

The costs incurred in connection with the issuance of the various Hospital Revenue Bonds (see Note 9) are being amortized over the term of the related indebtedness on the effective interest method. Debt issuance costs related to a recognized liability are presented in the consolidated balance sheets as a direct deduction from the carrying amount of the debt liability.

##### **Goodwill and Other Intangible Assets**

Goodwill and other intangible assets, included in other assets, consist principally of cost in excess of the net book value of purchased businesses, internally developed software, medical records, and purchased provider contracts and treatment protocols. Goodwill is not amortized; a triggering event assessment is performed at the end of each reporting period in accordance with the private company accounting alternative for goodwill impairment provided by ASC 350-20. BHS uses projections of future discounted cash flows and other procedures to determine whether the entity's estimated fair value is less than its carrying amount and, if so, BHS recognizes an impairment loss based on the excess of the carrying amount of the goodwill over its fair value for its single reporting unit. No impairment losses were recognized related to goodwill for the years ended September 30, 2023 or 2022.

Intangible assets with a finite useful life are amortized on a straight-line basis over their useful life. Intangible assets with an indefinite life are tested annually for impairment or more frequently if impairment indicators arise.

##### **Donor-Restricted Gifts**

Donor-restricted gifts and endowments are reported as donor-restricted contributions if they are received with donor stipulations that limit the use of the donated assets or are subject to time restrictions. BHSF's policy provides for the establishment of endowments by donors who wish to provide a permanent source of funding for equipment, operations, and charity care at BHS affiliates. The policy provides for investment of endowment gifts by BHSF for long-term growth of the endowment and limits the amount to be disbursed annually from these investment earnings. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) donor restricted net assets are reclassified as net assets without donor

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**2. Significant Accounting Policies (continued)**

restrictions and reported in the accompanying consolidated statements of operations and changes in net assets as released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

BHS participates in an endowment matching program in which it matches donor contributions to endowments on a tiered basis. Of the net assets transferred, the matching contributions transferred from BHS net assets without donor restrictions to BHSF net assets with donor restrictions for the years ended September 30, 2023 and 2022, are \$3,541 and \$7,418, respectively. The amounts transferred by BHS for matching contributions are net assets with donor restrictions as required to match external donor amounts as outlined in the donors' contribution agreements.

**Net Assets With Donor Restrictions**

Net assets with donor restrictions are those whose use by BHS has been limited by donors for a specific time period or purpose. This category also includes net assets restricted by donors to provide a permanent source of investment income for the operations of the Medical Centers' adult and children's hospital divisions. Net assets with donor restrictions are available for the following purposes or periods:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Hospital programs	\$ 207,966	\$ 184,078
Property and equipment	18,274	21,324
Education and research	27,798	27,661
Community Outreach	14,668	13,098
Other program services	15,297	14,151
Future time periods	45	40
	<u>\$ 284,048</u>	<u>\$ 260,352</u>

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**3. Investments and Assets Limited as to Use**

**Assets Limited as to Use**

The composition of assets limited as to use is presented below:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Internally designated for capital improvements and insurance reserves:		
Cash and cash equivalents	\$ 183,982	\$ 172,047
Equity mutual funds:		
Domestic	341,846	352,144
International	476,057	489,179
Fixed-income mutual funds:		
Domestic	587,178	445,289
International	73,301	72,161
Interest receivable	1,730	1,049
Alternative investment – real estate	163,154	111,383
	<u>\$ 1,827,248</u>	<u>\$ 1,643,252</u>

Investment return is summarized as follows:

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
Interest, dividends, and realized gains	\$ 126,039	\$ 263,336
Net unrealized gains (losses) on investments reported at fair value	87,824	(497,092)
Total investment return (loss)	<u>\$ 213,863</u>	<u>\$ (233,756)</u>
Included in nonoperating gains (losses)	\$ 187,678	\$ (200,347)
Reported separately as increase (decrease) in restricted net assets	26,160	(33,375)
Other	25	(34)
Total investment return (loss)	<u>\$ 213,863</u>	<u>\$ (233,756)</u>

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**3. Investments and Assets Limited as to Use (continued)**

The amount of net unrealized losses for investments and assets limited as to use still held as of September 30, 2023, is \$112,130.

Investments include the following:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Equity mutual funds:		
Domestic	\$ 79,479	\$ 75,945
International	70,617	65,192
Fixed-income mutual funds:		
Domestic	72,430	57,231
International	11,875	9,195
Interest receivable	240	152
Equity securities – domestic	13,932	20,836
Alternative investments	47,348	43,616
	<u>\$ 295,921</u>	<u>\$ 272,167</u>

**4. Liquidity and Available Resources**

As part of BHS’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Primary cash requirements are paying operating expenses, servicing debt, and capital expenditures related to the expansion and renovation of existing facilities. Cash in excess of near-term working capital needs is invested as described in Notes 2 and 3. Primary cash sources are cash flows from operating and investing activities. Additionally, BHS has access to public debt markets, as described in Note 9.

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**4. Liquidity and Available Resources (continued)**

BHS's financial assets available within one year of the balance sheet date for general expenditure are as follows:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 284,203	\$ 201,140
Accounts receivable, net	401,665	431,781
Pledges receivable, net	640	4,249
Investments and assets limited as to use	<u>2,123,169</u>	<u>1,915,419</u>
	<b>2,809,677</b>	<b>2,552,589</b>
Less restricted investments, insurance reserves, and bond escrow	<u>(346,860)</u>	<u>(308,573)</u>
	<b><u>\$ 2,462,817</u></b>	<b><u>\$ 2,244,016</u></b>

**5. Property, Plant, and Equipment**

BHS had property, plant, and equipment less accumulated depreciation as follows:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Land and improvements	\$ 152,611	\$ 148,822
Building and equipment	<u>3,404,263</u>	<u>3,059,568</u>
	<b>3,556,874</b>	<b>3,208,390</b>
Less accumulated depreciation	<u>(1,779,106)</u>	<u>(1,633,733)</u>
	<b>1,777,768</b>	<b>1,574,657</b>
Construction-in-progress	<u>102,725</u>	<u>244,580</u>
	<b><u>\$ 1,880,493</u></b>	<b><u>\$ 1,819,237</u></b>

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**6. Other Assets**

Other assets consist of the following:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Long-term pledge receivables	\$ 11,626	\$ 12,736
Goodwill and intangible assets	137,788	136,554
Equity investment in CareSpot	12,435	13,808
Equity investment in BayBap	3,364	3,840
Equity investment in BH/USP Surgery Centers	3,001	2,915
Deferred compensation plan assets	183,638	160,225
Beneficial interest in trust held by others	4,858	3,144
Operating lease asset	41,680	45,865
Other	22,483	19,097
	<b>\$ 420,873</b>	<b>\$ 398,184</b>

**7. Goodwill and Other Intangible Assets**

BHS's intangible assets, included in other assets, are summarized as follows:

	<b>September 30, 2023</b>		
	<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>Intangible assets subject to amortization</b>			
Internally developed software	\$ 247,770	\$ (116,398)	\$ 131,372
Medical records	2,452	(2,451)	1
Noncompete agreements	1,667	1,667	-
Other	3,356	3,356	-
<b>Intangible assets not subject to amortization (indefinite life)</b>			
Goodwill	4,115	-	4,115
Other	2,300	-	2,300
	<b>\$ 261,660</b>	<b>\$ (123,872)</b>	<b>\$ 137,788</b>

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

7. Goodwill and Other Intangible Assets (continued)

	<u>September 30, 2022</u>		
	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
<b>Intangible assets subject to amortization</b>			
Internally developed software	\$ 224,271	\$ (94,142)	\$ 130,129
Medical records	2,452	(2,442)	10
Noncompete agreements	1,667	(1,667)	–
Other	3,356	(3,356)	–
<b>Intangible assets not subject to amortization (indefinite life)</b>			
Goodwill	4,115	–	4,115
Other	2,300	–	2,300
	<u>\$ 238,161</u>	<u>\$ (101,607)</u>	<u>\$ 136,554</u>

Amortization expense related to computer software costs was \$22,256 and \$23,386 for the years ended September 30, 2023 and 2022, respectively. Total amortization expense related to intangible assets was \$22,265 and \$23,396 for the years ended September 30, 2023 and 2022, respectively. The weighted-average amortization period for the amortizable intangible assets is approximately 116 months. Expected amortization expense for the next five years and thereafter is as follows:

2024	\$ 19,252
2025	15,020
2026	11,701
2027	10,854
2028	9,299
Thereafter	65,247
	<u>\$ 131,373</u>

8. Short-term Borrowings

On October 18, 2022, BHS obtained two revolving credit lines with banks totaling \$100,000, maturing October 18, 2023. Outstanding balances on the revolving lines of credit were \$0 at September 30, 2023 and 2022, respectively.



Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**9. Debt Obligations**

BHS was obligated as follows:

	September 30	
	2023	2022
Jacksonville Health Facilities Authority Hospital Revenue Extendable Notes, Series 2007B, due in varying amounts from 2014 through 2023, with a fixed interest rate of 1.83% as of August 15, 2023	\$ —	\$ 825
Jacksonville Health Facilities Authority Hospital Revenue Extendable Notes, Series 2012D, due in varying amounts from 2014 through 2037, with a fixed interest rate of 1.53% as of September 30, 2023	24,000	25,000
Southern Baptist Hospital of Florida, Inc. Taxable Bonds (Baptist Health) Series 2015, due on July 15, 2045, with a fixed interest rate of 4.86%	250,000	250,000
Jacksonville Health Facilities Authority Hospital Revenue Bonds, Series 2017, due in varying amounts from 2023 through 2037, with a fixed interest rate of 5% through 2036 and with a fixed interest rate of 4% during 2037	53,835	55,525
City of Jacksonville, Health Care Facilities Authority Series 2019A, due in varying amounts from 2022 through 2033, with a fixed interest rate of 4% through August 2023 and then a fixed interest rate of 5% through 2033	53,145	55,435
City of Jacksonville, Health Care Facilities Authority Variable Rate Hospital Revenue Refunding Bonds, Series 2019B, Series 2019C, Series 2019D, and Series 2019E, due in varying amounts from Aug 1, 2019 to Aug 1, 2036, (4.5% as of September 30, 2023 and 2.5% as of September 30, 2022)	163,095	172,495
Southern Baptist Hospital of Florida, Inc. Taxable Notes (Baptist Health) Series 2020C, due on March 1, 2030, with a fixed interest rate of 1.80%	125,000	125,000
Southern Baptist Hospital of Florida, Inc. Taxable Notes (Baptist Health) Series 2020D, due on August 15, 2030, with a fixed interest rate of 2.75%	116,529	119,411
City of Jacksonville, Florida Health Care Facilities Revenue Bonds, Series 2021A, due in varying amounts from 2047 through 2050, with a fixed interest rate of 1.84%	50,000	50,000
City of Jacksonville, Florida Health Care Facilities Revenue Bonds, Series 2021B, due in varying amounts from 2047 through 2050, with a fixed interest rate of 1.82%	100,000	100,000

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 9. Debt Obligations (continued)

	September 30	
	2023	2022
City of Jacksonville, Florida Health Care Facilities Revenue Bonds, Series 2022A, due in varying amounts from 2048 through 2051, with a fixed interest rate of 2.83%	\$ 63,000	\$ 63,000
City of Jacksonville, Florida Health Care Facilities Revenue Bonds, Series 2022B, due in varying amounts from 2024 through 2051, with a fixed interest rate of 2.79%	63,000	5,000
City of Jacksonville, Florida Health Care Facilities Revenue Bonds, Series 2022C, due in varying amounts from 2024 through 2051, with a variable interest rate from 2022 through 2024 not to exceed the maximum permitted by United States federal law or Florida law (4.71% as of September 30, 2023 and 2.49% as of September 2022) and with a fixed interest rate of 2.99% from 2024 through 2051	33,000	9,000
Debt obligations before unamortized premium and costs of issuance	1,094,604	1,030,691
Unamortized premium	13,018	14,952
Debt obligations	1,107,622	1,045,643
Less long-term debt subject to short-term remarketing agreements	163,095	172,495
Long-term debt before unamortized issuance costs	944,527	873,148
Less unamortized debt issuance costs	4,176	4,422
Debt including unamortized premium, less unamortized debt issuance costs	940,351	868,726
Less current portion	10,107	8,687
Total long-term debt	\$ 930,244	\$ 860,039

#### Master Trust Indenture

The Medical Centers, BHP, ASI, and BHS, Inc. (the Parent), comprise the Obligated Group and have certain joint and several liabilities under a Master Trust Indenture to make all payments required with respect to obligations under the Master Trust Indenture, which totaled \$1,107,622 at September 30, 2023. The Master Trust Indenture was amended and restated on July 15, 2017 and requires certain covenants and reporting requirements to be met by BHS.

#### Variable-Rate Bonds and Sources of Liquidity

Certain variable-rate bonds have put options that may be exercised at the option of the bondholders. The variable-rate bond indentures generally provide BHS the option to remarket the obligations at the then prevailing market rates for periods ranging from one day to the maturity dates. During

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **9. Debt Obligations (continued)**

fiscal year 2023, the obligations have been marketed closely to the SIFMA index, with rates resetting every seven business days. During fiscal year 2023, actual rates received ranged from a maximum of 4.45%, to a low of 1.66%.

Bond Series 2019B, 2019C, 2019D, and 2019E totaling \$163,095 are classified as long-term debt subject to short-term remarketing agreements in the accompanying consolidated balance sheets. In the event these bonds are not remarketed upon the exercise of the put option or the scheduled mandatory tenders, management would utilize its various sources of liquidity including cash and cash equivalents of \$284,203. In the event any variable rate bonds are put and not remarketed, the funds are available for liquidity and BHS's obligation to the banks would be payable in accordance with the variable-rate bond's original maturities with the remaining amounts due.

#### **Debt Transaction During Year Ending September 30, 2023**

In August 2023, the remaining \$825 outstanding principal amount of the Series 2007B Extendable Note issued as part of \$35,000 Jacksonville Health Facilities Authority Hospital Revenue Bonds was paid off as part of the standard maturity schedule for the Series.

During 2023, the Obligated Group drew down an additional \$58,000 and \$24,000 in tax-exempt City of Jacksonville, Florida Health Care Facilities Revenues Bonds, known as the Series 2022B, and Series 2022C, respectively, as set forth in the draw schedule. Series 2022B is completely drawn as of September 30, 2023. The remaining \$30,000 for Series 2022C was drawn in October 2023.

#### **Debt Transactions During Year Ending September 30, 2022 and Prior**

During July 2022, the Obligated Group issued three \$63,000 tax-exempt City of Jacksonville, Florida Health Care Facilities Revenues Bonds, known as the Series 2022A, Series 2022B, and Series 2022C, respectively. The bonds were authorized as part of an inter-local agreement between the City of Jacksonville, Clay County, St. Johns County and Nassau County, Florida to finance, reimburse, or refinance multiple projects, notably the construction of the Baptist Clay Medical Campus, the Wolfson Children's Hospital Critical Care Tower, and the free standing emergency room facilities in St Johns County and Nassau County. During fiscal year 2022, \$63,000, \$5,000 and \$9,000 were drawn on these issuances for the Series 2022A, Series 2022B, and Series 2022C, respectively.

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **9. Debt Obligations (continued)**

The principal payments for the Series 2022A are due in varying amounts from August 15, 2048 to August 15, 2051. Interest for the Series is due semi-annually each February 15th and August 15th, commencing on August 15, 2022 and is set at an annualized rate of 2.83% as part of the Forward Fixed Rate Lock Agreement. The rate lock agreement is due to expire on July 18, 2034.

The principal payments for the Series 2022B are due in varying amounts from August 15, 2024 to August 15, 2051. Interest for the Series is due semi-annually each February 15th and August 15th, commencing on August 15, 2022 and is set at an annualized rate of 2.79% as part of the Forward Fixed Rate Lock Agreement. The rate lock agreement is due to expire on July 18, 2034.

The principal payments for the Series 2022C are due in varying amounts from August 15, 2024 to August 15, 2051. The bond will bear interest at a monthly term SOFR interest rate until October 1, 2023. At which time, interest for the Series is due semi-annually each February 15 and August 15th, commencing on February 14, 2024 and is set at an annualized rate of 2.99%. At no time will the bonds bear interest at a higher than the maximum rate.

During May 2021, the Obligated Group issued \$50,000 and \$100,000 in tax-exempt City of Jacksonville, Florida Health Care Facilities Revenues Bonds, known as the Series 2021A and Series 2021B, respectively. The bonds were authorized as part of an inter-local agreement between the City of Jacksonville, Florida and Clay County, Florida to finance, reimburse, or refinance multiple projects, notably the construction of the Baptist Clay Medical Campus and the Wolfson Children's Hospital Critical Care Tower. The principal payments for the Series 2021A are due in varying amounts from August 15, 2047 to August 15, 2050. Interest for the Series is due semi-annually each February 15 and August 15, commencing on August 15, 2021 and is set at an annualized rate of 1.84% as part of the Forward Fixed Rate Lock Agreement. The rate lock agreement is due to expire on April 1, 2031.

The principal payments for the Series 2021B are due in varying amounts from August 15, 2047 to August 15, 2050. Interest for the Series is due semi-annually each February 15 and August 15, commencing on August 15, 2021 and is set at an annualized rate of 1.82% as part of the Forward Fixed Rate Lock Agreement. The rate lock agreement is due to expire on April 1, 2031.

As of October 1, 2019, the Obligated Group held six debt instruments with interest rates tied to the LIBOR benchmark. LIBOR was scheduled to sunset during 2021, which prompted the Obligated Group to take proactive measures to transition the terms of these instruments away from

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 9. Debt Obligations (continued)

LIBOR. In December 2019, the Obligated Group paid off Series 2007D, totaling \$21,575. Additionally, the Series 2001 Note and Series 2007B Note were transitioned at this time from variable to fixed rate notes with an annualized interest rate of 1.79% and 1.83%, respectively. In June 2020, the Obligated Group converted the interest rate for Series 2012D from variable to a fixed annualized interest rate of 1.53%. In August 2020, the Obligated Group paid off Series 2007C and Series 2007E totaling \$21,575 and \$10,975, respectively.

In addition to taking proactive measures to transition existing debt in anticipation of the LIBOR sunset, the Obligated Group completed two 10 year taxable fixed rate bank held borrowings notes during the year ending September 30, 2020 as part of a previously set 5 year capital planning goal. In April 2020, the Obligated Group obtained a \$125,000 taxable note bearing an annual interest rate of 1.80%, due monthly, with the principal due in a lump-sum payment on March 1, 2030. In May 2020, the Obligated Group obtained a \$125,000 taxable note bearing an annual interest rate of 2.75% with semi-annual payments beginning February 15, 2021 and a maturity of August 15, 2030.

During April 2019, the Obligated Group issued \$57,610 of non-taxable bonds with an original issue premium of \$12,395 for the purpose of refunding the \$70,000 of the outstanding Jacksonville Health Facilities Authority Hospital Revenue Bonds Series 2003A. The principal payments of the Series 2019A Bonds were due beginning August 15, 2022. Interest was initially payable on August 15, 2019 and semiannually on each February 15 and August 15 thereafter. The Series 2019A Bonds bear interest at a fixed bank rate of 4% through August 15, 2023 on the principal and 5% thereafter.

During April 2019, the Obligated Group issued \$197,910 of non-taxable bonds variable rate bonds for the purpose of refunding Jacksonville Health Facilities Authority Hospital Revenue Bonds. The series refunded include Series 2003B, 2003C, 2004, 2010A, 2010B, 2010C, 2012A, and 2012B. The new issues include Series 2019B, issuance of \$50,000; Series 2019C issuance of \$48,955; Series 2019D issuance of \$50,000 and 2019E issuance of \$48,955. The principal payments of the Series 2019B, 2019C, 2019D, and 2019E were due in annual installments beginning Aug 1, 2019, with monthly interest payments. The terms of the variable rate bonds are divided into consecutive interest rate periods during each of which each series of variable rate bonds will bear interest at a weekly interest rate. The rate of interest on a series of the bonds will be determined by the remarketing agent pursuant to the Trust Indenture and the related Remarketing Agreement. At no time will the bonds bear interest at a higher than the maximum rate.

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**9. Debt Obligations (continued)**

During August 2017, the Obligated Group issued \$55,525 of non-taxable bonds with an original issue premium of \$9,476 for the purpose of refunding \$65,000 of the outstanding Jacksonville Health Facilities Authority Hospital Revenue Bonds Series 2007A. The principal payments of the Series 2017 Bonds will mature on August 15, 2037, with semi-annual interest payments beginning August 15, 2023. The Series 2017 Bonds bear interest at a fixed bank rate of 5% on the principal amount of \$50,345 and 4% on the principal amount of \$5,180.

During June 2015, the Obligated Group issued \$250,000 of taxable bonds. The proceeds of the 2015 bonds were used to finance capital expansion at the BMCS and BMCJ campuses. The principal payment of the Series 2015 Bonds is due on July 15, 2045, with semi-annual interest payments beginning January 15, 2016.

During March 2012, the Obligated Group issued Series 2012D Jacksonville Health Facilities Authority Hospital Revenue Extendable Notes at \$40,000. The proceeds of the Series 2012 Notes were used to finance capital expenditures for planning, developing, constructing, and equipping SBHF and BMCB. Principal payments of the Series 2012D Notes are due in varying amounts from August 15, 2014 to August 15, 2037.

Maturities of debt obligations as of September 30, 2023, are as follows:

	<b>Amount</b>
Year ending September 30:	
2024 (includes \$9,615 subject to short-term remarketing arrangements)	\$ 19,722
2025	20,334
2026	20,913
2027	21,570
2028	30,334
Thereafter	981,731
Unamortized bond premium	13,018
	<u>\$ 1,107,622</u>

Long-term debt subject to short-term remarketing agreements are included in the maturity schedule above. Certain variable-rate bonds have put options that may be exercised at the option of the bondholders. Due to the ability of the bondholders of the Series 2019B, Series 2019C, Series

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 9. Debt Obligations (continued)

2019D, and Series 2019E to put the bonds to the Obligated Group, these bonds are classified as long-term debt subject to short-term remarketing agreements on the consolidated balance sheets despite having scheduled maturity dates in the future.

The scheduled maturities of the long-term debt subject to short-term remarketing agreements are as follows:

Year ending September 30:	
2024	\$ 9,615
2025	9,845
2026	10,050
2027	10,295
2028	14,095
Thereafter	109,195
	<u>\$ 163,095</u>

#### 10. Fair Value of Financial Instruments

In accordance with ASC 820, *Fair Value Measurement*, assets and liabilities recorded at fair value in the consolidated financial statements are categorized, for disclosure purposes, based upon whether the inputs used to determine their fair values are observable or unobservable. More specifically, ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure assets and liabilities at fair value. Investments that are valued using NAV as a practical expedient are excluded from this three-tier hierarchy. For all other investments measured at fair value, the hierarchy prioritizes the inputs used to measure fair value, with the highest priority given to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level inputs, as defined by ASC 820, are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that BHS has the ability to access on the reporting date.

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**10. Fair Value of Financial Instruments (continued)**

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specific (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 assets and liabilities are valued using a market approach.

Level 3 – Inputs that are unobservable for the asset or liability.

The following tables summarize fair value measurements, by level, at September 30, 2023 and 2022, which are measured on a recurring basis in the accompanying consolidated balance sheets:

	<b>September 30, 2023</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Assets limited as to use:				
Cash and cash equivalents	\$ 183,982	\$ –	\$ –	\$ 183,982
Equity mutual funds:				
Domestic	341,846	–	–	341,846
International	476,057	–	–	476,057
Fixed-income mutual funds:				
Domestic	588,908	–	–	588,908
International	73,301	–	–	73,301
Long-term investments:				
Equity mutual funds:				
Domestic	79,479	–	–	79,479
International	70,617	–	–	70,617
Fixed income mutual funds:				
Domestic	72,670	–	–	72,670
International	11,875	–	–	11,875
Equity securities – domestic	13,932	–	–	13,932
<b>Total</b>	<b>\$ 1,912,667</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 1,912,667</b>



Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**10. Fair Value of Financial Instruments (continued)**

	<b>September 30, 2022</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Assets limited as to use:				
Cash and cash equivalents	\$ 172,047	\$ –	\$ –	\$ 172,047
Equity mutual funds:				
Domestic	352,144	–	–	352,144
International	489,179	–	–	489,179
Fixed-income mutual funds:				
Domestic	446,338	–	–	446,338
International	72,161	–	–	72,161
Long-term investments:				
Equity mutual funds:				
Domestic	75,945	–	–	75,945
International	65,192	–	–	65,192
Fixed income mutual funds:				
Domestic	57,383	–	–	57,383
International	9,195	–	–	9,195
Equity securities – domestic	20,836	–	–	20,836
<b>Total</b>	<b>\$ 1,760,420</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 1,760,420</b>

The following tables represent a reconciliation of financial instruments at fair value to the accompanying consolidated balance sheets:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Investments and assets limited as to use at fair value	<b>\$ 1,912,667</b>	\$ 1,760,420
Alternative investments	<b>210,502</b>	154,999
<b>Total</b>	<b>\$ 2,123,169</b>	<b>\$ 1,915,419</b>
Investments	<b>\$ 295,921</b>	\$ 272,167
Assets limited as to use	<b>1,827,248</b>	1,643,252
<b>Total</b>	<b>\$ 2,123,169</b>	<b>\$ 1,915,419</b>

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 10. Fair Value of Financial Instruments (continued)

##### Long-Term Debt

The fair value of BHS's bonds is estimated based on dealer quotes for hospital tax-exempt debt with similar terms and maturities and using discounted cash flow analyses based on current interest rates for similar types of borrowing arrangements. The estimated fair value of the bonds using Level 2 inputs at September 30, 2023 and 2022, is \$486,513 and \$511,272, respectively. The carrying amount approximates fair value for all other long-term debt.

#### 11. Income Taxes

BHS accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which result in taxable or deductible amounts in the future. In evaluating its ability to recover deferred tax assets, management considers all available positive and negative evidence primarily relating to net operating loss carryovers, deferred compensation accruals, and bad debt allowances. As of September 30, 2023 and 2022, BHS had gross deferred tax assets of \$161,481 and \$129,938, respectively. In accordance with ASC 740, management determined that it was necessary to adjust the deferred tax assets in the current year to the amount that would, more likely than not, be realized. Thus, resulting in a change in the valuation allowance for the current year of \$31,543.

As of September 30, 2023, BHS has an available net operating loss carryforward of \$457,885. Management believes that it is more likely than not that the benefit from the NOL carryforwards will not be realized. In recognition of this risk, the deferred tax asset includes a valuation allowance for the respective net operating loss carryforward.

ASC 740 prescribes the accounting for uncertain tax positions on the basis of a two-step process which include: (1) the determination of whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position, and (2) for those tax positions that meet the more-likely-than-not recognition threshold. Management does not believe that there are any uncertain tax positions. With few exceptions, Baptist Health System, Inc. and Subsidiaries are no longer subject to examinations by major tax jurisdictions for years ended September 30, 2019 and prior.

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **12. Retirement Plans**

##### **Defined Contribution Plans**

BHS participates in a defined contribution retirement plan that covers substantially all employees who are at least 18 years of age. The defined contribution retirement plan provides, among other things, that the employer contribute a percentage of wages, ranging from 2.25% to 5.5%, based on years of service.

Additionally, the defined contribution retirement plan provides that the employer match 35% of an employee's contributions up to 5% of the contributing employee's wages, resulting in a maximum available match of 1.75% of the contributing employee's wages each year.

BHS also has a defined contribution supplemental executive retirement plan (DC SERP) for which the benefits are based on each participant's years of service and compensation.

Contributions for the defined contribution retirement plans are included in salaries and benefits in the accompanying consolidated statements of operations and changes in net assets in the amount of \$34,364 and \$28,521 for the years ended September 30, 2023 and 2022, respectively.

##### **Defined Benefit Plans**

The Medical Centers, PHS, and ASI participate in a noncontributory defined benefit retirement plan (Retirement Plan) sponsored by BHS. The Retirement Plan covers a substantial number of the employees and was closed to new hires effective January 1, 2004. Benefits are based on each participant's years of service and compensation. BHS's policy is to contribute annually at least the minimum amount necessary to comply with the requirements of the Employee Retirement Income Security Act of 1974, as amended. SBHF funds contributions to the Retirement Plan.

BHS also sponsors a supplemental executive retirement plan (SERP) and vice president supplemental executive retirement plan (VP SERP). These plans are unfunded and cover the executive management team and vice presidents of BHS. Benefits are based on each participant's compensation. The Retirement Plan, SERP, and VP SERP are collectively referred to as the Plans.

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**12. Retirement Plans (continued)**

The following tables set forth the benefit obligations and the assets of the Plans, changes in the plan assets and benefit obligations recognized in unrestricted net assets, and the components of net periodic benefit cost:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Accumulated benefit obligation at end of year	<b>\$ 494,837</b>	<b>\$ 501,281</b>
Benefit obligation at beginning of year	<b>\$ 541,181</b>	<b>\$ 724,546</b>
Service cost	<b>7,885</b>	<b>12,863</b>
Interest cost	<b>29,012</b>	<b>21,832</b>
Actuarial gain	<b>(21,746)</b>	<b>(191,988)</b>
Benefits paid	<b>(26,364)</b>	<b>(26,072)</b>
Benefit obligation at end of year	<b>\$ 529,968</b>	<b>\$ 541,181</b>
Change in plan assets:		
Fair value of plan assets at beginning of year	<b>\$ 491,603</b>	<b>\$ 618,171</b>
Actual return (loss) on plan assets	<b>42,320</b>	<b>(103,519)</b>
Employer contributions	<b>1,226</b>	<b>3,023</b>
Benefit payments	<b>(26,364)</b>	<b>(26,072)</b>
Fair value of plan assets at end of year	<b>\$ 508,785</b>	<b>\$ 491,603</b>
Amounts recognized in the consolidated balance sheets:		
Accounts payable and accrued expenses	<b>\$ (1,159)</b>	<b>\$ (1,203)</b>
Other noncurrent liabilities	<b>(20,024)</b>	<b>(48,373)</b>
Deficiency of fair value of plan assets over projected benefit obligation	<b>\$ (21,183)</b>	<b>\$ (49,576)</b>

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**12. Retirement Plans (continued)**

Included in net assets without donor restrictions at September 30, 2023 and 2022, are unrecognized prior service costs of \$43 and \$96, respectively, and unrecognized actuarial losses of \$27,271 and \$59,729, respectively, that have not yet been recognized in net periodic pension cost. The prior service cost and actuarial losses included in net assets without donor restrictions and expected to be recognized in net periodic pension cost during the year ended September 30, 2024, are \$34 and (\$27), respectively.

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Components of net periodic benefit cost:		
Service cost	\$ 7,885	\$ 12,863
Interest cost	29,012	21,832
Expected return on assets	(31,595)	(31,637)
Amortization of:		
Prior service cost	54	54
Actuarial (gain) loss	(11)	14,266
Settlement/curtailment expense	–	(373)
Amount recognized in net periodic benefit cost	<u>\$ 5,345</u>	<u>\$ 17,005</u>
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions:		
Net actuarial gain	\$ 32,469	\$ 56,459
Amortization of:		
Prior service cost	54	54
Actuarial (gain) loss	(11)	14,266
Settlement/curtailment expense	–	(373)
Total recognized in net assets without donor restrictions	<u>\$ 32,512</u>	<u>\$ 70,406</u>

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**12. Retirement Plans (continued)**

The assumptions used to determine accrued pension costs and net periodic pension cost of the Plans are set forth below:

**Used to Determine Projected Benefit Obligation**

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Weighted-average discount rate	<b>5.88%</b>	5.50%
Weighted-average rate of compensation increase	<b>3.65</b>	5.00
Weighted-average expected long-term rate of return on plan assets	<b>5.75</b>	5.75

**Used to Determine Benefit Cost**

	<b>Year Ended September 30</b>	
	<b>2023</b>	<b>2022</b>
Weighted-average discount rate	<b>5.50%</b>	3.08%
Weighted-average rate of compensation increase	<b>5.00</b>	5.00
Weighted-average expected long-term rate of return on plan assets	<b>5.75</b>	5.75

**Expected Cash Flows**

Information about the expected cash flows for the Plans follows:

Expected employer contributions in fiscal year 2024	<u><u>\$ 1,193</u></u>
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Baptist Health System, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**12. Retirement Plans (continued)**

Expected benefit payments:

	<b>Amount</b>
Year ending September 30:	
2024	\$ 29,989
2025	31,235
2026	33,171
2027	34,801
2028	36,302
2029–2033	197,167

**Asset Allocation**

The weighted-average asset allocations for the Retirement Plan at the end of fiscal years 2023 and 2022 and the target allocation for fiscal 2024, by asset category, are as follows:

	<b>Target Allocation</b>	<b>Percentage of Plan Assets at September 30</b>	
	<b>2024</b>	<b>2023</b>	<b>2022</b>
<b>Asset category</b>			
Equity securities	50%	47%	47%
Fixed income	35	32	32
Alternative investments	15	21	21
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 12. Retirement Plans (continued)

##### Composition of Plan Assets

The composition of the Retirement Plan's assets at September 30, 2023 and 2022 is as follows:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
<b>Retirement plan assets</b>		
Equity mutual funds – domestic	\$ 103,825	\$ 103,464
Equity mutual funds – international	132,958	126,849
Fixed-income mutual funds – domestic	164,527	157,846
Cash and short-term investments	1	–
Interest receivable	664	599
Fair value of plan assets	401,975	388,758
Alternative investments measured at NAV	106,810	102,845
Total plan assets	\$ 508,785	\$ 491,603

These assets, except for the alternative investments, are exchange-traded funds whose fair value is determined from quoted prices on nationally recognized securities exchanges (Level 1). There are no Level 2 or Level 3 investments. The alternative investments valued at NAV are comprised of investments in real estate (\$35,415), collateralized debt obligations (\$37,419), and special situation funds (\$33,976) which invest primarily in hedge funds.

##### Investment Strategy

The Retirement Plan's asset allocation and investment strategy are designed to earn returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of large losses. BHS uses investment managers specializing in each asset category and, where appropriate, provides the investment managers with specific guidelines, which include allowable and/or prohibited investment types. BHS regularly monitors manager performance and compliance with investment guidelines.



## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **12. Retirement Plans (continued)**

##### **Expected Rate of Return**

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset categories in the Retirement Plan's investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

##### **Description of Significant Gains or Losses**

The most significant factor in 2023 was a decrease in liability due to an increase in the discount rate.

#### **13. Malpractice Insurance**

The Medical Centers and certain other BHS entities participate in a pooled risk program, whereby BHS entities are the only participants, to insure professional and general liability risks to the extent of certain self-insurance limits. A revocable trust fund has been established for the malpractice self-insured program. The participants' self-insurance retention is \$6.0 million per claim and \$30.0 million aggregate. The excess umbrella limits are \$100.0 million per claim and \$100.0 million aggregate through a claims-made policy with a third-party insurance carrier. Accrued malpractice losses of \$80,173 and \$72,861 at September 30, 2023 and 2022, respectively, have been discounted at a rate of 4% and 2.5% for September 30, 2023 and 2022, respectively. Losses are accrued when probable and determinable.

In the event that sufficient funds are not available from the trust fund, each participating entity in the program will be assessed its share of the deficiency. If contributions exceed the losses eventually paid, the excess will be applied to reduce the contributions for future periods. Management believes the trust fund is adequately funded to provide for all professional and general liability claims that have occurred through September 30, 2023.

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 14. Leases

BHS's leases consist of real estate leases. Lease assets and lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. Because most of the leases do not provide an implicit rate of return, BHS uses a risk-free rate based on the daily treasury yield curve at lease commencement in determining the present value of the lease payments.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one month to thirty years. The exercise of such lease renewal options is at BHS's sole discretion. For purposes of calculating lease liabilities, lease terms include options to extend or terminate the lease when it is reasonably certain that BHS will exercise that option.

Leases with a term of 12 months or less at commencement are not recorded on the consolidated balance sheets. Lease expense for these arrangements is recognized on a straight-line basis over the lease term.

Operating leases consist of the following:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Total operating lease assets	\$ 41,680	\$ 45,865
Other current liabilities	9,581	9,318
Operating lease liabilities, net of current portion	33,427	37,730
Total operating lease liabilities	\$ 43,008	\$ 47,048

Lease expense for lease payments is recognized on a straight-line basis over the lease term. The components of operating lease expense are as follows:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Operating lease expense	\$ 11,133	\$ 10,049
Variable lease expense	4,196	4,076
Short-term lease expense	3,148	4,569
Total lease expense	\$ 18,477	\$ 18,694

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**14. Leases (continued)**

Lease term and discount rate for operating leases are as follows:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Weighted-average remaining lease term	<b>66 months</b>	72 months
Weighted-average discount rate	<b>2.34%</b>	2.07%

The following summarizes the maturity of lease liabilities under operating leases for the next five years and the years thereafter:

Year ending September 30:		
2024	\$	10,465
2025		9,200
2026		8,309
2027		6,606
2028		4,197
Thereafter		7,352
Total lease payments		46,129
Less: imputed interest		(3,121)
Total lease liabilities	\$	<u>43,008</u>

Supplemental cash flow information related to leases is as follows:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	<u>\$ 11,341</u>	<u>\$ 10,184</u>

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**15. Promises to Give**

Pledges receivable, included in prepaid expenses and other current assets and other assets in the accompanying consolidated balance sheets, consist of the following:

	<b>September 30</b>	
	<b>2023</b>	<b>2022</b>
Unconditional promises to give before pledge discount and allowance for uncollectible pledges	<b>\$ 14,153</b>	\$ 19,238
Pledge discount	<b>(540)</b>	(322)
Allowance for uncollectible pledges	<b>(1,347)</b>	(1,931)
Net pledges receivable	<b>\$ 12,266</b>	<b>\$ 16,985</b>
Amounts due in:		
Less than one year	<b>\$ 640</b>	\$ 4,249
One to five years	<b>10,226</b>	12,478
Over five years	<b>1,400</b>	258
Total	<b>\$ 12,266</b>	<b>\$ 16,985</b>

**16. Endowments**

BHSF operates under the Florida Uniform Management of Institutional Funds Act (FUMIFA) that was effective in May 2004 and was replaced, effective July 1, 2012, by the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA).

FUPMIFA enhanced provisions of FUMIFA; applies to all charitable institutions, not just those associated exclusively with education purposes; allows pooling of institutional funds for the purpose of managing and investing; delineates factors to be considered prior to expenditure of funds; provides new procedures for releasing restrictions on small institutional funds; provides for modification of restrictions on the use of endowment funds; and provides for reversion of real property to the board of trustees of the State of Florida Internal Improvement Trust Fund if an entity holding a deed subject to a reverter clause violates the deed restrictions.

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

#### **16. Endowments (continued)**

In accordance with FUPMIFA, BHSF considers the following in expenditure decisions for its endowment funds:

- The purposes of BHSF
- The intent of the donors of the endowment fund
- The terms of the applicable instrument
- The long-term and short-term needs of BHSF in carrying out its purposes
- General economic conditions
- The possible effect of inflation or deflation
- The other resources of BHSF
- Perpetuation of the endowment

BHSF classifies net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted permanent endowment fund that is not classified in the endowment corpus is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by BHSF in a manner consistent with the standard of prudence prescribed by FUPMIFA.

BHS participates in an endowment matching program with BHSF in which it matches donor contributions to endowments on a tiered basis. Of the net assets transferred, the matching contributions transferred from BHS net assets without donor restrictions to BHSF net assets with donor restrictions for the years ending September 30, 2023 and 2022, are \$3,541 and \$7,418, respectively.

## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **16. Endowments (continued)**

The investment income and earnings from BHSF's endowment funds are designated for specific purposes. It is the policy of BHSF to expend these funds prudently as expenditures arise that satisfy the purpose restrictions.

The Foundation's endowment investment policies are directed by the BHS Investment Committee (Investment Committee) of the BHS Board of Directors. The Foundation's return objectives include annualized returns exceeding CPI plus an acceptable level of return for corresponding risk measured over a five-to-ten year time frame. The Foundation maintains conservative risk posture with respect to both time and risk preference. These risk postures are developed to provide consistent return patterns over a long-term time horizon and are consistent with conserving the purchasing power of the Foundation's endowment funds.

Strategies employed for achieving the Foundation's investment objectives include passively and actively managed funds invested in domestic and international equities, fixed income, and other investments.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of the FUPMIFA requires NFP to retain as a fund of perpetual duration. As of September 30, 2023, deficiencies of this nature in the endowment fund balance total \$86.

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**16. Endowments (continued)**

Changes in net assets with donor restrictions for the year ended September 30, 2023, consisted of the following:

	<b>Donor-Restricted Endowment Funds</b>		
	<b>Expendable</b>	<b>Non-Expendable</b>	<b>Total</b>
Endowment net asset composition, September 30, 2022	\$ 15,099	\$ 215,607	\$ 230,706
Contributions to perpetual endowment	25	5,235	5,260
Reserve adjustments	–	57	57
Net asset transfers from BHS to BHSF	–	3,541	3,541
Investment gain on restricted funds	26,103	–	26,103
Net assets released from restrictions	(10,409)	–	(10,409)
Other transfers	(98)	–	(98)
Endowment net asset composition, September 30, 2023	<u>\$ 30,720</u>	<u>\$ 224,440</u>	<u>\$ 255,160</u>

Changes in endowment net assets for the year ended September 30, 2022, consisted of the following:

	<b>Donor-Restricted Endowment Funds</b>		
	<b>Expendable</b>	<b>Non-Expendable</b>	<b>Total</b>
Endowment net asset composition, September 30, 2021	\$ 59,311	\$ 202,062	\$ 261,373
Contributions to perpetual endowment	–	5,937	5,937
Reserve adjustments	–	190	190
Net asset transfers from BHS to BHSF	–	7,418	7,418
Investment loss on restricted funds	(33,381)	–	(33,381)
Net assets released from restrictions	(10,888)	–	(10,888)
Other transfers	57	–	57
Endowment net asset composition, September 30, 2022	<u>\$ 15,099</u>	<u>\$ 215,607</u>	<u>\$ 230,706</u>

Baptist Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**17. Functional Expenses**

BHS provides a broad range of general and specialized health care services, including primary care, outpatient services, and other health care services. Expenses related to its services were as follows:

	Year Ended September 30, 2023			
	Healthcare Services	General and Administration	Fundraising	Total
Salaries and benefits	\$ 1,214,168	\$ 227,891	\$ 3,035	\$ 1,445,094
Professional fees	88,346	39,800	–	128,146
Supplies	524,601	2,314	39	526,954
Interest	33,840	–	–	33,840
Depreciation and amortization	164,184	10,517	–	174,701
Other expenses	251,398	158,081	506	409,985
Total	<u>\$ 2,276,537</u>	<u>\$ 438,603</u>	<u>\$ 3,580</u>	<u>\$ 2,718,720</u>

	Year Ended September 30, 2022			
	Healthcare Services	General and Administration	Fundraising	Total
Salaries and benefits	\$ 1,162,210	\$ 196,517	\$ 3,132	\$ 1,361,859
Professional fees	82,743	77,246	–	159,989
Supplies	462,376	2,842	31	465,249
Interest	21,153	–	–	21,153
Depreciation and amortization	149,869	7,403	–	157,272
Other expenses	239,676	117,675	387	357,738
Total	<u>\$ 2,118,027</u>	<u>\$ 401,683</u>	<u>\$ 3,550</u>	<u>\$ 2,523,260</u>

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of BHS. These expenses require allocation on a reasonable basis that is consistently applied. General and administrative (G&A) and fundraising expenses are those supporting activities that are not directly identifiable with one or more program or fundraising activity. BHS reviews all departments and allocates each department to either program or support services based on departmental function.



## Baptist Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **18. COVID-19 Pandemic**

The current worldwide pandemic, caused by the novel coronavirus known as COVID-19, impacted BHS's operations during 2020 by causing a temporary shutdown and diversion of patients, disrupting and delaying production and delivery of materials and products. Patient volumes and the related revenues were significantly impacted during the third quarter of fiscal year 2020 due to Florida's response that included a suspension of elective procedures that lasted over a month. Since that time, improvements in volumes and related revenue have been experienced. Surges were experienced in 2021 and 2022. BHS's response to the pandemic continues to require supplies utilized at a higher rate and purchased at elevated prices and additional staffing costs.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act provided funding to those impacted by the pandemic. BHS recognizes grant payments as income when there is reasonable assurance that the grant conditions are met. Guidance from the department of Health and Human Services (HHS) has been revised multiple times. BHS recognized \$1,582 and \$23,860 as income within Other on the consolidated statements of operations and changes in net assets as of September 30, 2023 and 2022, as all grant conditions were satisfied. This amount could change materially based on evolving grant compliance provisions and guidance by HHS.

Management anticipates that the extent of the COVID-19 impact on BHS's operating results and financial position will be a function of the duration and scope of the outbreak in the Northeast Florida area served by BHS and its effect on patient volumes. As a result, management cannot reasonably estimate the future impact on operations that the pandemic will have at this time.

#### **19. Subsequent Events**

BHS has evaluated the impact of subsequent events through January 19, 2024, representing the date on which the consolidated financial statements were available to be issued.

Subsequent to year end and in accordance with the formal draw schedule, BHS drew down the final \$30,000 on Series 2022C.

# Supplementary Information

Baptist Health System, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2023

Federal Agency/Federal Program/ Cluster Title/ Pass-Through Entity	Assistance Listing	Contract/Grant Number/Pass-Through Entity Identifying Number	Expenditures
<b>United States Department of Homeland Security</b>			
Disaster Grants – Public Assistance (Presidentially Declared Disasters) – Pass Through Award: Florida Division of Emergency Management	97.036	FEMA-4673-DR- FL/Z3244	\$ 68,053
Total U.S. Department of Homeland Security			<u>68,053</u>
<b>United States Department of Health and Human Services</b>			
COVID-19 – Provider Relief Fund – Direct Award	93.498		25,315,771
Maternal and Child Health Services Block Grant Program – Pass Through Award: The State of Florida	93.994	COQVS	180,000
Children’s Health Care Insurance Program – Pass Through Award: The University of South Florida	93.767	6414-1131-00-D	26,928
	93.767	6414-1131-01-D	8,787
Children’s Health Insurance Program – Pass Through Award: Florida Healthy Kids Corporation	93.767	FL20143-T21	9,667
Total Assistance Listing Number 93.767			<u>45,382</u>
<b>Research and Development Cluster:</b>			
Extramural Research Programs in the Neurosciences and Neurological Disorders – Pass Through Award: Mayo Clinic Jacksonville	93.853	LYE-305533	2,875
Extramural Research Programs in the Neurosciences and Neurological Disorders – Pass Through Award: Mayo Clinic Jacksonville	93.853	LYE-290195	1,600
Extramural Research Programs in the Neurosciences and Neurological Disorders – Pass Through Award: Mayo Clinic Jacksonville	93.853	LYE-224063	22,105
Extramural Research Programs in the Neurosciences and Neurological Disorders – Pass Through Award: University of Cincinnati	93.853	1UG3NS130228/015149- 36611	8,100
Total Assistance Listing Number 93.853			<u>34,680</u>
Cancer Control – Pass Through Award: NRG Oncology	93.399	5U10CA180867-07	6,100
Cancer Treatment Research – Pass Through Award: NRG Oncology	93.395	5U10CA180868-07	18,415
Total Research and Development Cluster			<u>59,195</u>
Total U.S. Department of Health and Human Services			<u>25,600,348</u>
Total Expenditures of Federal Awards			<u>\$ 26,688,401</u>

See accompanying notes.

# Baptist Health System, Inc. and Subsidiaries

## Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2023

### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards programs of Baptist Health System, Inc. and Subsidiaries (the System) under programs of the federal government for the year ended September 30, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the System.

### **2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

### **3. Indirect Cost Rate**

The System has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance for the year ended September 30, 2023.



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## Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and The Board of Directors  
Baptist Health System, Inc. and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the consolidated financial statements of Baptist Health System, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”), and have issued our report thereon dated January 19, 2024.

### Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the System’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

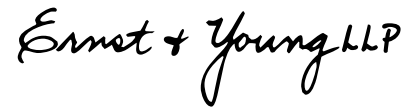
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



January 19, 2024



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## Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Management and the Board of Directors  
Baptist Health System, Inc. and Subsidiaries

### **Report of Independent Auditors on Compliance for Each Major Federal Program**

#### ***Opinion on Each Major Federal Program***

We have audited Baptist Health System, Inc. and Subsidiaries' (the System) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended September 30, 2023. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2023.

#### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the System 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 on compliance for each major federal program. Our audit does not provide a legal determination of the System's compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the System's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the System's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the System's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



## Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Ernst + Young LLP*

June 25, 2024

Baptist Health System, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2023

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

       Yes        X   No

Significant deficiency(ies) identified?

       Yes        X   None reported

Noncompliance material to financial statements noted?

       Yes        X   No

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified?

       Yes        X   No

Significant deficiency(ies) identified?

       Yes        X   None reported

Type of auditor’s report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

       Yes        X   No

Identification of major federal programs:

**Assistance Listing number**

93.498

**Name of federal program or cluster**

COVID-19 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 800,652

Auditee qualified as low-risk auditee?

  X   Yes             No

Baptist Health System, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs (continued)

**Part II – Financial Statement Findings**

None noted

**Part III – Federal Awards Findings and Questioned Costs**

None noted.

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